UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the quarterly period ended June 30, 2012

OR

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**

For the transition period from _________to _________

Commission File Number: 001-09305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	**43-1273600**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

501 N. Broadway, St. Louis, Missouri 63102-2188
(Address of principal executive offices and zip code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer ☒ Accelerated filer ☐

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

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

The number of shares outstanding of the registrant’s common stock, $0.15 par value per share, as of the close of business on July 31, 2012, was 53,720,015, which includes exchangeable shares of TWP Acquisition Company (Canada), Inc., a wholly owned subsidiary of the registrant. These shares are exchangeable at any time into an aggregate of 22,830 shares of common stock of the registrant; entitle the holder to dividend and other rights substantially economically equivalent to those of a share of common stock; and, through a voting trust, entitle the holder to a vote on matters presented to common shareholders.

STIFEL FINANCIAL CORP.
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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

STIFEL FINANCIAL CORP.
Consolidated Statements of Financial Condition

(in thousands)	**June 30, 2012**	December 31, 2011
	(Unaudited)	
Assets		
Cash and cash equivalents	**$ 441,699**	$ 167,671
Restricted cash	**6,587**	6,883
Cash segregated for regulatory purposes	**27**	26
Receivables:		
Brokerage clients, net	**567,704**	560,018
Brokers, dealers, and clearing organizations	**311,561**	252,636
Securities purchased under agreements to resell	**156,748**	75,455
Trading securities owned, at fair value (includes securities pledged of $565,814 and $392,395, respectively)	**750,947**	474,951
Available-for-sale securities, at fair value	**1,329,359**	1,214,141
Held-to-maturity securities, at amortized cost	**521,378**	190,484
Loans held for sale	**117,166**	131,754
Bank loans, net of allowance	**708,879**	632,140
Other real estate owned	**634**	708
Investments	**208,080**	239,208
Fixed assets, net	**98,349**	104,740
Goodwill	**361,735**	358,988
Intangible assets, net	**31,342**	33,863
Loans and advances to financial advisors and other employees, net	**186,263**	172,717
Deferred tax assets, net	**120,156**	177,803
Other assets	**219,921**	157,714
Total Assets	**$ 6,138,535**	$ 4,951,900

See accompanying Notes to Consolidated Financial Statements.

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

(in thousands, except share and per share amounts)	**June 30, 2012**	December 31, 2011
	(Unaudited)	
Liabilities and Shareholders' Equity		
Short-term borrowings from banks	**$ 282,000**	$ 199,400
Payables:		
Brokerage clients	**249,623**	245,886
Brokers, dealers, and clearing organizations	**169,088**	139,911
Drafts	**59,487**	75,901
Securities sold under agreements to repurchase	**153,284**	80,176
Bank deposits	**2,776,684**	2,071,738
Trading securities sold, but not yet purchased, at fair value	**411,680**	266,833
Securities sold, but not yet purchased, at fair value	**20,857**	19,223
Accrued compensation	**143,180**	204,076
Accounts payable and accrued expenses	**237,989**	257,194
Senior notes	**175,000**	—
Debenture to Stifel Financial Capital Trust II	**35,000**	35,000
Debenture to Stifel Financial Capital Trust III	**35,000**	35,000
Debenture to Stifel Financial Capital Trust IV	**12,500**	12,500
	4,761,372	3,642,838
Liabilities subordinated to claims of general creditors	**5,318**	6,957
Shareholders' Equity:		
Preferred stock - $1 par value; authorized 3,000,000 shares; none issued	**—**	—
Exchangeable common stock - $0.15 par value; issued 22,830 and 172,242 shares, respectively	**3**	26
Common stock - $0.15 par value; authorized 97,000,000 shares; issued 53,697,185 and 53,547,774 shares, respectively	**8,055**	8,032
Additional paid-in-capital	**1,060,310**	1,078,743
Retained earnings	**310,753**	277,195
Accumulated other comprehensive loss	**(2,161)**	(7,938)
	1,376,960	1,356,058
Treasury stock, at cost, 153,695 and 1,769,096 shares, respectively	**(4,907)**	(53,640)
Unearned employee stock ownership plan shares, at cost, 48,811 and 73,215 shares, respectively	**(208)**	(313)
	1,371,845	1,302,105
Total Liabilities and Shareholders' Equity	**$ 6,138,535**	$ 4,951,900

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.
Consolidated Statements of Operations
(Unaudited)

(in thousands, except per share amounts)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Revenues:				
Commissions	**$ 127,427**	$ 138,315	**$ 250,730**	$ 294,101
Principal transactions	**91,564**	79,741	**207,797**	172,600
Investment banking	**67,363**	64,418	**137,801**	105,836
Asset management and service fees	**65,311**	56,981	**126,129**	114,661
Interest	**27,181**	21,229	**52,438**	40,085
Other income	**5,418**	4,556	**18,712**	10,812
Total revenues	**384,264**	365,240	**793,607**	738,095
Interest expense	**9,857**	6,383	**18,867**	12,625
Net revenues	**374,407**	358,857	**774,740**	725,470
Non-interest expenses:				
Compensation and benefits	**239,374**	229,939	**494,078**	461,105
Occupancy and equipment rental	**32,320**	29,723	**63,111**	59,048
Communications and office supplies	**20,797**	18,515	**41,170**	37,360
Commissions and floor brokerage	**7,747**	6,894	**15,359**	13,543
Other operating expenses	**30,295**	69,911	**57,894**	99,855
Total non-interest expenses	**330,533**	354,982	**671,612**	670,911
Income before income tax expense	**43,874**	3,875	**103,128**	54,559
Provision for income taxes	**17,738**	459	**42,219**	19,745
Net income	**$ 26,136**	$ 3,416	**$ 60,909**	$ 34,814
Earnings per common share:				
Basic	**$ 0.49**	$ 0.06	**$ 1.14**	$ 0.66
Diluted	**$ 0.42**	$ 0.05	**$ 0.97**	$ 0.55
Weighted average number of common shares outstanding:				
Basic	**53,569**	52,932	**53,406**	52,734
Diluted	**62,678**	63,245	**62,700**	63,239

See accompanying Notes to Consolidated Financial Statements.

STIFEL FINANCIAL CORP.
Consolidated Statements of Comprehensive Income
(Unaudited)

(in thousands)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	**$ 26,136**	$ 3,416	**$ 60,909**	$ 34,814
Other comprehensive income:				
Unrealized gains/(losses) on available-for-sale securities, net of tax	**(492)**	5,445	**4,358**	6,638
Unrealized gains/(losses) in cash flow hedging instruments, net of tax	**(1,335)**	(4,398)	**1,029**	(1,592)
Foreign currency translation adjustment, net of tax	**(145)**	472	**390**	1,006
	(1,972)	1,519	**5,777**	6,052
Comprehensive income	**$ 24,164**	$ 4,935	**$ 66,686**	$ 40,866

See accompanying Notes to Consolidated Financial Statements.

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

(in thousands)	Six Months Ended June 30, 2012	2011
Cash Flows from Operating Activities:		
Net income	**$ 60,909**	$ 34,814
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	**14,565**	12,070
Amortization of loans and advances to financial advisors and other employees	**28,190**	28,544
Amortization of premium on available-for-sale securities	**6,665**	6,039
Provision for loan losses and allowance for loans and advances to financial advisors and other employees	**1,617**	586
Amortization of intangible assets	**2,521**	2,377
Deferred income taxes	**54,294**	12,598
Excess tax benefits from stock-based compensation	**(13,357)**	(23,574)
Stock-based compensation	**18,231**	14,368
Gains on investments	**(6,630)**	(4,670)
Other, net	**(47)**	841
Decrease/(increase) in operating assets:		
Cash segregated for regulatory purposes and restricted cash	**295**	5,990
Receivables:		
Brokerage clients	**(7,726)**	(13,981)
Brokers, dealers, and clearing organizations	**(58,925)**	(63,093)
Securities purchased under agreements to resell	**(81,293)**	25,932
Loans originated as held for sale	**(670,178)**	(349,421)
Proceeds from mortgages held for sale	**684,617**	378,466
Trading securities owned, including those pledged	**(275,996)**	(159,794)
Loans and advances to financial advisors and other employees	**(42,106)**	(21,951)
Other assets	**(44,201)**	(20,748)
Increase/(decrease) in operating liabilities:		
Payables:		
Brokerage clients	**3,737**	56,107
Brokers, dealers, and clearing organizations	**2,388**	19,419
Drafts	**(16,414)**	(25,401)
Trading securities sold, but not yet purchased	**146,481**	91,325
Other liabilities and accrued expenses	**(110,467)**	(84,150)
Net cash used in operating activities	**$ (302,830)**	$ (77,307)

See accompanying Notes to Consolidated Financial Statements.

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

(in thousands)	Six Months Ended June 30, 2012	2011
Cash Flows from Investing Activities:		
Proceeds from:		
Maturities, calls, sales, and principal paydowns on available-for-sale securities	**$ 188,748**	$ 277,866
Calls of held-to-maturity securities	**—**	600
Sale or maturity of investments	**59,233**	50,234
Sale of other real estate owned	**84**	560
Increase in bank loans, net	**(77,715)**	(87,409)
Payments for:		
Purchase of available-for-sale securities	**(295,953)**	(362,847)
Purchase of held-to-maturity securities	**(338,816)**	(25,334)
Purchase of investments	**(21,475)**	(33,883)
Purchase of fixed assets	**(8,380)**	(26,181)
Net cash used in investing activities	**(494,274)**	(206,394)
Cash Flows from Financing Activities:		
Proceeds from short-term borrowings from banks	**82,600**	120,800
Proceeds from issuance of senior notes, net	**170,291**	—
Increase/(decrease) in securities sold under agreements to repurchase	**73,108**	(67,131)
Increase in bank deposits, net	**704,946**	17,511
Increase in securities loaned	**26,789**	87,965
Excess tax benefits from stock-based compensation	**13,357**	23,574
Repurchase of common stock	**(6,350)**	(3,555)
Reissuance of treasury stock	**7,639**	2,234
Extinguishment of subordinated debt	**(1,639)**	(1,284)
Net cash provided by financing activities	**1,070,741**	180,114
Effect of exchange rate changes on cash	**391**	1,022
Increase/(decrease) in cash and cash equivalents	**274,028**	(102,565)
Cash and cash equivalents at beginning of period	**167,671**	253,529
Cash and cash equivalents at end of period	**$ 441,699**	$ 150,964
Supplemental disclosure of cash flow information:		
Cash paid for income taxes, net of refunds	**$ 1,315**	$ 12,520
Cash paid for interest	**13,527**	6,036
Noncash investing and financing activities:		
Units, net of forfeitures	**82,206**	101,220

See accompanying Notes to Consolidated Financial Statements.

NOTE 1 – Nature of Operations and Basis of Presentation

Nature of Operations

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

Basis of Presentation

The consolidated financial statements include Stifel Financial Corp. and its wholly owned subsidiaries, principally Stifel Nicolaus and Stifel Bank. All material intercompany balances and transactions have been eliminated. Unless otherwise indicated, the terms "we," "us," "our," or "our company" in this report refer to Stifel Financial Corp. and its wholly owned subsidiaries.

We have prepared the accompanying unaudited consolidated financial statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to these rules and regulations, we have omitted certain information and footnote disclosures we normally include in our annual consolidated financial statements prepared in accordance with U.S. generally accepted accounting principles. In management's opinion, we have made all adjustments (consisting only of normal, recurring adjustments, except as otherwise noted) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year. These financial statements and accompanying notes should be read in conjunction with the consolidated financial statements and the notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2011 on file with the SEC.

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

There have been no material changes in our significant accounting policies, as compared to the significant accounting policies described in our Annual Report on Form 10-K for the year ended December 31, 2011.

Consolidation Policies

The consolidated financial statements include the accounts of Stifel Financial Corp. and its subsidiaries. We also have investments or interests in other entities for which we must evaluate whether to consolidate by determining whether we have a controlling financial interest or are considered to be the primary beneficiary. In determining whether to consolidate these entities, we evaluate whether the entity is a voting interest entity or a variable interest entity ("VIE").

Voting Interest Entity. Voting interest entities are entities that have (i) total equity investment at risk sufficient to fund expected future operations independently, and (ii) equity holders who have the obligation to absorb losses or receive residual returns and the right to make decisions about the entity's activities. We consolidate voting interest entities when we determine that there is a controlling financial interest, usually ownership of all, or a majority of, the voting interest.

Variable Interest Entity. VIEs are entities that lack one or more of the characteristics of a voting interest entity. We are required to consolidate VIEs in which we are deemed to be the primary beneficiary. The primary beneficiary is defined as the entity that has a variable interest, or a combination of variable interests, that maintains control and receives benefits or will absorb losses that are not pro rata with its ownership interests.

We determine whether we are the primary beneficiary of a VIE by first performing a qualitative analysis of the VIE's control structure, expected benefits and losses and expected residual returns. This analysis includes a review of, among other factors, the VIE's capital structure, contractual terms, which interests create or absorb benefits or losses, variability, related party relationships, and the design of the VIE. Where a qualitative analysis is not conclusive, we perform a quantitative analysis. We reassess our initial evaluation of an entity as a VIE and our initial determination of whether we are the primary beneficiary of a VIE upon the occurrence of certain reconsideration events. See Note 23 for additional information on variable interest entities.

NOTE 2 – Recently Adopted Accounting Guidance

Goodwill Impairment Testing

In September 2011, the Financial Accounting Standards Board ("FASB") issued Update No. 2011-08 "*Testing Goodwill for Impairment*," which amends Topic 350 "*Intangibles – Goodwill and Other*." This update permits entities to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the two-step impairment test for that reporting unit. This update is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011 (January 1, 2012 for our company), with early adoption permitted. The adoption of the new guidance did not have a material impact on our consolidated financial statements.

Comprehensive Income

In June 2011, the FASB issued Update No. 2011-05, "*Comprehensive Income (Topic 220): Presentation of Comprehensive Income*" ("Update No. 2011-05"), which allows for the presentation of total comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In addition, the guidance eliminates the option of presenting the components of other comprehensive income as part of the statement of changes in stockholders' equity. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011 (January 1, 2012 for our company). While the adoption impacted where we disclose the components of other comprehensive income in our consolidated financial statements, it did not otherwise have an impact on our consolidated financial statements.

In December 2011, the FASB issued Update No. 2011-12, "*Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*" ("Update No. 2011-12"), which deferred the requirement to present on the face of the financial statements reclassification adjustments for items that are reclassified from other comprehensive income to net income while the FASB further deliberates this aspect of the proposal. The amendments contained in Update No. 2011-05 do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. Update No. 2011-05, as amended by Update No. 2011-12, became effective for us on January 1, 2012. Although the adoption of this new guidance did not have a material impact on our accounting for comprehensive income, it did impact our presentation of the components of comprehensive income by eliminating the historical practice of showing these items within our consolidated financial statements.

Fair Value of Financial Instruments

In May 2011, the FASB issued Update No. 2011-04, "*Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs*" (Update No. 2011-04), which generally aligns the principals of measuring fair value and for disclosing information about fair value measurements with International Financial Reporting Standards. This guidance is effective for interim and annual reporting periods beginning after December 15, 2011 (January 1, 2012 for our company). Other than requiring additional disclosures regarding fair value measurements, the adoption of this new guidance did not have an impact on our consolidated financial statements. See Note 4 - Fair Value Measurements.

Reconsideration of Effective Control for Repurchase Agreements

In April 2011, the FASB issued Update No. 2011-03, "*Transfers and Servicing (Topic 860): Reconsideration of Effective Control for Repurchase Agreements*," which removes the requirement to consider whether sufficient collateral is held when determining whether to account for repurchase agreements and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity as sales or as secured financings. This guidance is effective for interim and annual reporting periods beginning on or after December 15, 2011 (January 1, 2012 for our company). The adoption of this new guidance did not have a material impact on our consolidated financial statements.

Recently Issued Accounting Guidance

Indefinite-Lived Assets Impairment Testing

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

Disclosures about Offsetting Assets and Liabilities

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

NOTE 3 – Receivables From and Payables to Brokers, Dealers and Clearing Organizations

Amounts receivable from brokers, dealers, and clearing organizations at June 30, 2012 and December 31, 2011, included *(in thousands)*:

	June 30, 2012	December 31, 2011
Deposits paid for securities borrowed	**$ 179,119**	$ 193,509
Receivable from clearing organizations	**121,963**	43,642
Securities failed to deliver	**10,479**	15,485
	$ 311,561	$ 252,636

Amounts payable to brokers, dealers, and clearing organizations at June 30, 2012 and December 31, 2011, included *(in thousands)*:

	June 30, 2012	December 31, 2011
Deposits received from securities loaned	**$ 151,313**	$ 124,711
Payable to clearing organizations	**9,249**	3,984
Securities failed to receive	**8,526**	11,216
	$ 169,088	$ 139,911

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

NOTE 4 – Fair Value Measurements

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

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

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

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

Cash and Cash Equivalents

Cash equivalents include highly liquid investments with original maturities of three months or less. Due to their short-term nature, the carrying amount of these instruments approximates the estimated fair value. Actively traded money market funds are measured at their net asset value, which approximates fair value. As such, we classify the estimated fair value of these instruments as Level 1.

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

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

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

Securities classified as Level 3, of which the substantial majority is auction rate securities (“ARS”), represent securities in less liquid markets requiring significant management assumptions when determining fair value. Due to the lack of a robust secondary auction-rate securities market with active fair value indicators, fair value for all periods presented was determined using an income approach based on an internally developed discounted cash flow model. The discounted cash flow model utilizes two significant unobservable inputs: discount rate and workout period. The discount rate was calculated using credit spreads of the underlying collateral or similar securities. The workout period was based on an assessment of publicly available information on efforts to re-establish functioning markets for these securities and our company’s own redemption experience. Significant increases in any of these inputs in isolation would result in a significantly lower fair value. On an on-going basis, management verifies the fair value by reviewing the appropriateness of the discounted cash flow model and its significant inputs.

In addition to ARS, we have classified certain corporate obligations with unobservable pricing inputs and airplane trust certificates as Level 3. The methods used to value trading securities are the same as the methods used to value ARS, discussed above.

Investments

Investments valued at fair value include ARS, investments in mutual funds, U.S. treasury securities, investments in public companies, private equity securities, partnerships, and warrants of public or private companies.

Investments in certain public companies, mutual funds and U.S. treasury securities are valued based on quoted prices in active markets and reported in Level 1. Investments in certain private equity securities and partnerships with unobservable inputs and ARS for which the market has been dislocated and largely ceased to function are reported as Level 3 assets. The methods used to value ARS are discussed above.

Investments in partnerships and other investments include our general and limited partnership interests in investment partnerships and direct investments in non-public companies. The net assets of investment partnerships consist primarily of investments in non-marketable securities. The value of these investments is at risk to changes in equity markets, general economic conditions and a variety of other factors. We estimate fair value for private equity investments based on our percentage ownership in the net asset value of the entire fund, as reported by the fund or on behalf of the fund, after indication that the fund adheres to applicable fair value measurement guidance. For those funds where the net asset value is not reported by the fund, we derive the fair value of the fund by estimating the fair value of each underlying investment in the fund. In addition to using qualitative information about each underlying investment, as provided by the fund, we give consideration to information pertinent to the specific nature of the debt or equity investment, such as relevant market conditions, offering prices, operating results, financial conditions, exit strategy and other qualitative information, as available. The lack of an independent source to validate fair value estimates, including the impact of future capital calls and transfer restrictions, is an inherent limitation in the valuation process. Commitments to fund additional investments in nonmarketable equity securities recorded at fair value were $3.4 million and $4.0 million at June 30, 2012 and December 31, 2011, respectively.

Warrants are valued based upon the Black-Scholes option-pricing model that uses discount rates and stock volatility factors of comparable companies as inputs. These inputs are subject to management judgment to account for differences between the measured investment and comparable companies and are reported as Level 3 assets.

Securities Sold, But Not Yet Purchased

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

Derivatives

Derivatives are valued using quoted market prices when available or pricing models based on the net present value of estimated future cash flows. The valuation models used require market observable inputs, including contractual terms, market prices, yield curves, credit curves, and measures of volatility. We manage credit risk for our derivative positions on a counterparty-by-counterparty basis and calculate credit valuation adjustments, included in the fair value of these instruments, on the basis of our relationships at the counterparty portfolio/master netting agreement level. These credit valuation adjustments are determined by applying a credit spread for the counterparty to the total expected exposure of the derivative after considering collateral and other master netting arrangements. We have classified our interest rate swaps as Level 2.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2012 and December 31, 2011 are presented below:

	June 30, 2012			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	**$ 62,045**	$ 62,045	$ —	$ —
Trading securities owned:				
U.S. government agency securities	**80,673**	—	80,673	—
U.S. government securities	**31,879**	31,879	—	—
Corporate securities:				
Fixed income securities	**432,086**	85,059	334,219	12,808
Equity securities	**43,997**	42,934	1,063	—
State and municipal securities	**162,312**	—	162,312	—
Total trading securities owned	**750,947**	159,872	578,267	12,808
Available-for-sale securities:				
U.S. government agency securities	**1,115**	—	1,115	—
State and municipal securities	**119,603**	—	18,873	100,730
Mortgage-backed securities:				
Agency	**411,277**	—	411,277	—
Commercial	**283,825**	—	283,825	—
Non-agency	**15,408**	—	15,408	—
Corporate fixed income securities	**470,981**	288,066	170,915	12,000
Asset-backed securities	**27,150**	—	27,150	—
Total available-for-sale securities	**1,329,359**	288,066	928,563	112,730
Investments:				
Corporate equity securities	**25,473**	25,358	115	—
Mutual funds	**15,836**	15,836	—	—
U.S. government securities	**7,068**	7,068	—	—
Auction rate securities:				
Equity securities	**80,037**	—	—	80,037
Municipal securities	**11,503**	—	—	11,503
Other	**40,163**	709	363	39,091
Total investments	**180,080**	48,971	478	130,631
	$ 2,322,431	$ 558,954	$ 1,507,308	$ 256,169
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government securities	**$ 208,786**	$ 208,786	$ —	$ —
U.S. government agency securities	**6,658**	—	6,658	—
Corporate securities:				
Fixed income securities	**177,976**	62,330	115,646	—
Equity securities	**18,090**	17,939	151	—
State and municipal securities	**170**	—	170	—
Total trading securities sold, but not yet purchased	**411,680**	289,055	122,625	—
Securities sold, but not yet purchased	**20,857**	20,857	—	—
Derivative contracts (1)	**23,207**	—	23,207	—
	$ 455,744	$ 309,912	$ 145,832	$ —

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

	December 31, 2011			
	Total	**Level 1**	**Level 2**	**Level 3**
Assets:				
Cash equivalents	**$ 14,156**	$ 14,156	$ —	$ —
Trading securities owned:				
U.S. government agency securities	**66,424**	—	66,424	—
U.S. government securities	**32,845**	32,845	—	—
Corporate securities:				
Fixed income securities	**244,535**	31,398	209,395	3,742
Equity securities	**19,859**	19,506	353	—
State and municipal securities	**111,288**	—	111,288	—
Total trading securities owned	**474,951**	83,749	387,460	3,742
Available-for-sale securities:				
U.S. government agency securities	**1,103**	—	1,103	—
State and municipal securities	**86,932**	—	20,036	66,896
Mortgage-backed securities:				
Agency	**404,662**	—	404,662	—
Commercial	**271,510**	—	271,510	—
Non-agency	**17,460**	—	17,460	—
Corporate fixed income securities	**405,985**	153,855	240,130	12,000
Asset-backed securities	**26,489**	—	26,489	—
Total available-for-sale securities	**1,214,141**	153,855	981,390	78,896
Investments:				
Corporate equity securities	**23,921**	23,921	—	—
Mutual funds	**33,958**	33,958	—	—
Auction rate securities:				
Equity securities	**103,176**	—	—	103,176
Municipal securities	**11,729**	—	—	11,729
Other	**38,424**	1,055	336	37,033
Total investments	**211,208**	58,934	336	151,938
	$ 1,914,456	$ 310,694	$ 1,369,186	$ 234,576
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government securities	**$ 109,776**	$ 109,776	$ —	$ —
U.S. government agency securities	**954**	—	954	—
Corporate securities:				
Fixed income securities	**149,460**	74,719	74,741	—
Equity securities	**6,060**	6,019	41	—
State and municipal securities	**583**	—	583	—
Total trading securities sold, but not yet purchased	**266,833**	190,514	76,319	—
Securities sold, but not yet purchased	**19,223**	19,223	—	—
Derivative contracts (1)	**24,877**	—	24,877	—
	$ 310,933	$ 209,737	$ 101,196	$ —

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

Our investment in a senior preferred interest in Miller Buckfire & Co. LLC, which is included in investments in the consolidated statements of financial condition, is carried at cost and therefore not included in the above analysis of fair value at June 30, 2012 and December 31, 2011.

The following table summarizes the changes in fair value carrying values associated with Level 3 financial instruments during the three and six months ended June 30, 2012 *(in thousands)*:

	Three Months Ended June 30, 2012					
		Available-for-sale securities		Investments		
	Corporate Fixed Income Securities (1)	State & Municipal Securities	Corporate Fixed Income Securities	Auction Rate Securities – Equity	Auction Rate Securities – Municipal	Other
Balance at March 31, 2012	**$ 6,697**	**$ 64,859**	**$ 12,000**	**$ 92,077**	**$ 13,404**	**$ 37,982**
Unrealized gains/(losses):						
Included in changes in net assets (2)	—	—	—	(15)	134	2,127
Included in OCI (3)	—	(1,129)	—	—	—	—
Realized gains (2)	110	—	—	—	—	63
Purchases	16,662	37,000	—	—	215	854
Sales	(8,870)	—	—	—	—	(1,935)
Redemptions	—	—	—	(12,025)	(2,250)	—
Transfers:						
Into Level 3	2,459	—	—	—	—	—
Out of Level 3	(4,250)	—	—	—	—	—
Net change	6,111	35,871	—	(12,040)	(1,901)	1,109
Balance at June 30, 2012	**$ 12,808**	**$ 100,730**	**$ 12,000**	**$ 80,037**	**$ 11,503**	**$ 39,091**

	Six Months Ended June 30, 2012					
		Available-for-sale securities		Investments		
	Corporate Fixed Income Securities (1)	State & Municipal Securities)	Corporate Fixed Income Securities	Auction Rate Securities – Equity	Auction Rate Securities – Municipal	Other
Balance at December 31, 2011	**$ 3,742**	**$ 66,896**	**$ 12,000**	**$ 103,176**	**$ 11,729**	**$ 37,033**
Unrealized gains/(losses):						
Included in changes in net assets (2)	47	—	—	436	69	2,831
Included in OCI (3)	—	(1,284)	—	—	—	—
Realized gains (2)	128	118	—	—	—	653
Purchases	21,908	37,000	—	2,800	2,255	1,244
Sales	(11,427)	—	—	—	—	(2,670)
Redemptions	—	(2,000)	—	(26,375)	(2,550)	—
Transfers:						
Into Level 3	2,686	—	—	—	—	—
Out of Level 3	(4,276)	—	—	—	—	—
Net change	9,066	33,834	—	(23,139)	(226)	2,058
Balance at June 30, 2012	**$ 12,808**	**$ 100,730**	**$ 12,000**	**$ 80,037**	**$ 11,503**	**$ 39,091**

(1) Included in trading securities owned in the consolidated statements of financial condition.

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

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

The results included in the table above are only a component of the overall investment strategies of our company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The changes to our company's Level 3 classified instruments were principally a result of: unrealized gains and losses, and redemptions of ARS at par during the three and six months ended June 30, 2012. The changes in unrealized gains/(losses) recorded in earnings for the three and six months ended June 30, 2012 relating to Level 3 assets still held at June 30, 2012 were immaterial.

The following table presents quantitative information related to the significant unobservable inputs utilized in our company's Level 3 recurring fair value measurements as of June 30, 2012 *(in thousands, except rates and years)*.

	Estimated fair value	Discounted cash flow model - unobservable inputs: Discount rate – Range	Discount rate – Weighted average	Workout period – Range	Workout period – Weighted average
Available-for-sale securities:					
State and municipal securities	$ 100,730	1.8% - 9.7%	5.3%	2 – 4 years	3.3 years
Investments:					
Auction rate securities:					
Equity securities	$ 80,037	1.6% - 9.2%	5.4%	1 – 3 years	2.4 years
Municipal securities	$ 11,503	0.4% - 10.0%	4.9%	1 – 4 years	2.6 years

As previously disclosed, our other investments reported as Level 3 assets primarily include investments in partnerships and our general and limited partnership interests in investment partnerships and direct investments in non-public companies. The methods and assumptions used in fair valuing the underlying investments of the investment partnerships are consistent with those used in determining the fair value of similar investments held directly by our company. The general and limited partnership interests are valued using unobservable inputs such as net asset values of the fund, as reported by the fund or on behalf of the fund. For those partnership interests where a net asset value is not provided, we estimate the fair value of each underlying investment in the fund. Investments in non-public companies are valued using a variety of inputs, including the company's relevant performance, where available, subsequent offering prices, and comparable company prices. These inputs vary widely based on the individual investment being valued.

Transfers Within the Fair Value Hierarchy

We assess our financial instruments on a quarterly basis to determine the appropriate classification within the fair value hierarchy. Transfers between fair value classifications occur when there are changes in pricing observability levels. Transfers of financial instruments among the levels are deemed to occur at the beginning of the reporting period. There were no transfers of financial assets from Level 2 to Level 1 during the three months ended June 30, 2012. There were $1.8 million of transfers of financial assets from Level 2 to Level 1 during the six months ended June 30, 2012 primarily related to tax-exempt securities for which market trades were observed that provided transparency into the valuation of these assets. There were $13.7 million and $14.1 million of transfers of financial assets from Level 1 to Level 2 during the three and six months ended June 30, 2012, respectively, primarily related to tax-exempt securities for which there were low volumes of recent trade activity observed. There were $4.3 million of transfers of financial assets from Level 3 to Level 2 during the three and six months ended June 30, 2012, respectively, related to corporate fixed income securities for which market trades were observed that provided transparency into the valuation of these assets. There were $2.5 million and $2.7 million of transfers of financial assets into Level 3 during the three and six months ended June 30, 2012, respectively, related to corporate fixed income securities for which there were low volumes of recent trade activity observed.

Fair Value of Financial Instruments

The following reflects the fair value of financial instruments, as of June 30, 2012 and December 31, 2011, whether or not recognized in the consolidated statements of financial condition at fair value *(in thousands)*.

	June 30, 2012		December 31, 2011	
	Carrying value	**Estimated fair value**	Carrying value	Estimated fair value
Financial assets:				
Cash and cash equivalents	**$ 441,699**	**$ 441,699**	$ 167,671	$ 167,671
Restricted cash	**6,587**	**6,587**	6,883	6,883
Cash segregated for regulatory purposes	**27**	**27**	26	26
Securities purchased under agreements to resell	**156,748**	**156,748**	75,455	75,455
Trading securities owned	**750,947**	**750,947**	474,951	474,951
Available-for-sale securities	**1,329,359**	**1,329,359**	1,214,141	1,214,141
Held-to-maturity securities	**521,378**	**525,208**	190,484	189,071
Loans held for sale	**117,166**	**117,166**	131,754	131,754
Bank loans	**708,879**	**720,297**	632,140	639,341
Investments	**208,080**	**208,080**	239,208	239,208
Financial liabilities:				
Securities sold under agreements to repurchase	**$ 153,284**	**$ 153,284**	$ 80,176	$ 80,176
Bank deposits	**2,776,684**	**2,775,323**	2,071,738	2,067,324
Trading securities sold, but not yet purchased	**411,680**	**411,680**	266,833	266,833
Securities sold, but not yet purchased	**20,857**	**20,857**	19,223	19,223
Derivative contracts [1]	**23,207**	**23,207**	24,877	24,877
Senior notes	**175,000**	**193,478**	—	—
Debentures to Stifel Financial Capital Trusts	**82,500**	**68,437**	82,500	67,594
Liabilities subordinated to claims of general creditors	**5,318**	**5,120**	6,957	6,671

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

The following table presents the estimated fair values of financial instruments not measured at fair value on a recurring basis *(in thousands)*:

	June 30, 2012 (1)			
	Total	**Level 1**	**Level 2**	**Level 3**
Financial assets:				
Cash	**$ 379,654**	$ 379,654	$ —	$ —
Restricted cash	**6,587**	6,587	—	—
Cash segregated for regulatory purposes	**27**	27	—	—
Securities purchased under agreements to resell	**156,748**	142,437	14,311	—
Held-to-maturity securities	**525,208**	14,284	39,462	471,462
Loans held for sale	**117,166**	—	117,166	—
Bank loans	**720,297**	—	720,297	—
Investments	**28,000**	—	—	28,000
Financial liabilities:				
Securities sold under agreements to repurchase	**$ 153,284**	$ 10,314	$ 142,970	$ —
Bank deposits	**2,775,323**	—	2,775,323	—
Senior notes	**193,478**	193,478	—	—
Debentures to Stifel Financial Capital Trusts	**68,437**	—	—	68,437
Liabilities subordinated to claims of general creditors	**5,120**	—	—	5,120

(1) We adopted the provisions of Update No. 2011-04 in the first quarter of 2012 on a prospective basis. Accordingly, disclosures for prior periods are not presented.

The following, as supplemented by the discussion above, describes the valuation techniques used in estimating the fair value of our financial instruments as of June 30, 2012 and December 31, 2011.

Financial Assets

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at June 30, 2012 and December 31, 2011 approximate fair value due to the short-term nature.

Held-to-Maturity Securities

Securities held to maturity are recorded at amortized cost based on our company's positive intent and ability to hold these securities to maturity. Securities held to maturity include asset-backed securities, consisting of corporate obligations, collateralized debt obligation securities and ARS. The estimated fair value, included in the above table, is determined using several factors; however, primary weight is given to discounted cash flow modeling techniques that incorporated an estimated discount rate based upon recent observable debt security issuances with similar characteristics.

Loans Held for Sale

Loans held for sale consist of fixed-rate and adjustable-rate residential real estate mortgage loans intended for sale. Loans held for sale are stated at lower of cost or fair value. Fair value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices.

Bank Loans

The fair values of mortgage loans and commercial loans were estimated using a discounted cash flow method, a form of the income approach. Discount rates were determined considering rates at which similar portfolios of loans would be made under current conditions and considering liquidity spreads applicable to each loan portfolio based on the secondary market.

Financial Liabilities

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase are collateralized financing transactions that are recorded at their contractual amounts plus accrued interest. The carrying values at June 30, 2012 and December 31, 2011 approximate fair value due to the short-term nature.

Bank Deposits

The fair value for demand deposits is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate money-market and savings accounts approximate their fair values at the reporting date as these are short-term in nature. The fair value of other interest-bearing deposits, including certificates of deposit, was calculated by discounting the future cash flows using discount rates based on the expected current market rates for similar products with similar remaining terms.

Senior Notes

The fair value of our 6.70% senior notes is estimated based upon quoted market prices.

Debentures to Stifel Financial Capital Trusts

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

Liabilities Subordinated to Claims of General Creditors

The fair value of subordinated debt was measured using the interest rates commensurate with borrowings of similar terms.

These fair value disclosures represent our best estimates based on relevant market information and information about the financial instruments. Fair value estimates are based on judgments regarding future expected losses, current economic conditions, risk characteristics of the various instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in the above methodologies and assumptions could significantly affect the estimates.

NOTE 5 – Trading Securities Owned and Trading Securities Sold, But Not Yet Purchased

The components of trading securities owned and trading securities sold, but not yet purchased, at June 30, 2012 and December 31, 2011, are as follows *(in thousands)*:

	June 30, 2012	December 31, 2011
Trading securities owned:		
U.S. government agency securities	**$ 80,673**	$ 66,424
U.S. government securities	**31,879**	32,845
Corporate securities:		
Fixed income securities	**432,086**	244,535
Equity securities	**43,997**	19,859
State and municipal securities	**162,312**	111,288
	$ 750,947	$ 474,951
Trading securities sold, but not yet purchased:		
U.S. government securities	**$ 208,786**	$ 109,776
U.S. government agency securities	**6,658**	954
Corporate securities:		
Fixed income securities	**177,976**	149,460
Equity securities	**18,090**	6,060
State and municipal securities	**170**	583
	$ 411,680	$ 266,833

At June 30, 2012 and December 31, 2011, trading securities owned in the amount of $565.8 million and $392.4 million, respectively, were pledged as collateral for our repurchase agreements and short-term borrowings.

Trading securities sold, but not yet purchased, represent obligations of our company to deliver the specified security at the contracted price, thereby creating a liability to purchase the security in the market at prevailing prices in future periods. We are obligated to acquire the securities sold short at prevailing market prices in future periods, which may exceed the amount reflected in the consolidated statements of financial condition.

NOTE 6 – Available-for-Sale and Held-to-Maturity Securities

The following tables provide a summary of the amortized cost and fair values of the available-for-sale securities and held-to-maturity securities at June 30, 2012 and December 31, 2011 *(in thousands)*:

	June 30, 2012			
	Amortized cost	**Gross unrealized gains (1)**	**Gross unrealized losses (1)**	**Estimated fair value**
Available-for-sale securities				
U.S. government securities	**$ 1,116**	$ —	$ (1)	**$ 1,115**
State and municipal securities	**114,276**	5,926	(599)	**119,603**
Mortgage-backed securities:				
Agency	**403,553**	7,724	—	**411,277**
Commercial	**281,191**	3,633	(999)	**283,825**
Non-agency	**15,152**	256	—	**15,408**
Corporate fixed income securities	**469,917**	3,805	(2,741)	**470,981**
Asset-backed securities	**27,145**	477	(472)	**27,150**
	$ 1,312,350	$ 21,821	$ (4,812)	**$ 1,329,359**
Held-to-maturity securities (2)				
Asset-backed securities	**$ 443,495**	$ 7,395	$ (3,298)	**$ 447,592**
Corporate fixed income securities	**55,495**	58	(1,808)	**53,745**
Municipal auction rate securities	**22,388**	1,500	(17)	**23,871**
	$ 521,378	$ 8,953	$ (5,123)	**$ 525,208**

	December 31, 2011			
	Amortized cost	**Gross unrealized gains (1)**	**Gross unrealized losses (1)**	**Estimated fair value**
Available-for-sale securities				
U.S. government securities	**$ 1,105**	$ —	$ (2)	**$ 1,103**
State and municipal securities	**82,256**	4,979	(303)	**86,932**
Mortgage-backed securities:				
Agency	**396,952**	8,469	(759)	**404,662**
Commercial	**270,677**	1,811	(978)	**271,510**
Non-agency	**17,701**	135	(376)	**17,460**
Corporate fixed income securities	**409,503**	2,108	(5,626)	**405,985**
Asset-backed securities	**26,011**	548	(70)	**26,489**
	$ 1,204,205	$ 18,050	$ (8,114)	**$ 1,214,141**
Held-to-maturity securities (2)				
Asset-backed securities	**$ 122,148**	$ 2,953	$ (3,138)	**$ 121,963**
Corporate fixed income securities	**55,544**	56	(2,016)	**53,584**
Municipal auction rate securities	**12,792**	733	(1)	**13,524**
	$ 190,484	$ 3,742	$ (5,155)	**$ 189,071**

(1) Unrealized gains/(losses) related to available-for-sale securities are reported in accumulated other comprehensive loss.

(2) Held-to-maturity securities are carried in the consolidated statements of financial condition at amortized cost, and the changes in the value of these securities, other than impairment charges, are not reported on the consolidated financial statements.

For the three and six months ended June 30, 2012, we received proceeds of $91.4 million and $94.1 million, respectively, from the sale of available-for-sale securities, which resulted in realized gains of $2.1 million, respectively. During the three months ended June 30, 2012, unrealized losses, net of deferred tax benefits, of $0.5 million were recorded in accumulated other comprehensive income in the consolidated statements of financial condition. During the three months ended June 30, 2011, unrealized gains, net of deferred taxes, of $5.4 million were recorded in accumulated other comprehensive income in the consolidated statements of financial condition. During the six months ended June 30, 2012 and 2011, unrealized gains, net of deferred taxes, of $4.4 million and $6.6 million, respectively, were recorded in accumulated other comprehensive income in the consolidated statements of financial condition.

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

	June 30, 2012			
	Available-for-sale securities		Held-to-maturity securities	
	Amortized cost	Estimated fair value	Amortized cost	Estimated fair value
Debt securities				
Within one year	$ 81,583	$ 81,942	$ —	$ —
After one year through three years	294,073	296,928	—	—
After three years through five years	104,097	101,828	34,988	34,222
After five years through ten years	5,600	6,227	201,419	200,480
After ten years	127,101	131,924	284,971	290,506
Mortgage-backed securities				
After one year through three years	9,469	9,922	—	—
After three years through five years	407	419	—	—
After five years through ten years	16,280	16,640	—	—
After ten years	673,740	683,529	—	—
	$ 1,312,350	**$ 1,329,359**	**$ 521,378**	**$ 525,208**

The carrying value of securities pledged as collateral to secure public deposits and other purposes was $616.0 million and $634.8 million at June 30, 2012 and December 31, 2011, respectively.

The following table is a summary of the amount of gross unrealized losses and the estimated fair value by length of time that the available-for-sale securities have been in an unrealized loss position at June 30, 2012 *(in thousands)*:

	Less than 12 months		12 months or more		Total	
	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value	Gross unrealized losses	Estimated fair value
Available-for-sale securities						
U.S. government securities	$ (1)	$ 109	$ —	$ —	$ (1)	$ 109
State and municipal securities	(599)	32,562	—	—	(599)	32,562
Mortgage-backed securities:						
Commercial	(997)	82,876	(2)	560	(999)	83,436
Corporate fixed income securities	(1,510)	108,235	(1,231)	28,752	(2,741)	136,987
Asset-backed securities	(472)	17,289	—	—	(472)	17,289
	$ (3,579)	$ 241,071	$ (1,233)	$ 29,312	$ (4,812)	$ 270,383

The gross unrealized losses on our available-for-sale securities of $4.8 million as of June 30, 2012 relate to 43 individual securities.

Certain investments in the available-for-sale portfolio at June 30, 2012, are reported in the consolidated statements of financial condition at an amount less than their amortized cost. The total fair value of these investments at June 30, 2012, was $270.4 million, which was 20.3% of our available-for-sale investment portfolio. The amortized cost basis of these investments was $265.6 million at June 30, 2012. As discussed in more detail below, we conduct periodic reviews of all securities with unrealized losses to assess whether the impairment is other-than-temporary.

Other-Than-Temporary Impairment

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

If we determine that impairment on our debt securities is other-than-temporary and we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings. If we have not made a decision to sell the security and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of OTTI in earnings. The remaining unrealized loss due to factors other than credit, or the non-credit component, is recorded in accumulated other comprehensive loss. We determine the credit component based on the difference between the security's amortized cost basis and the present value of its expected future cash flows, discounted based on the purchase yield. The non-credit component represents the difference between the security's fair value and the present value of expected future cash flows. Based on the evaluation, we recognized a credit-related OTTI of $0.1 million and $0.3 million in earnings for the three and six months ended June 30, 2012, respectively.

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

We believe the gross unrealized losses related to all other securities of $4.8 million as of June 30, 2012 are attributable to issuer specific credit spreads and changes in market interest rates and asset spreads. We, therefore, do not expect to incur any credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses and it is not more likely than not that we will be required to sell these securities prior to recovery of the amortized cost. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

NOTE 7 – Bank Loans

The following table presents the balance and associated percentage of each major loan category in our loan portfolio at June 30, 2012 and December 31, 2011 *(in thousands, except percentages)*:

	June 30, 2012		December 31, 2011	
	Balance	**Percent**	**Balance**	**Percent**
Consumer (1)	**$ 398,790**	**55.7%**	$ 371,399	58.2%
Commercial and industrial	**243,214**	**34.0**	186,996	29.3
Residential real estate	**48,696**	**6.8**	51,755	8.1
Home equity lines of credit	**22,151**	**3.1**	24,086	3.8
Commercial real estate	**2,912**	**0.3**	3,107	0.5
Construction and land	**514**	**0.1**	514	0.1
	716,277	**100.0%**	637,857	100.0%
Unamortized loan fees, net of origination costs	**(907)**		(421)	
Loans in process	**(199)**		4	
Allowance for loan losses	**(6,292)**		(5,300)	
	$ 708,879		$ 632,140	

(1) Includes securities-based loans of $398.7 million and $371.1 million at June 30, 2012 and December 31, 2011, respectively.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Allowance for loan losses, beginning of period	**$ 5,781**	$ 2,521	**$ 5,300**	$ 2,331
Provision for loan losses	**596**	721	**1,139**	906
Charge-offs:				
Residential real estate	**(86)**	—	**(195)**	—
Recoveries	**1**	9	**48**	14
Allowance for loan losses, end of period	**$ 6,292**	$ 3,251	**$ 6,292**	$ 3,251

A loan is determined to be impaired, usually when principal or interest becomes 90 days past due or when collection becomes uncertain. At the time a loan is determined to be impaired, the accrual of interest and amortization of deferred loan origination fees is discontinued ("non-accrual status"), and any accrued and unpaid interest income is reversed. At June 30, 2012, we had $1.9 million of non-accrual loans, which included $1.5 million in troubled debt restructurings, for which there was a specific allowance of $0.5 million. At December 31, 2011, we had $2.5 million of non-accrual loans, which included $0.3 million of trouble debt restructurings, for which there was a specific allowance of $0.6 million. The gross interest income related to impaired loans, which would have been recorded had these loans been current in accordance with their original terms, and the interest income recognized on these loans during the three and six months ended June 30, 2012, were insignificant to the consolidated financial statements.

Credit Quality

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of the loan portfolio. In general, we are a secured lender. At June 30, 2012 and December 31, 2011, approximately 95% and 95% of our loan portfolio was collateralized, respectively. Collateral is required in accordance with the normal credit evaluation process based upon the creditworthiness of the customer and the credit risk associated with the particular transaction.

The following is a breakdown of the allowance for loan losses by type for as of June 30, 2012 and December 31, 2011 *(in thousands, except rates)*:

	June 30, 2012		December 31, 2011	
	Balance	**Percent(1)**	**Balance**	**Percent(1)**
Commercial and industrial	**$ 3,370**	**34.0%**	$ 2,595	29.3%
Consumer	**806**	**55.7**	510	58.2
Commercial real estate	**560**	**0.3**	633	0.5
Residential real estate	**507**	**6.8**	679	8.1
Unallocated	**1,049**	**3.2**	883	3.9
	$ 6,292	**100.0%**	$ 5,300	100.0%

(1) Loan category as a percentage of total loan portfolio.

At June 30, 2012 and December 31, 2011, Stifel Bank had loans outstanding to its executive officers, directors, and their affiliates in the amount of $0.6 million and $0.8 million, respectively, and loans outstanding to other Stifel Financial Corp. executive officers, directors, and their affiliates in the amount of $4.3 million and $4.3 million, respectively. Such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral requirements) as those prevailing at the time for comparable transactions with other persons.

At June 30, 2012 and December 31, 2011, we had mortgage loans held for sale of $117.2 million and $131.8 million, respectively. For the three months ended June 30, 2012 and 2011, we recognized gains of $3.2 million and $1.4 million, respectively, from the sale of originated loans, net of fees and costs. For the six months ended June 30, 2012 and 2011, we recognized gains of $6.0 million and $3.4 million, respectively, from the sale of originated loans, net of fees and costs.

NOTE 8 – Fixed Assets

The following is a summary of fixed assets as of June 30, 2012 and December 31, 2011 (*in thousands*):

	June 30, 2012	December 31, 2011
Furniture and equipment	$ 151,714	$ 147,210
Building and leasehold improvements	76,054	77,192
Total	227,768	224,402
Less accumulated depreciation and amortization	(129,419)	(119,662)
	$ 98,349	$ 104,740

For the three months ended June 30, 2012 and 2011, depreciation and amortization of furniture and equipment, and leasehold improvements totaled $7.4 million and $6.5 million, respectively. For the six months ended June 30, 2012 and 2011, depreciation and amortization of furniture and equipment, and leasehold improvements totaled $14.6 million and $12.1 million, respectively.

NOTE 9 – Goodwill and Intangible Assets

Goodwill impairment is tested at the reporting unit level, which is an operating segment or one level below an operating segment on an annual basis. The goodwill impairment analysis is a two-step test. The first step, used to identify potential impairment, involves comparing each reporting unit's fair value to its carrying value, including goodwill. If the fair value of a reporting unit exceeds its carrying value, applicable goodwill is considered not to be impaired. If the carrying value exceeds fair value, there is an indication of impairment and the second step is performed to measure the amount of impairment. Our annual goodwill impairment testing was completed as of July 31, 2011, with no impairment identified.

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

	December 31, 2011	Net additions	Impairment losses	June 30, 2012
Goodwill				
Global Wealth Management	$ 143,828	$ 549	$ —	$ 144,377
Institutional Group	215,160	2,198	—	217,358
	$ 358,988	$ 2,747	$ —	$ 361,735

	December 31, 2011	Net additions	Amortization	June 30, 2012
Intangible assets				
Global Wealth Management	$ 18,819	$ —	$ (1,234)	$ 17,585
Institutional Group	15,044	—	(1,287)	13,757
	$ 33,863	$ —	$ (2,521)	$ 31,342

The adjustments to goodwill during the six months ended June 30, 2012 are attributable to our acquisition of Stone & Youngberg.

Amortizable intangible assets consist of acquired customer relationships, trade name, non-compete agreements, and investment banking backlog that are amortized over their contractual or determined useful lives. Intangible assets subject to amortization as of June 30, 2012 and December 31, 2011 were as follows *(in thousands)*:

	June 30, 2012		December 31, 2011	
	Gross carrying value	**Accumulated amortization**	Gross carrying value	Accumulated amortization
Customer relationships	**$ 40,166**	**$ 16,782**	$ 40,166	$ 14,827
Trade name	**9,442**	**1,517**	9,442	1,011
Investment banking backlog	**2,250**	**2,217**	2,250	2,157
	$ 51,858	**$ 20,516**	$ 51,858	$ 17,995

Amortization expense related to intangible assets was $1.2 million and $1.3 million for the three months ended June 30, 2012 and 2011, respectively. Amortization expense related to intangible assets was $2.5 million and $2.4 million for the six months ended June 30, 2012 and 2011, respectively.

The weighted-average remaining lives of the following intangible assets at June 30, 2012 are: customer relationships, 6.6 years; and trade name, 7.8 years. The investment banking backlog will be amortized over their estimated lives, which we expect to be within the next 12 months. As of June 30, 2012, we expect amortization expense in future periods to be as follows *(in thousands)*:

Fiscal year	
Remainder of 2012	$ 2,405
2013	4,309
2014	3,856
2015	3,129
2016	2,829
Thereafter	14,814
	$ 31,342

NOTE 10 – Short-Term Borrowings

Our short-term financing is generally obtained through short-term bank line financing on an uncommitted, secured basis, short-term bank line financing on an unsecured basis and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition. Our uncommitted secured lines of credit at June 30, 2012 totaled $680.0 million with four banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing was $473.7 million during the six months ended June 30, 2012. There are no compensating balance requirements under these arrangements.

Our committed short-term bank line financing at June 30, 2012 consisted of a $50.0 million revolving credit facility with two banks. The credit facility expires in December 2012. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the higher of (i) the prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) one-month Eurocurrency rate plus 1.00%, as defined in the revolving credit facility. At June 30, 2012, we had no advances on our revolving credit facility and were in compliance with all covenants.

At June 30, 2012, short-term borrowings from banks were $282.0 million at an average rate of 1.17%, which were collateralized by company-owned securities valued at $412.5 million. At December 31, 2011, short-term borrowings from banks were $199.4 million at an average rate of 1.17%, which were collateralized by company-owned securities valued at $293.0 million. The average bank borrowing was $267.0 million and $206.0 million for the three months ended June 30, 2012 and 2011, respectively, at average daily interest rates of 1.15%, and 1.12%, respectively. The average bank borrowing was $226.2 million and $187.7 million for the six months ended June 30, 2012 and 2011, respectively, at average daily interest rates of 1.14%, and 1.24%, respectively.

At June 30, 2012 and December 31, 2011, Stifel Nicolaus had a stock loan balance of $151.3 million and $124.7 million, respectively, at average daily interest rates of 0.14% and 0.17%, respectively. The average outstanding securities lending arrangements utilized in financing activities were $143.4 million and $121.8 million during the three months ended June 30, 2012 and 2011, respectively, at average daily effective interest rates of [1.09]% and 1.36%, respectively. The average outstanding securities lending arrangements utilized in financing activities were $149.7 million and $110.2 million during the six months ended June 30, 2012 and 2011, respectively, at average daily effective interest rates of [1.61]% and 1.35%, respectively. Customer-owned securities were utilized in these arrangements.

NOTE 11 – Bank Deposits

Deposits consist of money market and savings accounts, certificates of deposit, and demand deposits. Deposits at June 30, 2012 and December 31, 2011 were as follows *(in thousands)*:

	June 30, 2012	December 31, 2011
Money market and savings accounts	**$ 2,707,778**	$ 2,024,568
Demand deposits (interest-bearing)	**49,930**	29,509
Demand deposits (non-interest-bearing)	**17,398**	15,691
Certificates of deposit	**1,578**	1,970
	$ 2,776,684	$ 2,071,738

The weighted average interest rate on deposits was 0.2% and 0.2% at June 30, 2012 and December 31, 2011, respectively.

Scheduled maturities of certificates of deposit at June 30, 2012 and December 31, 2011 were as follows *(in thousands)*:

	June 30, 2012	December 31, 2011
Certificates of deposit, less than $100:		
Within one year	**$ 504**	$ 794
One to three years	**285**	240
	$ 789	$ 1,034
Certificates of deposit, $100 and greater:		
Within one year	**$ 547**	$ 656
One to three years	**242**	280
	789	936
	$ 1,578	$ 1,970

At June 30, 2012 and December 31, 2011, the amount of deposits includes related party deposits, primarily brokerage customers' deposits from Stifel Nicolaus of $2.7 billion and $2.1 billion, respectively, and interest-bearing and time deposits of executive officers, directors, and their affiliates of $0.1 million and $0.6 million, respectively. Such deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates) as those prevailing at the time for comparable transactions with other persons.

NOTE 12 – Derivative Instruments and Hedging Activities

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

The following table provides the notional values and fair values of our derivative instruments as of June 30, 2012 and December 31, 2011 *(in thousands)*:

	June 30, 2012							
			Asset derivatives			Liability derivatives		
	Notional value		Balance sheet location	Positive fair value		Balance sheet location	Negative fair value	
Derivatives designated as hedging instruments under Topic 815:								
Cash flow interest rate contracts	$	699,242	Other assets	$	—	Accounts payable and accrued expenses	$	(23,207)

	December 31, 2011							
			Asset derivatives			Liability derivatives		
	Notional value		Balance sheet location	Positive fair value		Balance sheet location	Negative fair value	
Derivatives designated as hedging instruments under Topic 815:								
Cash flow interest rate contracts	$	761,907	Other assets	$	—	Accounts payable and accrued expenses	$	(24,877)

Cash Flow Hedges

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

Any unrealized gains or losses related to cash flow hedging instruments are reclassified from accumulated other comprehensive loss into earnings in the same period the hedged forecasted transaction affects earnings and are recorded in interest expense on the accompanying consolidated statements of operations. The ineffective portion of the cash flow hedging instruments is recorded in other income or other operating expense. There was no ineffectiveness recognized during the three and six months ended June 30, 2012.

Amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on our variable rate deposits. During the next twelve months, we estimate that $9.8 million will be reclassified as an increase to interest expense.

The following table shows the effect of our company's derivative instruments in the consolidated statements of operations for the three and six months ended June 30, 2012 and 2011 *(in thousands)*:

	Three Months Ended June 30, 2012				
	(Gain)/Loss recognized in OCI (effectiveness)	**Location of loss reclassified from OCI into income**	**Loss reclassified from OCI into income**	**Location of loss recognized in OCI (ineffectiveness)**	**Loss recognized due to ineffectiveness**
Cash flow interest rate contracts	$ 5,130	Interest expense	$ 2,963	None	$ —

	Three Months Ended June 30, 2011				
	(Gain)/Loss recognized in OCI (effectiveness)	**Location of loss reclassified from OCI into income**	**Loss reclassified from OCI into income**	**Location of loss recognized in OCI (ineffectiveness)**	**Loss recognized due to ineffectiveness**
Cash flow interest rate contracts	$ 10,782	Interest expense	$ 3,644	None	$ —

	Six Months Ended June 30, 2012				
	(Gain)/Loss recognized in OCI (effectiveness)	**Location of loss reclassified from OCI into income**	**Loss reclassified from OCI into income**	**Location of loss recognized in OCI (ineffectiveness)**	**Loss recognized due to ineffectiveness**
Cash flow interest rate contracts	$ 4,505	Interest expense	$ 6,174	None	$ —

	Six Months Ended June 30, 2011				
	(Gain)/Loss recognized in OCI (effectiveness)	**Location of loss reclassified from OCI into income**	**Loss reclassified from OCI into income**	**Location of loss recognized in OCI (ineffectiveness)**	**Loss recognized due to ineffectiveness**
Cash flow interest rate contracts	$ 9,647	Interest expense	$ 7,049	None	$ —

We maintain a risk management strategy that incorporates the use of derivative instruments to minimize significant unplanned fluctuations in earnings caused by interest rate volatility. Our goal is to manage sensitivity to changes in rates by hedging the maturity characteristics of variable rate affiliated deposits, thereby limiting the impact on earnings. By using derivative instruments, we are exposed to credit and market risk on those derivative positions. We manage the market risk associated with interest rate contracts by establishing and monitoring limits as to the types and degree of risk that may be undertaken. Credit risk is equal to the extent of the fair value gain in a derivative if the counterparty fails to perform. When the fair value of a derivative contract is positive, this generally indicates that the counterparty owes our company and, therefore, creates a repayment risk for our company. When the fair value of a derivative contract is negative, we owe the counterparty and, therefore, have no repayment risk. See Note 4 in the notes to our consolidated financial statements for further discussion on how we determine the fair value of our financial instruments. We minimize the credit (or repayment) risk in derivative instruments by entering into transactions with high-quality counterparties that are reviewed periodically by senior management.

Credit Risk-Related Contingency Features

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

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

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

Regulatory Capital-Related Contingency Features

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

As of June 30, 2012, the fair value of derivatives in a net liability position, which includes accrued interest but excludes any adjustment for nonperformance risk, related to these agreements was $24.3 million (termination value). We have minimum collateral posting thresholds with certain of our derivative counterparties and have posted cash collateral of $28.7 million against our obligations under these agreements. If we had breached any of these provisions at June 30, 2012, we would have been required to settle our obligations under the agreements at the termination value.

Counterparty Risk

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

NOTE 13 – Senior Notes

On January 18, 2012, we issued $175.0 million principal amount of 6.70% Senior Notes due 2022 (the "notes"). Interest on the notes will accrue from January 23, 2012 and will be paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing on April 15, 2012. The notes will mature on January 15, 2022. We may redeem the notes in whole or in part on or after January 15, 2015 at our option at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to the date of redemption.

NOTE 14 – Commitments, Guarantees, and Contingencies

Broker-Dealer Commitments and Guarantees

In the normal course of business, we enter into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open at June 30, 2012, had no material effect on the consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at $98.9 million to satisfy the minimum margin deposit requirement of $27.3 million at June 30, 2012.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited $19.1 million in cash at June 30, 2012, which satisfied the minimum margin deposit requirements of $15.9 million.

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

TWP has entered into settlement and release agreements ("Settlement Agreements") with certain customers, whereby it will purchase their ARS, at par, in exchange for a release from any future claims. At June 30, 2012, we estimate that TWP customers held $25.1 million par value of ARS, which may be repurchased over the next 4 years. We estimate that we will repurchase ARS of $6.2 million par value in December 2012. The amount estimated for repurchase assumes no issuer redemptions.

We have recorded a liability for our estimated exposure to the 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 remaining repurchase period. Future periods' results may be affected by changes in estimated redemption rates or changes in the fair value of ARS.

Other Commitments

In the ordinary course of business, Stifel Bank has commitments to extend credit in the form of commitments to originate loans, standby letters of credit, and lines of credit. See Note 18 in the notes to our consolidated financial statements for further details.

Concentration of Credit Risk

We provide investment, capital-raising, and related services to a diverse group of domestic customers, including governments, corporations, and institutional and individual investors. Our exposure to credit risk associated with the non-performance of customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets, credit markets, and regulatory changes. This exposure is measured on an individual customer basis and on a group basis for customers that share similar attributes. To reduce the potential for risk concentrations, counterparty credit limits have been implemented for certain products and are continually monitored in light of changing customer and market conditions. As of June 30, 2012 and December 31, 2011, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

Note 15 – Legal Proceedings

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

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

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

SEC/Wisconsin Lawsuit

The SEC filed a civil lawsuit against our company in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The action arises out of our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving collateralized debt obligations ("CDOs"). These transactions are described in more detail below in connection with the civil lawsuit filed by the school districts. The SEC has asserted claims under Section 10b and Rule 10b-5 of the Exchange Act, Sections 17a(1), 17a(2) and 17a(3) of the Securities Act and Section 15c(1)(A) of the Exchange Act. The claims are based upon both alleged misrepresentations and omissions in connection with the sale of the CDOs to the school districts, as well as the allegedly unsuitable nature of the CDOs. On October 31, 2011, we filed a motion to dismiss the action for failure to state a claim. Briefs supporting and opposing our motion have been filed with the Court. The District Court has not yet ruled on the motion to dismiss. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to the SEC's lawsuit and intend to vigorously defend the SEC's claims.

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

TWP LLC FINRA Matter

On April 28, 2010, FINRA commenced an administrative proceeding against TWP involving a transaction undertaken by a former employee in which approximately $15.7 million of ARS were sold from a TWPG account to the accounts of three customers. FINRA alleged that TWP violated various NASD and FINRA rules, as well as Section 10(b) of the Securities Exchange Act and Rule 10b-5. TWP's answer denied the substantive allegations and asserted various affirmative defenses. TWP repurchased the ARS at issue from the customers at par. FINRA sought fines and other relief against TWP and the former employee.

On November 8, 2011, the FINRA hearing panel fined TWP $0.2 million for not having adequate supervisory procedures governing principal transactions in violation of NASD rules and ordered TWP to pay certain administrative fees and costs. The FINRA hearing panel dismissed all other charges against TWP and the former employee. On July 25, 2012, the National Adjudicatory Council considered FINRA's appeal of the FINRA hearing panel's decision, which has not yet been determined.

EDC Bond Issuance Matter

On January 16, 2012, our company and Stifel Nicolaus were named as defendants in a suit filed in Wisconsin state court with respect to Stifel Nicolaus' role as initial purchaser in a $50.0 million bond offering under Rule 144A in January 2008. The bonds were issued by the Lake of the Torches Economic Development Corporation ("EDC") in connection with certain new financing for the construction of a proposed new casino, as well as refinancing of indebtedness involving Lac Du Flambeau Band of Lake Superior Chippewa Indians (the "Tribe"), who are also defendants in the action, together with Godfrey & Kahn, S.C. ("G&K") who served as both issuer's counsel and bond counsel in the transaction. In an action in federal court in Wisconsin related to the transaction, EDC was successful in its assertion that the bond indenture was void as an unapproved "management contract" under National Indian Gaming Commission regulations, and that accordingly the Tribe's waiver of sovereign immunity contained in the indenture was void. After a remand from the Seventh Circuit Court of Appeals, a new federal action continues regarding the validity of the bond documents other than the bond indenture, and our company and Stifel Nicolaus are defendants in this new federal action.

Saybrook Tax Exempt Investors LLC, a qualified institutional buyer and the sole bondholder through its special purpose vehicle LDF Acquisition LLC (collectively, “Saybrook”), and Wells Fargo Bank, NA (“Wells Fargo”), indenture trustee for the bonds (collectively, “plaintiffs”), also brought a Wisconsin state court suit against EDC, our company and G&K, based on alleged misrepresentations about the enforceability of the indenture and the bonds and the waiver of sovereign immunity. The parties have agreed to stay the state court action until the federal court rules on whether it has jurisdiction over the new federal action. Saybrook is the plaintiff in the new federal action and in the state court action. The plaintiffs allege that G&K represented in various legal opinions issued in the transaction, as well as in other documents associated with the transaction, that (i) the bonds and indenture were legally enforceable obligations of EDC and (ii) EDC’s waivers of sovereign immunity were valid. The claims asserted against us are for breaches of implied warranties of validity and title, securities fraud and statutory misrepresentation under Wisconsin state law, intentional and negligent misrepresentations relating to the validity of the bond documents and the Tribe’s waiver of its sovereign immunity. To the extent EDC does not fully perform its obligations to Saybrook pursuant to the bonds, the plaintiffs seek a judgment for rescission, restitutionary damages, including the amounts paid by the plaintiffs for the bonds, and costs; alternatively, the plaintiffs seek to recover damages, costs and attorneys’ fees from us. On May 2, 2012, we filed a motion to dismiss all of the claims alleged against our company and Stifel Nicolaus in the new federal court action. The case is currently stayed while the federal court considers whether it has jurisdiction over the lawsuit. If the federal court determines it does not have jurisdiction, the action will continue in Wisconsin state court. While there can be no assurance that we will be successful, we believe we have meritorious legal and factual defenses to the matter, and we intend to vigorously defend the claims.

NOTE 16 – Regulatory Capital Requirements

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

At June 30, 2012, Stifel Nicolaus had net capital of $342.4 million, which was 53.1% of aggregate debit items and $329.5 million in excess of its minimum required net capital. At June 30, 2012, CSA’s net capital exceeded the minimum net capital required under the SEC rule.

Our international subsidiary, SNEL, is subject to the regulatory supervision and requirements of the Financial Services Authority (“FSA”) in the United Kingdom. At June 30, 2012, SNEL’s capital and reserves were in excess of the financial resources requirement under the rules of the FSA.

Our Canadian subsidiary, SN Canada, is subject to the regulatory supervision and requirements of the Investment Industry Regulatory Organization of Canada (“IIROC”). At June 30, 2012, SN Canada’s net capital and reserves were in excess of the financial resources requirement under the rules of the IIROC.

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

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

Stifel Financial Corp. – Federal Reserve Capital Amounts
June 30, 2012

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	$ 984,110	26.0%	$ 302,524	8.0%	$ 378,155	10.0%
Tier 1 capital to risk-weighted assets	977,818	25.9	151,262	4.0	226,893	6.0
Tier 1 capital to adjusted average total assets	977,818	19.4	201,703	4.0	252,129	5.0

Stifel Bank – Federal Reserve Capital Amounts
June 30, 2012

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount		Amount	Ratio	Amount	Ratio
Total capital to risk-weighted assets	$ 224,731	12.3%	$ 146,723	8.0%	$ 183,404	10.0%
Tier 1 capital to risk-weighted assets	218,439	11.9	73,362	4.0	110,042	6.0
Tier 1 capital to adjusted average total assets	218,439	7.9	111,052	4.0	138,815	5.0

NOTE 17 – Employee Incentive, Deferred Compensation, and Retirement Plans

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

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors (“Compensation Committee”), which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award. According to these plans, we are authorized to grant an additional 9.1 million shares at June 30, 2012.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company’s incentive stock award plans was $11.0 million and $6.9 million for the three months ended June 30, 2012 and 2011, respectively. The tax benefit related to stock-based compensation recognized in shareholders’ equity was $1.0 million and $1.1 million for the three months ended June 30, 2012 and 2011, respectively.

Stock-based compensation expense included in compensation and benefits expense in the consolidated statements of operations for our company’s incentive stock award plans was $26.1 million and $16.0 million for the six months ended June 30, 2012 and 2011, respectively. The tax benefit related to stock-based compensation recognized in shareholders’ equity was $13.4 million and $23.6 million for the six months ended June 30, 2012 and 2011, respectively.

Stock Options

We have substantially eliminated the use of stock options as a form of compensation. During the three and six months ended June 30, 2012, no options were granted.

At June 30, 2012, all outstanding options were exercisable. Cash proceeds from the exercise of stock options were $0.1 million and $0.1 million for the three months ended June 30, 2012 and 2011, respectively. Tax benefits realized from the exercise of stock options for the three months ended June 30, 2012 and 2011 were $0.3 million and $0.1 million, respectively.

Cash proceeds from the exercise of stock options were $1.3 million and $0.6 million for the six months ended June 30, 2012 and 2011, respectively. Tax benefits realized from the exercise of stock options for the six months ended June 30, 2012 and 2011 were $3.6 million and $0.9 million, respectively.

Stock Units

A stock unit represents the right to receive a share of common stock from our company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive, principally for deferred compensation and employee retention plans. The restricted stock units vest on an annual basis over the next three to eight years and are distributable, if vested, at future specified dates. At June 30, 2012, the total number of stock units outstanding was 14.6 million, of which 5.1 million were unvested.

At June 30, 2012, there was unrecognized compensation cost for stock units of $173.8 million, which is expected to be recognized over a weighted-average period of 3.4 years.

Deferred Compensation Plans

The Stifel Nicolaus Wealth Accumulation Plan (the "SWAP Plan") is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the Plan into company stock units with a 25% matching contribution by our company. Participants may elect to defer up to an additional 15% of their incentive compensation with a 25% matching contribution. Units generally vest over a three- to seven-year period and are distributable upon vesting or at future specified dates. Deferred compensation costs are amortized on a straight-line basis over the vesting period. Elective deferrals are 100% vested. As of June 30, 2012, there were 14.2 million units outstanding under the SWAP Plan.

Additionally, the SWAP Plan allows Stifel Nicolaus' financial advisors who achieve certain levels of production, the option to defer a certain percentage of their gross commissions. As stipulated by the SWAP Plan, the financial advisors have the option to: 1) defer 4% of their gross commissions into company stock units with a 25% matching contribution or 2) defer up to 2% in mutual funds, which earn a return based on the performance of index mutual funds as designated by our company or a fixed income option. The mutual fund deferral option does not include a company match. Financial advisors may elect to defer an additional 1% of gross commissions into company stock units with a 25% matching contribution. Financial advisors have no ownership in the mutual funds. Included in the investments in the consolidated statements of financial condition are investments in mutual funds of $15.8 million and $34.0 million at June 30, 2012 and December 31, 2011, respectively, that were purchased by our company to economically hedge, on an after-tax basis, its liability to the financial advisors who choose to base the performance of their return on the index mutual fund option. At June 30, 2012 and December 31, 2011, the deferred compensation liability related to the mutual fund option of $14.1 million and $24.5 million, respectively, is included in accrued compensation in the consolidated statements of financial condition.

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

NOTE 18 – Off-Balance Sheet Credit Risk

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

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

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

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

We have accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At June 30, 2012, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $1.1 billion, and the fair value of the collateral that had been sold or repledged was $153.3 million. At December 31, 2011, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $1.0 billion, and the fair value of the collateral that had been sold or repledged was $80.2 million.

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

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

For a complete discussion of our activities related to derivative instruments, see Note 12 in the notes to our consolidated financial statements.

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

At June 30, 2012 and December 31, 2011, Stifel Bank had outstanding commitments to originate loans aggregating $330.3 million and $141.0 million, respectively. The commitments extended over varying periods of time, with all commitments at June 30, 2012 scheduled to be disbursed in the following three months.

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

Standby letters of credit are irrevocable conditional commitments issued by Stifel Bank to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under non-financial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should Stifel Bank be obligated to perform under the standby letters of credit, it may seek recourse from the customer for reimbursement of amounts paid. At June 30, 2012 and December 31, 2011, Stifel Bank had outstanding letters of credit totaling $10.5 million and $9.2 million, respectively. One of the standby letters of credit has an expiration of December 16, 2013. All of the remaining standby letters of credit commitments at June 30, 2012 have expiration terms that are less than one year.

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Stifel Bank uses the same credit policies in granting lines of credit as it does for on-balance sheet instruments. At June 30, 2012 and December 31, 2011, Stifel Bank had granted unused lines of credit to commercial and consumer borrowers aggregating $477.0 million and $102.4 million, respectively.

NOTE 19 – Income Taxes

Our effective rate for the three and six months ended June 30, 2012 was 40.4% and 40.9%, respectively, compared to 11.8% and 36.2% for the three and six months ended June 30, 2011, respectively. The provision for income taxes for the three and six months ended June 30, 2011 were reduced primarily as a result of the release of the valuation allowance due to realized and unrealized capital gains, which offset previously recorded unrealized capital losses.

NOTE 20 – Segment Reporting

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

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

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

The Other segment includes certain corporate activities of our company.

Information concerning operations in these segments of business for the three and six months ended June 30, 2012 and 2011 is as follows *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Net revenues: (1)				
Global Wealth Management	**$ 240,029**	$ 225,645	**$ 488,377**	$ 464,091
Institutional Group	**135,297**	132,915	**283,801**	259,909
Other	**(919)**	297	**2,562**	1,470
	$ 374,407	$ 358,857	**$ 774,740**	$ 725,470
Income/(loss) before income taxes:				
Global Wealth Management	**$ 61,353**	$ 55,426	**$ 130,531**	$ 116,898
Institutional Group	**17,546**	21,951	**41,250**	43,344
Other	**(35,025)**	(73,502)	**(68,653**	(105,683)
	$ 43,874	$ 3,875	**$ 103,128**	$ 54,559

(1) No individual client accounted for more than 10 percent of total net revenues for the three and six months ended June 30, 2012 or 2011.

The following table presents our company's total assets on a segment basis at June 30, 2012 and December 31, 2011 *(in thousands)*:

	June 30, 2012	December 31, 2011
Global Wealth Management	**$ 4,385,714**	$ 3,637,069
Institutional Group	**1,456,680**	1,028,948
Other	**296,141**	285,883
	$ 6,138,535	$ 4,951,900

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

Revenues, classified by the major geographic areas in which they are earned for the three and six months ended June 30, 2012 and 2011, were as follows *(in thousands)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
United States	**$ 365,265**	$ 343,800	**$ 757,103**	$ 694,809
United Kingdom	**2,942**	6,088	**6,832**	12,137
Canada	**3,814**	6,813	**6,066**	13,261
Other European	**2,386**	2,156	**4,739**	5,263
	$ 374,407	$ 358,857	**$ 774,740**	$ 725,470

NOTE 21 – Earnings Per Share ("EPS")

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

The following table sets forth the computation of basic and diluted earnings per share for the three and six months ended June 30, 2012 and 2011 *(in thousands, except per share data)*:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2012	2011	**2012**	2011
Net income	**$ 26,136**	$ 3,416	**$ 60,909**	$ 34,814
Shares for basic and diluted calculations:				
Average shares used in basic computation	**53,569**	52,932	**53,406**	52,734
Dilutive effect of stock options and units (1)	**9,109**	10,313	**9,294**	10,505
Average shares used in diluted computation	**$ 62,678**	$ 63,245	**$ 62,700**	$ 63,239
Net income per share:				
Basic	**$ 0.49**	$ 0.06	**$ 1.14**	$ 0.66
Diluted (1)	**$ 0.42**	$ 0.05	**$ 0.97**	$ 0.55

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

For the three and six months ended June 30, 2012 and 2011, the anti-dilutive effect from restricted stock units was immaterial.

NOTE 22 – Shareholders' Equity

Share Repurchase Program

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. On November 7, 2011, the Board authorized the repurchase of an additional 3.0 million shares. At June 30, 2012, the maximum number of shares that may yet be purchased under this plan was 4.1 million. The repurchase program has no expiration date. These purchases may be made on the open market or in privately negotiated transactions, depending upon market conditions and other factors. Repurchased shares may be used to meet obligations under our employee benefit plans and for general corporate purposes. During the three months ended June 30, 2012, we repurchased $7.2 million, or 0.2 million shares, using existing Board authorizations at an average price of $30.85 per share to meet obligations under our company's employee benefit plans and for general corporate purposes.

Issuance of Shares

During the three and six months ended June 30, 2012, we reissued 0.2 million and 1.9 million shares, respectively, from treasury as a result of vesting and exercise transactions under our incentive stock award plans.

NOTE 23 – Variable Interest Entities

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

We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies ("LLCs") or limited partnerships. These partnerships and LLCs have assets of approximately $278.5 million at June 30, 2012. For those funds where we act as the general partner, our company's economic interest is generally limited to management fee arrangements as stipulated by the fund operating agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. Management fee revenue earned by our company was insignificant during the three and six months ended June 30, 2012 and 2011. In addition, our direct investment interest in these entities is insignificant at June 30, 2012 and December 31, 2011.

Thomas Weisel Capital Management LLC, a subsidiary of our company, acts as the general partner of a series of investment funds in venture capital and fund of funds and manages investment funds that are active buyers of secondary interests in private equity funds, as well as portfolios of direct interests in venture-backed companies. These partnerships have combined assets of approximately $248.0 million at June 30, 2012. We hold variable interests in these funds as a result of our company's rights to receive management fees. Our company's investment in and additional capital commitments to the private equity funds are also considered variable interests. The additional capital commitments are subject to call at a later date and are limited in amount. Our exposure to loss is limited to our investments in, advances and commitments to, and receivables due from these funds, and that exposure is $1.3 million at June 30, 2012. Management fee revenue earned by our company was insignificant during the three and six months ended June 30, 2012 and 2011.

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

Debenture to Stifel Financial Capital Trusts

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

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

Interest in FSI Group, LLC ("FSI")

We have provided financing of $18.0 million in the form of a convertible promissory note to FSI, a limited liability company specializing in investing in banks, thrifts, insurance companies, and other financial services firms. The note is convertible at our election into a 49.9% interest in FSI at any time after the third anniversary or during the defined conversion period. The convertible promissory note has a minimum coupon rate equal to 10% per annum plus additional interest related to certain defined cash flows of the business, not to exceed 18% per annum. As we do not hold the power to direct the activities of FSI nor to absorb a majority of the expected losses, or receive a majority of the expected benefits, it was determined that we are not the primary beneficiary.

Our company's exposure to loss is limited to the carrying value of the note with FSI at June 30, 2012, of $18.0 million, which is included in other assets in the consolidated statements of financial condition. Our company had no liabilities related to this entity at June 30, 2012. We have the discretion to make additional capital contributions. We have not provided financial or other support to FSI that we were not previously contractually required to provide as of June 30, 2012. Our company's involvement with FSI has not had a material effect on our consolidated financial position, operations, or cash flows.

NOTE 24 – Subsequent Events

In accordance with Topic 855, "*Subsequent Events,*" we evaluate subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Based on the evaluation, we did not identify any recognized subsequent events that would have required adjustment to the consolidated financial statements.

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

The following discussion of the financial condition and results of operations of our company should be read in conjunction with the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2011, and the accompanying consolidated financial statements and notes thereto contained in this Quarterly Report on Form 10-Q.

Certain statements in this report may be considered forward-looking. Statements that are not historical or current facts, including statements about beliefs and expectations, are forward-looking statements. These forward-looking statements cover, among other things, statements made about general economic and market conditions, the investment banking industry, our objectives and results, and also may include our belief regarding the effect of various legal proceedings, management expectations, our liquidity and funding sources, counterparty credit risk, or other similar matters. Forward-looking statements involve inherent risks and uncertainties, and important factors could cause actual results to differ materially from those anticipated, including those factors discussed below under "External Factors Impacting Our Business" as well as the factors identified under "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2011, as updated in our subsequent reports filed with the SEC. These reports are available at our web site at www.stifel.com and at the SEC web site at www.sec.gov.

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

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

Executive Summary

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

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

We plan to maintain our focus on revenue growth with a continued appreciation for the development of quality client relationships. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our capital markets business, our focus continues to be on providing quality client management and product diversification. In executing our growth strategy, we will continue to seek out opportunities that allow us to take advantage of the consolidation among middle-market firms, whereby allowing us to increase market share in our private client and institutional group businesses.

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

We plan to maintain our focus on revenue growth with a continued focus on developing quality relationships with our clients. Within our private client business, our efforts will be focused on recruiting experienced financial advisors with established client relationships. Within our institutional group business, our focus continues to be on providing quality client management and product diversification. In executing our growth strategy, we take advantage of the consolidation among middle market firms, which we believe provides us opportunities in our Global Wealth Management and Institutional Group businesses.

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

On October 1, 2011, we acquired Stone & Youngberg LLC ("Stone & Youngberg"), a leading financial services firm specializing in municipal finance and fixed income securities. Stone & Youngberg's comprehensive institutional group expands our public finance, institutional sales and trading and bond underwriting, particularly in the Arizona and California markets, and adds more than 30 financial advisors in four offices to our Private Client Group. The purchase consideration consisted of cash, a portion paid at closing and a portion to be paid over the next three years, and stock based on the value of net assets at closing. In addition, we may be required to pay a contingent earn-out over a five year period after the close based upon revenue goals, as established in the purchase agreement. The public finance, institutional sales and trading, and retail businesses were integrated with Stifel Nicolaus immediately after the acquisition.

Results for the three and six months ended June 30, 2012

For the three months ended June 30, 2012, our net revenues increased 4.3% to $374.4 million compared to $358.9 million during the comparable period in 2011. Net income increased $22.7 million to $26.1 million for the three months ended June 30, 2012, compared to $3.4 million during the comparable period in 2011.

For the six months ended June 30, 2012, our net revenues increased 6.8% to $774.7 million compared to $725.5 million during the comparable period in 2011. Net income increased 75.0% to $60.9 million for the six months ended June 30, 2012, compared to $34.8 million during the comparable period in 2011.

Our revenue growth was primarily attributable to increased principal transactions revenues as a result of strong trading volumes and tightening credit spreads; higher investment banking revenues as a result of strong public finance activity and improved M&A revenues; growth in asset management and service fees as a result of an increase in investment advisory revenues; and increased net interest revenues as a result of the growth of net interest-earning assets at Stifel Bank. The increase in revenue growth was offset by a decline in commission revenues.

The results for the three and six months ended June 30, 2011 were significantly impacted by estimated costs of settlement and litigation-related expenses associated with the civil lawsuit and related regulatory investigation in connection with the previously disclosed matter involving five Southeastern Wisconsin school districts and merger-related expenses.

External Factors Impacting our Business

Performance in the financial services industry in which we operate is highly correlated to the overall strength of economic conditions and financial market activity. Overall market conditions are a product of many factors, which are beyond our control and mostly unpredictable. These factors may affect the financial decisions made by investors, including their level of participation in the financial markets. In turn, these decisions may affect our business results. With respect to financial market activity, our profitability is sensitive to a variety of factors, including the demand for investment banking services as reflected by the number and size of equity and debt financings and merger and acquisition transactions, the volatility of the equity and fixed income markets, the level and shape of various yield curves, the volume and value of trading in securities, and the value of our customers' assets under management. Investor confidence has been dampened by the sovereign debt concerns in Europe, concerns over unemployment levels and recently weaker U.S. economic data, lackluster jobs growth, and the uncertainty with the U.S. budget. These conditions have adversely affected investor and CEO confidence, resulting in significant declines in capital raising activity, as evidenced by the decline in IPOs during 2012 compared to 2011.

Our overall financial results continue to be highly and directly correlated to the direction and activity levels of the United States equity and fixed income markets. At June 30, 2012, the key indicators of the markets' performance, the Dow Jones Industrial Average, the NASDAQ and the S&P 500 closed 5.4%, 12.7% and 8.3% higher than their December 30, 2011 closing prices, respectively.

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

RESULTS OF OPERATIONS

Three Months Ended June 30, 2012 Compared with Three Months Ended June 30, 2011

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

	For the Three Months Ended June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2012	2011	% Change	**2012**	2011
Revenues:					
Commissions	**$ 127,427**	$ 138,315	(7.9)	**34.0%**	38.5%
Principal transactions	**91,564**	79,741	14.8	**24.5**	22.2
Investment banking	**67,363**	64,418	4.6	**18.0**	18.0
Asset management and service fees	**65,311**	56,981	14.6	**17.4**	15.9
Interest	**27,181**	21,229	28.0	**7.3**	5.9
Other income	**5,418**	4,556	18.9	**1.4**	1.3
Total revenues	**384,264**	365,240	5.2	**102.6**	101.8
Interest expense	**9,857**	6,383	54.4	**2.6**	1.8
Net revenues	**374,407**	358,857	4.3	**100.0**	100.0
Non-interest expenses:					
Compensation and benefits	**239,374**	229,939	4.1	**63.9**	64.1
Occupancy and equipment rental	**32,320**	29,723	8.7	**8.6**	8.3
Communication and office supplies	**20,797**	18,515	12.3	**5.6**	5.2
Commissions and floor brokerage	**7,747**	6,894	12.4	**2.1**	1.9
Other operating expenses	**30,295**	69,911	(56.7)	**8.1**	19.4
Total non-interest expenses	**330,533**	354,982	(6.9)	**88.3**	98.9
Income before income taxes	**43,874**	3,875	*	**11.7**	1.1
Provision for income taxes	**17,738**	459	*	**4.7**	0.1
Net income	**$ 26,136**	$ 3,416	*	**7.0%**	1.0%

* Percentage not meaningful.

Six Months Ended June 30, 2012 Compared with Six Months Ended June 30, 2011

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

	For the Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2012	2011	% Change	**2012**	2011
Revenues:					
Commissions	**$ 250,730**	$ 294,101	(14.7)	**32.3%**	40.5%
Principal transactions	**207,797**	172,600	20.4	**26.8**	23.8
Investment banking	**137,801**	105,836	30.2	**17.8**	14.6
Asset management and service fees	**126,129**	114,661	10.0	**16.3**	15.8
Interest	**52,438**	40,085	30.8	**6.8**	5.5
Other income	**18,712**	10,812	73.1	**2.4**	1.5
Total revenues	**793,607**	738,095	7.5	**102.4**	101.7
Interest expense	**18,867**	12,625	49.4	**2.4**	1.7
Net revenues	**774,740**	725,470	6.8	**100.0**	100.0
Non-interest expenses:					
Compensation and benefits	**494,078**	461,105	7.2	**63.8**	63.6
Occupancy and equipment rental	**63,111**	59,048	6.9	**8.1**	8.1
Communication and office supplies	**41,170**	37,360	10.2	**5.3**	5.1
Commissions and floor brokerage	**15,359**	13,543	13.4	**2.0**	1.9
Other operating expenses	**57,894**	99,855	(42.0)	**7.5**	13.8
Total non-interest expenses	**671,612**	670,911	0.1	**86.7**	92.5
Income before income taxes	**103,128**	54,559	89.0	**13.3**	7.5
Provision for income taxes	**42,219**	19,745	113.8	**5.4**	2.7
Net income	**$ 60,909**	$ 34,814	75.0	**7.9%**	4.8%

NET REVENUES

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Net revenues:						
Commissions	**$ 127,427**	$ 138,315	(7.9)	**$ 250,730**	$ 294,101	(14.7)
Principal transactions	**91,564**	79,741	14.8	**207,797**	172,600	20.4
Investment banking:						
Capital raising	**40,733**	39,689	2.6	**95,566**	72,047	32.6
Strategic advisory fees	**26,630**	24,729	7.7	**42,235**	33,789	25.0
	67,363	64,418	4.6	**137,801**	105,836	30.2
Asset management and service fees	**65,311**	56,981	14.6	**126,129**	114,661	10.0
Net interest	**17,324**	14,846	16.7	**33,571**	27,460	22.3
Other income	**5,418**	4,556	18.9	**18,712**	10,812	73.1
Total net revenues	**$ 374,407**	$ 358,857	4.3	**$ 774,740**	$ 725,470	6.8

Except as noted in the following discussion of variances, the underlying reasons for the increase in revenue can be attributed principally to the increased number of private client group offices and financial advisors in our Global Wealth Management segment and the increased number of revenue producers in our Institutional Group segment.

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 June 30, 2012, commission revenues decreased 7.9% to $127.4 million from $138.3 million in the comparable period in 2011. For the six months ended June 30, 2012, commission revenues decreased 14.7% to $250.7 million from $294.1 million in the comparable period in 2011. The decrease in commission revenues is primarily attributable to a decrease in OTC transactions from the comparable periods in 2011.

Principal transactions – For the three months ended June 30, 2012, principal transactions revenues increased 14.8% to $91.6 million from $79.7 million in the comparable period in 2011. For the six months ended June 30, 2012, principal transactions revenues increased 20.4% to $207.8 million from $172.6 million in the comparable period in 2011. The increase in principal transactions revenues is primarily attributable to improved fixed income institutional brokerage revenues as a result of strong trading volumes and tightening credit spreads.

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 June 30, 2012, investment banking revenues increased 4.6%, to $67.4 million from $64.4 million in the comparable period in 2011. For the six months ended June 30, 2012, investment banking revenues increased 30.2%, to $137.8 million from $105.8 million in the comparable period in 2011. The increase in investment banking revenues is primarily attributable to an increase in advisory fees as a result of an increase in M&A activity and fixed income capital raising revenues, which is primarily attributable to strong public finance activity and our acquisition of Stone & Youngberg in October 2011. The increase was offset by a decrease in equity capital raising revenues as a result of weaker equity capital markets, which have been negatively impacted by the difficult market environment.

Capital raising revenues increased 2.6% to $40.7 million for the three months ended June 30, 2012 from $39.7 million in the comparable period in 2011. For the three months ended June 30, 2012, fixed income capital raising revenues increased $9.4 million, or 182.1%, to $14.6 million from $5.2 million in the comparable period in 2011. During the second quarter of 2012, equity capital raising revenues decreased 8.4% to $24.3 million from $26.5 million in the comparable period in 2011.

Capital raising revenues increased 32.6% to $95.6 million for the six months ended June 30, 2012 from $72.0 million in the comparable period in 2011. For the six months ended June 30, 2012, fixed income capital raising revenues increased $17.2 million, or 202.6%, to $25.6 million from $8.4 million in the comparable period in 2011. During the first six months of 2012, equity capital raising revenues increased 30.5% to $63.8 million from $48.9 million in the comparable period in 2011.

Strategic advisory fees increased 7.7% to $26.6 million for the three months ended June 30, 2012 from $24.7 million in the comparable period in 2011. Strategic advisory fees increased 25.0% to $42.2 million for the six months ended June 30, 2012 from $33.8 million in the comparable period in 2011. The increase in strategic advisory fees is primarily attributable to an increase in the number of completed transactions over the comparable periods in 2011.

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 June 30, 2012, asset management and service fee revenues increased 14.6% to $65.3 million from $57.0 million in the comparable period of 2011. For the six months ended June 30, 2012, asset management and service fee revenues increased 10.0% to $126.1 million from $114.7 million in the comparable period of 2011. The increase in asset management and service fees is primarily a result of an increase in investment advisory revenues, offset by a reduction in fees for money-fund balances due to the waiving of fees by certain fund managers. See “Assets in fee-based accounts” included in the table in “Results of Operations – Global Wealth Management.”

Other income – For the three months ended June 30, 2012, other income increased 18.9% to $5.4 million from $4.6 million during the comparable period in 2011. For the six months ended June 30, 2012, other income increased 73.1% to $18.7 million from $10.8 million during the comparable period in 2011. Other income primarily includes investment gains, including gains on our private equity investments, and loan originations fees from Stifel Bank.

NET INTEREST INCOME

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

	Three Months Ended					
	June 30, 2012			June 30, 2011		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Interest-earning assets:						
Margin balances (Stifel Nicolaus)	$ 510,857	$ 4,921	3.86%	$ 446,387	$ 4,517	4.05%
Interest-earning assets (Stifel Bank)	2,703,031	18,086	2.68	1,741,351	13,419	3.08
Stock borrow (Stifel Nicolaus)	94,203	57	0.24	113,410	46	0.16
Other (Stifel Nicolaus)		4,117			3,247	
Total interest revenue		$ 27,181			$ 21,229	
Interest-bearing liabilities:						
Short-term borrowings (Stifel Nicolaus)	$ 266,963	$ 768	1.15%	$ 205,999	$ 576	1.12%
Interest-bearing liabilities (Stifel Bank)	2,516,526	4,281	0.68	1,619,088	4,238	1.05
Stock loan (Stifel Nicolaus)	143,425	391	1.09	121,800	415	1.36
Senior notes (Stifel Financial)	175,000	3,047	6.96	—	—	—
Interest-bearing liabilities (Capital Trusts)	82,500	1,006	4.88	82,500	981	4.76
Other (Stifel Nicolaus)		364			173	
Total interest expense		9,857			6,383	
Net interest income		$ 17,324			$ 14,846	

	Six Months Ended					
	June 30, 2012			June 30, 2011		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Interest-earning assets:						
Margin balances (Stifel Nicolaus)	$ 507,422	$ 9,806	3.86%	$ 445,421	$ 9,104	4.09%
Interest-earning assets (Stifel Bank)	2,544,359	35,562	2.80	1,737,948	24,622	2.83
Stock borrow (Stifel Nicolaus)	80,936	30	0.08	105,354	51	0.10
Other (Stifel Nicolaus)		7,040			6,308	
Total interest revenue		$ 52,438			$ 40,085	
Interest-bearing liabilities:						
Short-term borrowings (Stifel Nicolaus)	$ 226,152	$ 1,290	1.14%	$ 187,713	$ 1,165	1.24%
Interest-bearing liabilities (Stifel Bank)	2,365,187	8,345	0.71	1,617,079	8,476	1.05
Stock loan (Stifel Nicolaus)	149,705	1,208	1.61	110,162	745	1.35
Senior notes (Stifel Financial)	153,846	5,340	7.43	—	—	—
Interest-bearing liabilities (Capital Trusts)	82,500	2,011	4.87	82,500	1,958	4.75
Other (Stifel Nicolaus)		673			281	
Total interest expense		18,867			12,625	
Net interest income		$ 33,571			$ 27,460	

Net interest income – Net interest income is the difference between interest earned on interest-earning assets and interest paid on funding sources. Net interest income is affected by changes in the volume and mix of these assets and liabilities, as well as by fluctuations in interest rates and portfolio management strategies. For the three months ended June 30, 2012, net interest income increased to $17.3 million from $14.8 million during the comparable period in 2011. For the six months ended June 30, 2012, net interest income increased to $33.6 million from $27.5 million during the comparable period in 2011.

For the three months ended June 30, 2012, interest revenue increased 28.0% to $27.2 million from $21.2 million in the comparable period in 2011, principally as a result of a $4.7 million increase in interest revenue generated from the interest-earning assets of Stifel Bank. The average interest-earning assets of Stifel Bank increased to $2.7 billion during the three months ended June 30, 2012 compared to $1.7 billion during the comparable period in 2011 at average interest rates of 2.68% and 3.08%, respectively.

For the six months ended June 30, 2012, interest revenue increased 30.8% to $52.4 million from $40.1 million in the comparable period in 2011, principally as a result of a $10.9 million increase in interest revenue generated from the interest-earning assets of Stifel Bank. The average interest-earning assets of Stifel Bank increased to $2.5 billion during the six months ended June 30, 2012 compared to $1.7 billion during the comparable period in 2011 at average interest rates of 2.80% and 2.83%, respectively.

For the three months ended June 30, 2012, interest expense increased 54.4% to $9.9 million from $6.4 million during the comparable period in 2011. For the six months ended June 30, 2012, interest expense increased 49.4% to $18.9 million from $12.6 million during the comparable period in 2011. The increases are primarily attributable to the interest expense associated with our January 2012 issuance of $175.0 million of 6.70% senior notes.

NON-INTEREST EXPENSES

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

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Non-interest expenses:						
Compensation and benefits	**$ 239,374**	$ 229,939	4.1	**$ 494,078**	$ 461,105	7.2
Occupancy and equipment rental	**32,320**	29,723	8.7	**63,111**	59,048	6.9
Communications and office supplies	**20,797**	18,515	12.3	**41,170**	37,360	10.2
Commissions and floor brokerage	**7,747**	6,894	12.4	**15,359**	13,543	13.4
Other operating expenses	**30,295**	69,911	(56.7)	**57,894**	99,855	(42.0)
Total non-interest expenses	**$ 330,533**	$ 354,982	(6.9)	**$ 671,612**	$ 670,911	0.1

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 and increased administrative overhead to support the growth in our segments. We have continued to make investments in our firm in anticipation of continued capital market growth through the selective hiring of professionals in areas where we see opportunities.

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 June 30, 2012, compensation and benefits expense increased 4.1%, or $9.5 million, to $239.4 million from $229.9 million during the comparable period in 2011. For the six months ended June 30, 2012, compensation and benefits expense increased 7.2%, or $33.0 million, to $494.1 million from $461.1 million during the comparable period in 2011. The increase in compensation and benefits expense is primarily attributable to the following: 1) increased variable compensation as a result of increased revenue production and profitability; 2) increased fixed compensation for the additional administrative support staff; and 3) an increase in deferred compensation expense as a result of the acceleration of the vesting period for unit grants awarded to newly retirement-eligible employees during the first quarter of 2012.

Compensation and benefits expense as a percentage of net revenues was 63.9% and 63.8% for the three and six months ended June 30, 2012, respectively, compared to 64.1% and 63.6% for the three and six months ended June 30, 2011, respectively. Excluding the acceleration of deferred compensation expense, compensation and benefits expense as a percentage of net revenues was 63.3% for the six months ended June 30, 2012, compared to 63.6% for the six months ended June 30, 2011.

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 $20.4 million (5.4% of net revenues) and $38.7 million (5.0% of net revenues) for the three and six months ended June 30, 2012, respectively, compared to $17.6 million (4.9% of net revenues) and $36.4 million (5.0% of net revenues) for the comparable periods in 2011, respectively. The upfront notes are amortized over a five to ten year period.

Occupancy and equipment rental – For the three months ended June 30, 2012, occupancy and equipment rental expense increased 8.7% to $32.3 million from $29.7 million during the three months ended June 30, 2011. For the six months ended June 30, 2012, occupancy and equipment rental expense increased 6.9% to $63.1 million from $59.0 million during the six months ended June 30, 2011. The increase in occupancy and equipment rental expense is primarily attributable to an increase in rent and depreciation expense as a result of an increase in office locations. As of June 30, 2012, we have 332 locations compared to 314 at June 30, 2011.

Communications and office supplies – Communications expense includes costs for telecommunication and data communication, primarily for obtaining third-party market data information. For the three months ended June 30, 2012, communications and office supplies expense increased 12.3% to $20.8 million from $18.5 million during the second quarter of 2011. For the six months ended June 30, 2012, communications and office supplies expense increased 10.2% to $41.2 million from $37.4 million during the first six months of 2011. The increase in communications and office supplies expense is primarily attributable to our continued expansion through the addition of revenue producers and support staff.

Commissions and floor brokerage – For the three months ended June 30, 2012, commissions and floor brokerage expense increased 12.4% to $7.7 million from $6.9 million during the comparable period in 2011. For the six months ended June 30, 2012, commissions and floor brokerage expense increased 13.4% to $15.4 million from $13.5 million during the comparable period in 2011. The increase in commission and floor brokerage expense is primarily attributable to costs associated with the conversion of customer accounts to a new omnibus platform during the first quarter of 2012, offset by lower clearing fees which are generally correlated with the decrease in commissions revenues.

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 June 30, 2012, other operating expenses decreased 56.7% to $30.3 million from $69.9 million during the three months ended June 30, 2011. For the six months ended June 30, 2012, other operating expenses decreased 42.0% to $57.9 million from $99.9 million during the six months ended June 30, 2011.

Included in other operating expenses for the three and six months ended June 30, 2011 were estimated costs of settlement and litigation-related expenses associated with the civil lawsuit and related regulatory investigation in connection with the previously disclosed matter involving five Southeastern Wisconsin school districts and merger-related expenses. Excluding these expenses other operating expenses increased 11.0% and 5.3%, respectively, over the comparable periods in 2011. The increase in other operating expenses is primarily attributable to an increase in license and registration fees, and subscriptions as a result of the continued growth of the business, offset by a reduction in legal expenses, and conference and travel expenses from the comparable periods in 2011.

Provision for income taxes – For the three months ended June 30, 2012, our provision for income taxes was $17.7 million, representing an effective tax rate of 40.4%, compared to $0.5 million for the comparable period in 2011, representing an effective tax rate of 11.8%. For the six months ended June 30, 2012, our provision for income taxes was $42.2 million, representing an effective tax rate of 40.9%, compared to $19.7 million for the comparable period in 2011, representing an effective tax rate of 36.2%. The provision for income taxes for the three and six months ended June 30, 2011 was reduced primarily as a result of the release of the valuation allowance due to realized and unrealized capital gains, which offset previously recorded unrealized capital losses.

SEGMENT ANALYSIS

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

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

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

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

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

Results of Operations – Global Wealth Management

Three Months Ended June 30, 2012 Compared with Three Months Ended June 30, 2011

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 June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2012	2011	% Change	**2012**	2011
Revenues:					
Commissions	**$ 88,423**	$ 93,593	(5.5)	**36.8%**	41.5%
Principal transactions	**55,628**	51,263	8.5	**23.1**	22.7
Asset management and service fees	**65,169**	56,817	14.7	**27.2**	25.2
Investment banking	**8,531**	6,411	33.1	**3.6**	2.8
Interest	**23,889**	18,892	26.5	**10.0**	8.4
Other income	**4,045**	4,160	(2.7)	**1.7**	1.8
Total revenues	**245,685**	231,136	6.3	**102.4**	102.4
Interest expense	**5,656**	5,491	3.0	**2.4**	2.4
Net revenues	**240,029**	225,645	6.4	**100.0**	100.0
Non-interest expenses:					
Compensation and benefits	**140,984**	132,952	6.0	**58.7**	58.9
Occupancy and equipment rental	**16,067**	15,375	4.5	**6.7**	6.8
Communication and office supplies	**8,998**	9,199	(2.2)	**3.7**	4.1
Commissions and floor brokerage	**3,535**	2,788	26.8	**1.5**	1.2
Other operating expenses	**9,092**	9,905	(8.2)	**3.8**	4.4
Total non-interest expenses	**178,676**	170,219	5.0	**74.4**	75.4
Income before income taxes	**$ 61,353**	$ 55,426	10.7	**25.6%**	24.6%

	June 30, 2012	June 30, 2011
Branch offices	**301**	288
Financial advisors	**1,872**	1,798
Independent contractors	**156**	160
Assets in fee-based accounts:		
Value (in thousands) (1)	**$ 20,220,582**	$ 18,278,557
Number of accounts	**74,053**	64,559

(1) Fee based account revenues for the three months ended June 30, 2012 and 2011 are billed in arrears based on values as of March 31, 2012 and 2011, respectively.

Six Months Ended June 30, 2012 Compared with Six Months Ended June 30, 2011

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

	For the Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2012	2011	% Change	**2012**	2011
Revenues:					
Commissions	**$ 179,446**	$ 195,355	(8.1)	**36.7%**	42.1%
Principal transactions	**114,673**	107,426	6.7	**23.5**	23.2
Asset management and service fees	**125,755**	114,347	10.0	**25.8**	24.6
Investment banking	**21,001**	12,723	65.1	**4.3**	2.7
Interest	**46,988**	35,595	32.0	**9.6**	7.7
Other income	**11,622**	9,670	20.2	**2.4**	2.1
Total revenues	**499,485**	475,116	5.1	**102.3**	102.4
Interest expense	**11,108**	11,025	0.8	**2.3**	2.4
Net revenues	**488,377**	464,091	5.2	**100.0**	100.0
Non-interest expenses:					
Compensation and benefits	**284,741**	275,538	3.3	**58.3**	59.4
Occupancy and equipment rental	**31,853**	30,573	4.2	**6.5**	6.6
Communication and office supplies	**17,867**	17,338	3.1	**3.7**	3.7
Commissions and floor brokerage	**6,955**	5,581	24.6	**1.4**	1.2
Other operating expenses	**16,430**	18,163	(9.5)	**3.4**	3.9
Total non-interest expenses	**357,846**	347,193	3.1	**73.3**	74.8
Income before income taxes	**$ 130,531**	$ 116,898	11.7	**26.7%**	25.2%

NET REVENUES

For the three months ended June 30, 2012, Global Wealth Management net revenues increased 6.4% to $240.0 million from $225.6 million for the comparable period in 2011. For the six months ended June 30, 2012, Global Wealth Management net revenues increased 5.2% to a record $488.4 million from $464.1 million for the comparable period in 2011. The increase in net revenues for the three and six months ended June 30, 2012 over the comparable periods in 2011 is attributable to growth in asset management and service fees as a result of an increase in assets under management through market performance; increased net interest revenues as a result of the growth of net interest-earning assets at Stifel Bank; higher investment banking revenues; and increased principal transactions revenues as a result of strong trading volumes and tightening credit spreads, offset by a decline in commission revenues. The difficult conditions in the capital markets have impacted the commission revenues derived from our retail clients during 2012.

Commissions – For the three months ended June 30, 2012, commission revenues decreased 5.5% to $88.4 million from $93.6 million in the comparable period in 2011. For the six months ended June 30, 2012, commission revenues decreased 8.1% to $179.4 million from $195.4 million in the comparable period in 2011. The decrease in commission revenues is primarily attributable to a decrease in agency transactions in equities, and insurance products.

Principal transactions – For the three months ended June 30, 2012, principal transactions revenues increased 8.5% to $55.6 million from $51.3 million in the comparable period in 2011. For the six months ended June 30, 2012, principal transactions revenues increased 6.7% to $114.7 million from $107.4 million in the comparable period in 2011. The increase in principal transactions revenues is primarily attributable to increased principal transactions, primarily in fixed income products from the comparable periods in 2011.

Asset management and service fees – For the three months ended June 30, 2012, asset management and service fees increased 14.7% to $65.2 million from $56.8 million in the comparable period in 2011. For the six months ended June 30, 2012, asset management and service fees increased 10.0% to $125.8 million from $114.4 million in the comparable period in 2011. The increase in asset management and service fess is primarily a result of an increase in investment advisory revenues, offset by a reduction in fees for money-fund balances due to the waiving of fees by certain fund managers. The value of assets in fee-based accounts increased 10.6% from June 30, 2011, of which approximately 55% is attributable to net inflows and approximately 45% is attributable to market appreciation. 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 33.1% to $8.5 million for the three months ended June 30, 2012 from $6.4 million during the comparable period in 2011. For the six months ended June 30, 2012, investment banking revenues increased 65.1% to $21.0 million from $12.7 million in the comparable period in 2011. See "Investment banking" in the Institutional Group segment discussion for information on the changes in net revenues.

Interest revenue – For the three months ended June 30, 2012, interest revenue increased 26.5% to $23.9 million from $18.9 million in the comparable period in 2011. For the six months ended June 30, 2012, interest revenue increased 32.0% to $47.0 million from $35.6 million in the comparable period in 2011. The increase in interest revenue is primarily attributable to the growth of the interest-earning assets of Stifel Bank and increased interest rates on our investment portfolio. See "Net Interest Income – Stifel Bank" below for a further discussion of the changes in net revenues.

Other income – For the three months ended June 30, 2012, other income decreased 2.7% to $4.0 million from $4.2 million during the comparable period in 2011. The decrease in other income for the three months ended June 30, 2012 from the comparable period in 2011 is primarily attributable to lower investment gains, offset by an increase in mortgage fees at Stifel Bank.

For the six months ended June 30, 2012, other income increased 20.2% to $11.6 million from $9.7 million during the comparable period in 2011. The increase in other income for the six months ended June 30, 2012 over the comparable period in 2011 is primarily attributable an increase in mortgage fees due to the increase in loan originations at Stifel Bank, offset by lower investment gains.

Interest expense – For the three months ended June 30, 2012, interest expense increased 3.0% to $5.7 million from $5.5 million during the comparable period in 2011. For the six months ended June 30, 2012, interest expense increased 0.8% to $11.1 million from $11.0 million in the comparable period in 2012. 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 June 30, 2012			Three Months Ended June 30, 2011		
	Average Balance	Interest Income/ Expense	Average Interest Rate	Average Balance	Interest Income/ Expense	Average Interest Rate
Assets:						
Federal funds sold	$ 135,254	$ 80	0.24%	$ 79,088	$ 41	0.21%
U.S. government agencies	—	—	—	12,896	71	2.20
State and political subdivisions:						
Taxable	118,020	1,139	3.86	63,087	687	4.36
Non-taxable [(1)]	2,442	19	3.10	2,943	25	3.40
Mortgage-backed securities	738,169	5,250	2.84	759,278	6,218	3.28
Corporate bonds	524,508	3,155	2.41	294,046	1,709	2.32
Asset-backed securities	351,855	1,684	1.91	42,368	266	2.51
Federal Home Loan Bank ("FHLB") and other capital stock	3,025	2	0.16	2,083	12	2.30
Loans [(2)]	709,282	5,693	3.21	444,797	4,007	3.60
Loans held for sale	120,476	1,064	3.54	40,765	383	3.76
Total interest-earning assets [(3)]	2,703,031	$ 18,086	2.68%	1,741,351	$ 13,419	3.08%
Cash and due from banks	4,506			5,727		
Other non interest-earning assets	70,620			45,816		
Total assets	$ 2,778,157			$ 1,792,894		
Liabilities and stockholders' equity:						
Deposits:						
Money market	$ 2,457,686	$ 4,243	0.69%	$ 1,597,770	$ 4,216	1.06%
Demand deposits	41,303	22	0.21	18,696	6	0.13
Savings	11,624	1	0.05	32	—	—
FHLB advances	4,330	4	0.35	—	—	—
Time deposits	1,583	11	2.99	2,590	16	2.47
Total interest-bearing liabilities [(3)]	2,516,526	4,281	0.68	1,619,088	4,238	1.05
Non interest-bearing deposits	18,896			8,292		
Other non interest-bearing liabilities	40,082			21,025		
Total liabilities	2,575,504			1,648,405		
Stockholders' equity	202,653			144,489		
Total liabilities and stockholders' equity	$ 2,778,157			$ 1,792,894		
Net interest margin		$ 13,805	2.04%		$ 9,181	2.11%

(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.

	Six Months Ended June 30, 2012			Six Months Ended June 30, 2011		
	Average Balance	**Interest Income/ Expense**	**Average Interest Rate**	Average Balance	Interest Income/ Expense	Average Interest Rate
Assets:						
Federal funds sold	**$ 144,875**	**$ 169**	**0.23%**	$ 119,604	$ 145	0.24%
U.S. government agencies	**—**	**—**	**—**	18,901	161	1.70
State and political subdivisions:						
Taxable	**104,462**	**2,277**	**4.36**	70,222	1,312	3.74
Non-taxable (1)	**2,566**	**41**	**3.17**	2,943	49	3.33
Mortgage-backed securities	**714,473**	**10,831**	**3.03**	779,004	11,264	2.89
Corporate bonds	**501,219**	**6,093**	**2.43**	240,265	2,898	2.41
Asset-backed securities	**274,255**	**2,697**	**1.97**	32,508	459	2.82
FHLB and other capital stock	**2,651**	**28**	**2.13**	1,866	23	2.47
Loans (2)	**677,813**	**11,323**	**3.34**	425,300	7,458	3.51
Loans held for sale	**122,045**	**2,103**	**3.45**	47,335	853	3.60
Total interest-earning assets (3)	**2,544,359**	**$ 35,562**	**2.80%**	1,737,948	$ 24,622	2.83%
Cash and due from banks	**6,343**			6,266		
Other non interest-earning assets	**69,495**			42,348		
Total assets	**$ 2,620,197**			$ 1,786,562		
Liabilities and stockholders' equity:						
Deposits:						
Money market	**$ 2,315,924**	**$ 8,280**	**0.71%**	$ 1,594,690	$ 8,427	1.06%
Demand deposits	**39,527**	**36**	**0.18**	19,717	17	0.17
Savings	**5,833**	**1**	**0.05**	29	—	—
FHLB advances	**2,165**	**4**	**0.35**	—	—	—
Time deposits	**1,738**	**24**	**2.80**	2,643	32	2.42
Total interest-bearing liabilities (3)	**2,365,187**	**8,345**	**0.71**	1,617,079	8,476	1.05
Non interest-bearing deposits	**21,001**			8,812		
Other non interest-bearing liabilities	**41,225**			19,195		
Total liabilities	**2,427,413**			1,645,086		
Stockholders' equity	**192,784**			141,476		
Total liabilities and stockholders' equity	**$ 2,620,197**			$ 1,786,562		
Net interest margin		**$ 27,217**	**2.14%**		$ 16,146	1.86%

(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.

The following table sets forth an analysis of the effect on net interest income of volume and rate changes for the three and six month periods ended June 30, 2012 compared to the three and six month periods ended June 30, 2011 *(in thousands)*:

	Three Months Ended June 30, 2012 Compared to Three Months Ended June 30, 2011			Six Months Ended June 30, 2012 Compared to Six Months Ended June 30, 2011		
	Increase (decrease) due to:			Increase (decrease) due to:		
	Volume	Rate	Total	Volume	Rate	Total
Interest income:						
Federal funds sold	$ 1	$ 38	$ 39	$ 36	$ (12)	$ 24
U.S. government agencies	(35)	(36)	(71)	(80)	(81)	(161)
State and political subdivisions:						
Taxable	520	(68)	452	719	246	965
Non-taxable	(4)	(2)	(6)	(6)	(2)	(8)
Mortgage-backed securities	(1,494)	526	(968)	(1,650)	1,217	(433)
Corporate bonds	1,384	62	1,446	3,172	23	3,195
Asset-backed securities	1,465	(47)	1,418	2,333	(95)	2,238
FHLB and other capital stock	25	(35)	(10)	13	(8)	5
Loans	4,379	(2,693)	1,686	4,888	(1,023)	3,865
Loans held for sale	838	(157)	681	1,361	(111)	1,250
	$ 7,079	$ (2,412)	$ 4,667	$ 10,786	$ 154	$ 10,940
Interest expense:						
Deposits:						
Money market	$ 8,900	$ (8,873)	$ 27	$ 7,496	$ (7,643)	$ (147)
Demand deposits	12	4	16	17	2	19
Savings	1	—	1	1	—	1
FHLB advances	2	2	4	2	2	4
Time deposits	(23)	18	(5)	(21)	13	(8)
	$ 8,892	$ (8,849)	$ 43	$ 7,495	$ (7,626)	$ (131)

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

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

For the three months ended June 30, 2012, interest revenue of $18.1 million was generated from average interest-earning assets of $2.7 billion at a average interest rate of 2.68%. Interest revenue of $13.4 million for the comparable period in 2011 was generated from average interest-earning assets of $1.7 billion at a average interest rate of 3.08%.

For the six months ended June 30, 2012, interest revenue of $35.6 million was generated from weighted average interest-earning assets of $2.5 billion at a weighted average interest rate of 2.80%. Interest revenue of $24.6 million for the comparable period in 2011 was generated from weighted average interest-earning assets of $1.7 billion at a weighted average interest rate of 2.83%. Interest-earning assets principally consist of residential, consumer, and commercial loans, securities, and federal funds sold.

Interest expense represents interest on customer money market accounts, interest on time deposits and other interest expense. The average balance of interest-bearing liabilities during the three months ended June 30, 2012 was $2.5 billion at an average interest rate of 0.68%. The average balance of interest-bearing liabilities for the comparable period in 2011 was $1.6 billion at a average interest rate of 1.05%. The weighted average balance of interest-bearing liabilities during the six months ended June 30, 2012 was $2.4 billion at a weighted average interest rate of 0.71%. The weighted average balance of interest-bearing liabilities for the comparable period in 2011 was $1.6 billion at a weighted average interest rate of 1.05%.

The growth in Stifel Bank has been primarily driven by the growth in deposits associated with brokerage customers of Stifel Nicolaus. At June 30, 2012, the balance of Stifel Nicolaus brokerage customer deposits at Stifel Bank was $2.7 billion compared to $1.6 billion at June 30, 2011.

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

NON-INTEREST EXPENSES

For the three months ended June 30, 2012, Global Wealth Management non-interest expenses increased 5.0% to $178.7 million from $170.2 million for the comparable period in 2011. For the six months ended June 30, 2012, Global Wealth Management non-interest expenses increased 3.1% to $357.8 million from $347.2 million for the comparable period in 2011.

The fluctuations in non-interest expenses, discussed below, were primarily attributable to the continued growth of our Private Client Group. As of June 30, 2012, we have 301 branch offices compared to 288 at June 30, 2011. In addition, since June 30, 2011, we have added 398 revenue producers and support staff.

Compensation and benefits – For the three months ended June 30, 2012, compensation and benefits expense increased 6.0% to $141.0 million from $133.0 million during the three months ended June 30, 2011. For the six months ended June 30, 2012, compensation and benefits expense increased 3.3% to $284.7 million from $275.5 million during the six months ended June 30, 2011. The increase in compensation and benefits expense is principally due to increased variable compensation as a result of increased production due to the growth in financial advisors and fixed compensation for the additional administrative support staff.

Compensation and benefits expense as a percentage of net revenues was 58.7% and 58.3% for the three and six months ended June 30, 2012, respectively, compared to 58.9% and 59.4% for the three and six months ended June 30, 2011, respectively.

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 $16.2 million (6.8% of net revenues) and $30.6 million (6.3% of net revenues) for the three and six months ended June 30, 2012, respectively, compared to $14.7 million (6.5% of net revenues) and $30.9 million (6.7% of net revenues) for the three and six months ended June 30, 2011, respectively. The upfront notes are amortized over a five to ten year period.

Occupancy and equipment rental – For the three months ended June 30, 2012, occupancy and equipment rental expense increased 4.5% to $16.1 million from $15.4 million during the comparable period in 2011. For the six months ended June 30, 2012, occupancy and equipment rental expense increased 4.2% to $31.9 million from $30.6 million during the comparable period in 2011. The increase in occupancy and equipment rental expense is primarily attributable to an increase in office locations.

Communications and office supplies – For the three months ended June 30, 2012, communications and office supplies expense decreased 2.2% to $9.0 million from $9.2 million during the second quarter of 2011. For the six months ended June 30, 2012, communications and office supplies expense increased 3.1% to $17.9 million from $17.3 million during the comparable period in 2011. The increase in communications and office supplies expense for the six months ended June 30, 2012 over the comparable period in 2011 is primarily attributable to an increase in telecommunication and data communication expenses as a result of the increase in financial advisors.

Commissions and floor brokerage – For the three months ended June 30, 2012, commissions and floor brokerage expense increased 26.8% to $3.5 million from $2.8 million during the second quarter of 2011. For the six months ended June 30, 2012, commissions and floor brokerage expense increased 24.6% to $7.0 million from $5.6 million during the comparable period in 2011. The increase in commissions and floor brokerage expense is primarily attributable to costs associated with the conversion of customer accounts to a new omnibus platform during the first quarter of 2012, offset by lower clearing fees which are generally correlated with the decrease in commission revenues.

Other operating expenses – For the three months ended June 30, 2012, other operating expenses decreased 8.2% to $9.1 million from $9.9 million during the comparable period in 2011. For the six months ended June 30, 2012, other operating expenses decreased 9.5% to $16.4 million from $18.2 million during the comparable period in 2011. The decrease in other operating expenses is primarily attributable to a reduction in legal expenses, travel, and professional fees from the comparable periods in 2011, offset by an increase in license and registration fees, and subscriptions as a result of the continued growth of the business.

INCOME BEFORE INCOME TAXES

For the three months ended June 30, 2012, income before income taxes increased $6.0 million, or 10.7%, to $61.4 million from $55.4 million during the comparable period in 2011. For the six months ended June 30, 2012, income before income taxes increased $13.6 million, or 11.7%, to $130.5 million from $116.9 million during the comparable period in 2011. Profit margins have improved as a result of the increase in revenue growth, improved productivity and a reduction in other operating expenses.

Results of Operations – Institutional Group

Three Months Ended June 30, 2012 Compared with Three Months Ended June 30, 2011

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

	For the Three Months Ended June 30,			As a Percentage of Net Revenues For the Three Months Ended June 30,	
	2012	2011	% Change	**2012**	2011
Revenues:					
Commissions	**$ 39,004**	$ 44,721	(12.8)	**28.8%**	33.6
Principal transactions	**35,936**	28,477	26.2	**26.6**	21.4
Capital raising	**32,202**	33,172	(2.9)	**23.8**	24.9
Advisory	**26,630**	24,835	7.2	**19.7**	18.7
Investment banking	**58,832**	58,007	1.4	**43.5**	43.6
Interest	**2,861**	1,962	45.9	**2.1**	1.5
Other income	**93**	1,007	(90.8)	**0.1**	0.8
Total revenues	**136,726**	134,174	1.9	**101.1**	100.9
Interest expense	**1,429**	1,259	13.5	**1.1**	0.9
Net revenues	**135,297**	132,915	1.8	**100.0**	100.0
Non-interest expenses:					
Compensation and benefits	**84,754**	82,006	3.4	**62.6**	61.7
Occupancy and equipment rental	**6,942**	5,520	25.8	**5.1**	4.2
Communication and office supplies	**8,670**	7,223	20.0	**6.4**	5.4
Commissions and floor brokerage	**4,212**	3,956	6.5	**3.1**	3.0
Other operating expenses	**13,173**	12,259	7.5	**9.8**	9.2
Total non-interest expenses	**117,751**	110,964	6.1	**87.0**	83.5
Income before income taxes	**$ 17,546**	$ 21,951	(20.1)	**13.0%**	16.5%

Six Months Ended June 30, 2012 Compared with Six Months Ended June 30, 2011

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

	For the Six Months Ended June 30,			As a Percentage of Net Revenues For the Six Months Ended June 30,	
	2012	2011	% Change	**2012**	2011
Revenues:					
Commissions	**$ 71,284**	$ 98,746	(27.8)	**25.1%**	38.0
Principal transactions	**93,124**	65,173	42.9	**32.8**	25.1
Capital raising	**74,565**	59,218	25.9	**26.3**	22.8
Advisory	**42,235**	33,895	24.6	**14.9**	13.0
Investment banking	**116,800**	93,113	25.4	**41.2**	35.8
Interest	**4,706**	3,755	25.3	**1.7**	1.4
Other income	**491**	1,469	(66.6)	**0.1**	0.6
Total revenues	**286,405**	262,256	9.2	**100.9**	100.9
Interest expense	**2,604**	2,347	10.9	**0.9**	0.9
Net revenues	**283,801**	259,909	9.2	**100.0**	100.0
Non-interest expenses:					
Compensation and benefits	**178,778**	159,193	12.3	**63.0**	61.2
Occupancy and equipment rental	**13,671**	10,444	30.9	**4.8**	4.0
Communication and office supplies	**16,931**	14,525	16.6	**6.0**	5.6
Commissions and floor brokerage	**8,403**	7,813	7.6	**3.0**	3.0
Other operating expenses	**24,768**	24,590	0.7	**8.7**	9.5
Total non-interest expenses	**242,551**	216,565	12.0	**85.5**	83.3
Income before income taxes	**$ 41,250**	$ 43,344	(4.8)	**14.5%**	16.7%

NET REVENUES

For the three months ended June 30, 2012, Institutional Group net revenues increased 1.8% to $135.3 million from $132.9 million for the comparable period in 2011. For the six months ended June 30, 2012, Institutional Group net revenues increased 9.2% to $283.8 million from $259.9 million for the comparable period in 2011. The increase in net revenues for the three and six months ended June 30, 2012 over the comparable periods in 2011 is primarily attributable to increased fixed income institutional brokerage revenues as a result of strong trading volumes and tightening credit spreads; and higher investment banking revenues as a result of an increase in advisory fees as a result of an increase in M&A activity and fixed income capital raising revenues, which is primarily attributable to strong public finance activity and our acquisition of Stone & Youngberg in October 2011. The increase was offset by a decrease in equity capital raising, which has been negatively impacted by the difficult market environment.

***Commissions* –** For the three months ended June 30, 2012, commission revenues decreased 12.8% to $39.0 million from $44.7 million in the comparable period in 2011. For the six months ended June 30, 2012, commission revenues decreased 27.8% to $71.3 million from $98.7 million in the comparable period in 2011.

Principal transactions – For the three months ended June 30, 2012, principal transactions revenues increased 26.2% to $35.9 million from $28.5 million in the comparable period in 2011. For the six months ended June 30, 2012, principal transactions revenues increased 42.9% to $93.1 million from $65.2 million in the comparable period in 2011.

For the three months ended June 30, 2012, fixed income institutional brokerage revenues increased 15.8% to $36.5 million from $31.5 million in the second quarter of 2011. For the six months ended June 30, 2012, fixed income institutional brokerage revenues increased 17.1% to $81.8 million from $69.8 million in the comparable period in 2011. The increase in fixed income institutional brokerage revenues is primarily attributable to improved fixed income trading volumes, tighter credit spreads, and to our acquisition of Stone & Youngberg in 2011.

For the three months ended June 30, 2012, equity institutional brokerage revenues decreased 7.7% to $38.5 million from $41.7 million during the comparable period in 2011. For the six months ended June 30, 2012, equity institutional brokerage revenues decreased 12.2% to $82.6 million from $94.1 million during the comparable period in 2011. The decrease in equity institutional brokerage revenues is primarily attributable to the challenging conditions in the equity capital markets.

Investment banking – For the three months ended June 30, 2012, investment banking revenues increased 1.4% to $58.8million from $58.0 million in the comparable period in 2011. For the six months ended June 30, 2012, investment banking revenues increased 25.4% to $116.8 million from $93.1 million in the comparable period in 2011. The increase in investment banking revenues is primarily attributable to an increase in advisory fee revenues and fixed income capital raising revenues over the comparable periods in 2011.

For the three months ended June 30, 2012, capital raising revenues decreased 2.9% to $32.2 million from $33.2 million in the comparable period in 2011. For the six months ended June 30, 2012, capital raising revenues increased 25.9% to $74.6 million from $59.2 million in the comparable period in 2011.

For the three months ended June 30, 2012, fixed income capital raising revenues increased 181.3% to $14.6 million from $5.2 million during the second quarter of 2011. For the six months ended June 30, 2012, fixed income capital raising revenues increased 208.8% to $25.4 million from $8.2 million in the comparable period in 2011. The increase in fixed income capital raising revenues is primarily attributable to an increase in the municipal bond origination business. For the three and six months ended June 30, 2012, we were involved, as manager or co-manager, in 238 and 472 tax-exempt issues, respectively, compared to 93 and 151 issues, respectively, during the comparable periods in 2011. The increase in the number of deals we were involved in over the comparable periods in 2011 is primarily attributable to our acquisition of Stone & Youngberg in 2011.

For the three months ended June 30, 2012, equity capital raising revenues decreased 37.0% to $17.7 million from $28.0 million during the second quarter of 2011. For the six months ended June 30, 2012, equity capital raising revenues decreased 3.5% to $49.2 million from $51.0 million in the comparable period in 2011. The decrease in equity capital raising revenues is primarily as a result of weaker equity capital markets, which have been negatively impacted by the difficult market environment.

For the three months ended June 30, 2012, strategic advisory fees increased 7.2% to $26.6 million from $24.8 million in the comparable period in 2011. For the six months ended June 30, 2012, strategic advisory fees increased 24.6% to $42.2 million from $33.9 million in the comparable period in 2011. The increase in strategic advisory fees is primarily attributable to an increase in the number of M&A transactions.

NON-INTEREST EXPENSES

For the three months ended June 30, 2012, Institutional Group non-interest expenses increased 6.1% to $117.8 million from $111.0 million for the comparable period in 2011. For the six months ended June 30, 2012, Institutional Group non-interest expenses increased 12.0% to $242.6 million from $216.6 million for the comparable period in 2011.

Unless specifically discussed below, the fluctuations in non-interest expenses were primarily attributable to the continued growth of our Institutional Group segment. We have continued to make investments in our firm in anticipation of continued capital market growth through the selective hiring of professionals in areas where we see opportunities. Since June 30, 2011, we have added approximately 294 revenue producers, including approximately 95 revenue producers and support staff from our acquisition of Stone & Youngberg.

Compensation and benefits – For the three months ended June 30, 2012, compensation and benefits expense increased 3.4% to $84.8 million from $82.0 million during the comparable period in 2011. For the six months ended June 30, 2012, compensation and benefits expense increased 12.3% to $178.8 million from $159.2 million during the comparable period in 2011. The increase in compensation and benefits expense is primarily due to increased compensation as a result of the growth of the business and fixed compensation for the additional administrative support staff.

Compensation and benefits expense as a percentage of net revenues was 62.6% and 63.0% for the three and six months ended June 30, 2012, respectively, compared to 61.7% and 61.2% for the three and six months ended June 30, 2011, respectively.

Occupancy and equipment rental – For the three months ended June 30, 2012, occupancy and equipment rental expense increased 25.8% to $6.9 million from $5.5 million during the comparable period in 2011. For the six months ended June 30, 2012, occupancy and equipment rental expense increased 30.9% to $13.7 million from $10.4 million during the comparable period in 2011. The increase in occupancy and equipment rental expense is primarily attributable to the increase in rent expense due primarily to an increase in office locations.

Communications and office supplies – For the three months ended June 30, 2012, communications and office supplies expense increased 20.0% to $8.7 million from $7.2 million during the second quarter of 2011. For the six months ended June 30, 2012, communications and office supplies expense increased 16.6% to $16.9 million from $14.5 million during the comparable period in 2011. The increase in communications and office supplies expense is primarily attributable to an increase in communication and quote equipment as a result of the growth of the business.

Commissions and floor brokerage – For the three months ended June 30, 2012, commissions and floor brokerage expense increased 6.5% to $4.2 million from $4.0 million during the second quarter of 2011. For the six months ended June 30, 2012, commissions and floor brokerage expense increased 7.6% to $8.4 million from $7.8 million during the comparable period in 2011. The increase in commissions and floor brokerage expense is primarily attributable to costs associated with the conversion of customer accounts to a new omnibus platform during the first quarter of 2012, offset by lower clearing fees which are generally correlated with the decrease in commission revenues.

Other operating expenses – For the three months ended June 30, 2012, other operating expenses increased 7.5% to $13.2 million from $12.3 million during the comparable period in 2011. For the six months ended June 30, 2012, other operating expenses increased 0.7% to $24.8 million from $24.6 million during the comparable period in 2011. The increase in other operating expenses is primarily attributable to an increase in license and registration fees, and subscriptions as a result of the continued growth of the business, offset by a reduction in conference and travel expenses, legal expenses, and professional fees from the comparable periods in 2011.

INCOME BEFORE INCOME TAXES

For the three months ended June 30, 2012, income before income taxes for the Institutional Group segment increased 20.1% to $17.5 million from $22.0 million during the comparable period in 2011. For the six months ended June 30, 2012, income before income taxes for the Institutional Group segment decreased 4.8% to $41.3 million from $43.3 million during the comparable period in 2011. Profit margins have diminished as a result of the increase in non-interest expenses. While our revenues in the first quarter were up over the comparable period in 2011, our margins were negatively impacted by an increase in fixed compensation and benefits expense and increased occupancy costs as we continue to grow in anticipation of continued capital market growth.

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 June 30,			For the Six Months Ended June 30,		
	2012	2011	% Change	**2012**	2011	% Change
Net revenues	**$ (919)**	$ 297	*	**$ 2,562**	$ 1,470	74.3
Non-interest expenses:						
Compensation and benefits	**13,636**	14,981	(9.0)	**30,559**	26,374	15.9
Other operating expenses	**20,470**	58,818	(65.2)	**40,656**	80,779	(49.7)
Total non-interest expenses	**34,106**	73,799	(53.8)	**71,215**	107,153	(33.5)
Loss before income taxes	**$ (35,025)**	$ (73,502)	(52.3)	**$ (68,653)**	$ (105,683)	(35.0)

* Percentage not meaningful.

Net revenues – For the three month period ended June 30, 2012, net revenues decreased $1.2 million from the comparable period in 2011. For the six month period ended June 30, 2012, net revenues increased $1.1 million from the comparable period in 2011. Net revenues for the three and six months ended June 30, 2012 was negatively impacted by the interest expense associated with our January 2012 issuance of $175.0 million of 6.70% senior notes.

Compensation and benefits – For the three months ended June 30, 2012, compensation and benefits expense decreased 9.0% to $13.7 million from $15.0 million for the comparable period in 2011. For the six months ended June 30, 2012, compensation and benefits expense increased 15.9% to $30.6 million from $26.4 million for the comparable period in 2011. The increase in compensation and benefits expense is primarily attributable to the following: 1) increased fixed compensation for the additional administrative support staff; and 2) an increase in deferred compensation expense as a result of the acceleration of the vesting period for unit grants awarded to newly retirement-eligible employees during the first quarter of 2012.

Other operating expenses – For the three months ended June 30, 2012, other operating expenses decreased 65.2% to $20.5 million from $58.8 million for the comparable period in 2011. For the six months ended June 30, 2012, other operating expenses decreased 49.7% to $40.7 million from $80.8 million for the comparable period in 2011.

Included in other operating expenses for the three and six months ended June 30, 2011 were estimated costs of settlement and litigation-related expenses associated with the civil lawsuit and related regulatory investigation in connection with the previously disclosed matter involving five Southeastern Wisconsin school districts and merger-related expenses. Excluding these expenses other operating expenses increased 26.4% and 13.3%, respectively, over the comparable periods in 2011. The increase in other operating expenses is primarily attributable to an increase in license and registration fees, professional fees, and subscriptions as a result of the continued growth of the business, offset by a reduction in legal expenses, and conference and travel expenses from the comparable periods in 2011.

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 $6.1 billion at June 30, 2012, were up 24.0% over December 31, 2011. The increase is primarily attributable to an increase in the investment portfolio at Stifel Bank, the growth of our trading inventory, an increase in loans at Stifel Bank and an increase in cash and cash equivalents. 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.

As of June 30, 2012, our liabilities were comprised primarily of short-term borrowings of $282.0 million, senior notes of $175.0 million, $82.5 million of trust preferred securities, deposits of $2.8 billion at Stifel Bank, and payables to customers, and brokers, dealers and clearing organizations of $249.6 million and $169.1 million, respectively, at our broker-dealer subsidiaries, as well as accounts payable and accrued expenses, and accrued employee compensation of $381.2 million. To meet our obligations to clients and operating needs, we had $421.9 million in cash and cash equivalents at June 30, 2012. We also had client brokerage receivables of $567.7 million at Stifel Nicolaus and $826.0 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 regulatory net capital positions, 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, client credit balances, short-term bank loans and proceeds from securities lending. 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 available-for-sale securities, retained loans, cash and cash equivalents and held-to-maturity securities. 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 from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. On November 7, 2011, the Board authorized the repurchase of an additional 3.0 million shares. At June 30, 2012, the maximum number of shares that may yet be purchased under this plan was 4.1 million. 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. 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 $274.0 million to $441.7 million at June 30, 2012, from $167.7 million at December 31, 2011. Operating activities used cash of $302.8 million primarily due to an increase in operating assets, offset by the net effect of non-cash items, net income, and an increase in operating liabilities. Investing activities used cash of $494.3 million due to purchases of available-for-sale and held-to-maturity securities as part of our investment strategy at Stifel Bank, offset by proceeds from the maturity of available-for-sale securities and sale of investments. During the three months ended June 30, 2012, we purchased $8.4 million in fixed assets, which included the purchase of information technology equipment, leasehold improvements, and furniture and fixtures. Financing activities provided cash of $1.1 billion principally due to the increase in affiliated deposits and the proceeds received from the issuance of our 6.70% senior notes.

Funding Sources

We use a variety of funding sources to obtain funds, which includes, but is not limited to, gathering deposits, issuing equity securities, and securitizing assets. Further liquidity is available to our company through committed and uncommitted credit facilities, FHLB advances, and a federal funds agreement. At June 30, 2012, we have $175.3 million of ARS. Any redemptions by issuers of the ARS will create liquidity during the period such redemption occurs. ARS redemptions have been at par, and we believe will continue to be at par.

Our short-term financing is generally obtained through short-term bank line financing on an uncommitted, secured basis, short-term bank line financing on an unsecured basis and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of customer-owned securities used as collateral is not reflected in the consolidated statements of financial condition. Our uncommitted secured lines of credit at June 30, 2012 totaled $680.0 million with four banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. Our peak daily borrowing was $473.7 million during the six months ended June 30, 2012. There are no compensating balance requirements under these arrangements.

At June 30, 2012, short-term borrowings from banks were $282.0 million at an average rate of 1.17%, which were collateralized by company-owned securities valued at $412.5 million. At December 31, 2011, short-term borrowings from banks were $199.4 million at an average rate of 1.17%, which were collateralized by company-owned securities valued at $293.0 million. The average bank borrowing was $267.0 million and $206.0 million for the three months ended June 30, 2012 and 2011, respectively, at average daily interest rates of 1.15%, and 1.12%, respectively. The average bank borrowing was $226.2 million and $187.7 million for the six months ended June 30, 2012 and 2011, respectively, at average daily interest rates of 1.14%, and 1.24%, respectively.

At June 30, 2012 and December 31, 2011, Stifel Nicolaus had a stock loan balance of $151.3 million and $124.7 million, respectively, at average daily interest rates of 0.14% and 0.17%, respectively. The average outstanding securities lending arrangements utilized in financing activities were $143.4 million and $121.8 million during the three months ended June 30, 2012 and 2011, respectively, at average daily effective interest rates of [1.09]% and 1.36%, respectively. The average outstanding securities lending arrangements utilized in financing activities were $149.7 million and $110.2 million during the six months ended June 30, 2012 and 2011, respectively, at average daily effective interest rates of [1.61]% and 1.35%, respectively. Customer-owned securities were utilized in these arrangements.

Stifel Bank has borrowing capacity with the Federal Home Loan Bank of $588.0 million at June 30, 2012, all of which was unused, and a $25.0 million federal funds agreement for the purpose of purchasing short-term funds should additional liquidity be needed. Stifel Bank receives overnight funds from excess cash held in Stifel Nicolaus brokerage accounts, which are deposited into a money market account. These balances totaled $2.7 billion at June 30, 2012.

Our committed short-term bank line financing at June 30, 2012 consisted of a $50.0 million committed revolving credit facility with two banks. The credit facility expires in December 2012. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the higher of (i) the prime rate, (ii) the federal funds effective rate plus 0.50%, or (iii) one-month Eurocurrency rate plus 1.00%, as defined in the revolving credit facility.

At June 30, 2012, we had no advances on our revolving credit facility and were in compliance with all covenants. Our revolving credit facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to similar obligations, certain events of bankruptcy and insolvency and judgment defaults.

On January 18, 2012, we issued $175.0 million principal amount of 6.70% Senior Notes due 2022 (the “notes”). Interest on the notes will accrue from January 23, 2012 and will be paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing on April 15, 2012. The notes will mature on January 15, 2022. We may redeem the notes in whole or in part on or after January 15, 2015 at our option at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. Proceeds from the notes issuance of $170.3 million, after discounts, commissions and expenses, will be used for general corporate purposes. In January 2012, we received an initial credit rating from Standard & Poor’s Financial Services LLC of BBB-, along with a BBB- rating on the notes.

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

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

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

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

Use of Capital Resources

TWP has entered into settlement and release agreements ("Settlement Agreements") with certain customers, whereby it will purchase their ARS, at par, in exchange for a release from any future claims. At June 30, 2012, we estimate that TWP customers held $25.1 million par value of ARS, which may be repurchased over the next 4 years. We estimate that we will repurchase ARS of $6.2 million par value in December 2012. The amount estimated for repurchase assumes no issuer redemptions.

On March 19, 2012, we announced a settlement with five Wisconsin school districts in a lawsuit that the districts filed in 2008 over investments that were created by Royal Bank of Canada and purchased by the districts when we acted as the districts' public finance investment banker. Under the terms of the settlement, we paid $13.0 million to the school districts and provided a standby letter of credit for an additional $9.5 million, to be paid when, among other conditions, we resolve a related case with the SEC. The settlement also provides the potential for the school districts to obtain significant additional damages.

On August 6, 2012, along with certain other investors, we entered into a Securities Purchase Agreement (the "Purchase Agreement") with Knight Capital Group, Inc. ("Knight Capital"), pursuant to which, among other things, Knight Capital sold an aggregate of 400,000 shares of preferred stock, par value $0.01 per share (the "Preferred Stock"), in a private placement in exchange for aggregate cash consideration of $400.0 million. Pursuant to the Purchase Agreement, we purchased 30,000 shares of Preferred Stock in exchange for cash consideration of $30.0 million. Each share of Preferred Stock is convertible into 666.667 shares of common stock, $0.01 per share, of Knight Capital.

We have paid $44.1 million in the form of upfront notes to investment executives for transition pay during the period from January 1, 2012 through July 31, 2012. 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 utilize transition pay, principally in the form of upfront demand notes, to aid financial advisors, who have elected to join our firm, to supplement their lost compensation while transitioning their customers' accounts to the Stifel platform. The initial value of the notes is determined primarily by the financial advisors trailing production and assets under management. These notes are generally forgiven over a five to ten year period based on production. The future estimated amortization expense of the upfront notes, assuming current year production levels and static growth for the remaining six months of 2012 and the years ended December 31, 2013, 2014, 2015, 2016, and thereafter are $27.7 million, $47.0 million, $35.9 million, $25.7 million, $18.2 million and $27.6 million, respectively. These estimates could change if we continue to grow our business through expansion or experience increased production levels.

Net Capital Requirements

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

At June 30, 2012, Stifel Nicolaus had net capital of $342.4 million, which was 53.1% of its aggregate debit items and $329.5 million in excess of its minimum required net capital. At June 30, 2012, CSA's net capital exceeded the minimum net capital required under the SEC rule. At June 30, 2012, SNEL's net capital and reserves was in excess of the financial resources requirement under the rules of the FSA. At June 30, 2012, SN Canada's net capital and reserves was in excess of the financial resources requirement under the rules of the IIROC. At June 30, 2012, Stifel Bank was considered well capitalized under the regulatory framework for prompt corrective action. See Note 16 of the Notes to 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, 2011.

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

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

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

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

A substantial percentage of the fair value of our trading securities and other investments owned, trading securities pledged as collateral, and trading securities sold, but not yet purchased, are based on observable market prices, observable market parameters, or derived from broker or dealer prices. The availability of observable market prices and pricing parameters can vary from product to product. Where available, observable market prices and pricing or market parameters in a product may be used to derive a price without requiring significant judgment. In certain markets, observable market prices or market parameters are not available for all products, and fair value is determined using techniques appropriate for each particular product. These techniques involve some degree of judgment.

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

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

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

At June 30, 2012, Level 3 assets for which we bear economic exposure were $256.2 million or 11.0% of the total assets measured at fair value. During the three months ended June 30, 2012, we recorded purchases of $54.7 million and sales and redemptions of $25.1 million of Level 3 assets. We transferred $1.8 million, net, out of Level 3 during the three months ended June 30, 2012. Our valuation adjustments (realized and unrealized) increased the value of our Level 3 assets by $1.3 million.

During the six months ended June 30, 2012, we recorded purchases of $65.2 million and sales and redemptions of $45.0 million of Level 3 assets. We transferred $1.6 million, net, out of Level 3 during the six months ended June 30, 2012. Our valuation adjustments (realized and unrealized) increased the value of our Level 3 assets by $3.0 million.

At June 30, 2012, Level 3 assets included the following: $175.3 million of auction rate securities and $80.9 million of private equity and other fixed income securities.

Investments in Partnerships

Investments in partnerships and other investments include our general and limited partnership interests in investment partnerships and direct investments in non-public companies. These interests are carried at estimated fair value. The net assets of investment partnerships consist primarily of investments in non-marketable securities. The underlying investments held by such partnerships and direct investments in non-public companies are valued based on estimated fair value ultimately determined by us in our capacity as general partner or investor and, in the case of an investment in an unaffiliated investment partnership, are based on financial statements prepared by an unaffiliated general partner. Due to the inherent uncertainty of valuation, fair values of these non-marketable investments may differ from the values that would have been used had a ready market existed for these investments, and the differences could be material. Increases and decreases in estimated fair value are recorded based on underlying information of these non-public company investments, including third-party transactions evidencing a change in value, market comparables, operating cash flows and financial performance of the companies, trends within sectors and/or regions, underlying business models, expected exit timing and strategy, and specific rights or terms associated with the investment, such as conversion features and liquidation preferences. In cases where an estimate of fair value is determined based on financial statements prepared by an unaffiliated general partner, such financial statements are generally unaudited other than audited year-end financial statements. Upon receipt of audited financial statements from an investment partnership, we adjust the fair value of the investments to reflect the audited partnership results if they differ from initial estimates. We also perform procedures to evaluate fair value estimates provided by unaffiliated general partners. At June 30, 2012, we had commitments to invest in affiliated and unaffiliated investment partnerships of $3.4 million. These commitments are generally called as investment opportunities are identified by the underlying partnerships. These commitments may be called in full at any time.

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

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

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

Contingencies

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

Allowance for Loan Losses

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

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

Once a loan is determined to be impaired, 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 reversed. Loans placed on non-accrual status are returned to accrual status when all delinquent principal and interest payments are collected and the collectibility of future principal and interest payments is reasonably assured. Loan losses are charged against the allowance when we believe the uncollectibility of a loan balance is certain. Subsequent recoveries, if any, are credited to the allowance for loan loss.

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

Derivative Instruments and Hedging Activities

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

Income Taxes

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

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

Goodwill and Intangible Assets

Under the provisions of Topic 805, "*Business Combinations*," we record all assets and liabilities acquired in purchase acquisitions, including goodwill and other intangible assets, at fair value. Determining the fair value of assets and liabilities requires certain estimates. At June 30, 2012, we had goodwill of $361.7 million and intangible assets of $31.3 million.

In accordance with Topic 350, "*Intangibles – Goodwill and Other*," indefinite-life intangible assets and goodwill are not amortized. Rather, they are subject to impairment testing on an annual basis, or more often if events or circumstances indicate there may be impairment. This test involves assigning tangible assets and liabilities as well as identified intangible assets and goodwill to reporting units and comparing the fair value of each reporting unit to its carrying amount. If the fair value is less than the carrying amount, a further test is required to measure the amount of the impairment. We have elected to test for goodwill impairment in the third quarter of each calendar year. The results of the impairment test performed as of July 31, 2011, 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 2 of the Notes to Consolidated Financial Statements for information regarding the effect of new accounting pronouncements on our consolidated financial statements.

Off-balance Sheet Arrangements

Information concerning our off-balance sheet arrangements is included in Note 18 of the Notes to Consolidated Financial Statements. Such information is hereby incorporated by reference.

Contractual Obligations

Our contractual obligations have not materially changed from those reported in our Annual Report on Form 10-K for the year ended December 31, 2011.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Risk Management

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

Market Risk

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

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

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

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

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

Interest Rate Risk

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

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

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

The following table sets forth the high, low, and daily average VaR for our trading portfolios during the six months ended June 30, 2012, and the daily VaR at June 30, 2012 and December 31, 2011 *(in thousands)*:

	Six Months Ended June 30, 2012			VAR Calculation at	
	High	**Low**	**Daily Average**	**June 30, 2012**	December 31, 2011 (1)
Daily VaR	$ 6,441	$ 1,601	$ 3,844	**$ 2,446**	$ 1,969

(1) Our calculation of VAR at December 31, 2011, as presented in our Form 10-K, included the available-for-sale and held-to-maturity securities of Stifel Bank. We have restated our VAR calculation at December 31, 2011 to conform to our current presentation, whereby we have excluded these positions based on discussions with our regulators.

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

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

The following table illustrates the estimated change in net interest margin at June 30, 2012, 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	42.8%
+100	20.7%
0	0.00%
-100	n/a
-200	n/a

The following GAP Analysis table indicates Stifel Bank's interest rate sensitivity position at June 30, 2012 *(in thousands)*:

	Repricing Opportunities			
	0-6 Months	7-12 Months	1-5 Years	5+ Years
Interest-earning assets:				
Loans	$ 828,106	$ 8,202	$ 17,075	$ 2,734
Securities	772,358	110,787	843,979	107,738
Interest-bearing cash	306,492	—	—	—
	$ 1,906,956	$ 118,989	$ 861,054	$ 110,472
Interest-bearing liabilities:				
Transaction accounts and savings	$ 964,540	$ 551,183	$ 1,240,928	$ 27,035
Certificates of deposit	957	95	527	—
Borrowings	—	—	—	16,983
	965,497	551,278	1,241,455	44,018
GAP	941,459	(432,289)	(380,401)	66,454
Cumulative GAP	**$ 941,459**	**$ 509,170**	**$ 128,769**	**$ 195,223**

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 June 30, 2012, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was $1.1 billion, and the fair value of the collateral that had been sold or repledged was $153.3 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 7, Part II and "Legal Proceedings" in Item 3, Part I of this report. In addition, we are subject to potentially sizable adverse legal judgments or arbitration awards, and fines, penalties, and other sanctions for non-compliance with applicable legal and regulatory requirements. We are generally subject to extensive regulation by the SEC, FINRA, and state securities regulators in the different jurisdictions in which we conduct business. As a bank holding company, we are subject to regulation by the Federal Reserve. Stifel Bank is subject to regulation by the FDIC. As a result, we are subject to a risk of loss resulting from failure to comply with banking laws. We have comprehensive procedures addressing issues such as regulatory capital requirements, sales and trading practices, use of and safekeeping of customer funds, the extension of credit, including margin loans, collection activities, money laundering, and record keeping. We act as an underwriter or selling group member in both equity and fixed income product offerings. Particularly when acting as lead or co-lead manager, we have potential legal exposure to claims relating to these securities offerings. To manage this exposure, a committee of senior executives review proposed underwriting commitments to assess the quality of the offering and the adequacy of due diligence investigation.

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

ITEM 4. CONTROLS AND PROCEDURES

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

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, 2011.

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

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

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

SEC/Wisconsin Lawsuit

The SEC filed a civil lawsuit against our company in U.S. District Court for the Eastern District of Wisconsin on August 10, 2011. The action arises out of our role in investments made by five Southeastern Wisconsin school districts (the "school districts") in transactions involving collateralized debt obligations ("CDOs"). These transactions are described in more detail below in connection with the civil lawsuit filed by the school districts. The SEC has asserted claims under Section 10b and Rule 10b-5 of the Exchange Act, Sections 17a(1), 17a(2) and 17a(3) of the Securities Act and Section 15c(1)(A) of the Exchange Act. The claims are based upon both alleged misrepresentations and omissions in connection with the sale of the CDOs to the school districts, as well as the allegedly unsuitable nature of the CDOs. On October 31, 2011, we filed a motion to dismiss the action for failure to state a claim. Briefs supporting and opposing our motion have been filed with the Court. The District Court has not yet ruled on the motion to dismiss. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to the SEC's lawsuit and intend to vigorously defend the SEC's claims.

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

TWP LLC FINRA Matter

On April 28, 2010, FINRA commenced an administrative proceeding against TWP involving a transaction undertaken by a former employee in which approximately $15.7 million of ARS were sold from a TWPG account to the accounts of three customers. FINRA alleged that TWP violated various NASD and FINRA rules, as well as Section 10(b) of the Securities Exchange Act and Rule 10b-5. TWP's answer denied the substantive allegations and asserted various affirmative defenses. TWP repurchased the ARS at issue from the customers at par. FINRA sought fines and other relief against TWP and the former employee.

On November 8, 2011, the FINRA hearing panel fined TWP $0.2 million for not having adequate supervisory procedures governing principal transactions in violation of NASD rules and ordered TWP to pay certain administrative fees and costs. The FINRA hearing panel dismissed all other charges against TWP and the former employee. On July 25, 2012, the National Adjudicatory Council considered FINRA's appeal of the FINRA hearing panel's decision,which has not yet been determined.

EDC Bond Issuance Matter

On January 16, 2012, our company and Stifel Nicolaus were named as defendants in a suit filed in Wisconsin state court with respect to Stifel Nicolaus' role as initial purchaser in a $50.0 million bond offering under Rule 144A in January 2008. The bonds were issued by the Lake of the Torches Economic Development Corporation ("EDC") in connection with certain new financing for the construction of a proposed new casino, as well as refinancing of indebtedness involving Lac Du Flambeau Band of Lake Superior Chippewa Indians (the "Tribe"), who are also defendants in the action, together with Godfrey & Kahn, S.C. ("G&K") who served as both issuer's counsel and bond counsel in the transaction. In an action in federal court in Wisconsin related to the transaction, EDC was successful in its assertion that the bond indenture was void as an unapproved "management contract" under National Indian Gaming Commission regulations, and that accordingly the Tribe's waiver of sovereign immunity contained in the indenture was void. After a remand from the Seventh Circuit Court of Appeals, a new federal action continues regarding the validity of the bond documents other than the bond indenture, and our company and Stifel Nicolaus are defendants in this new federal action.

Saybrook Tax Exempt Investors LLC, a qualified institutional buyer and the sole bondholder through its special purpose vehicle LDF Acquisition LLC (collectively, "Saybrook"), and Wells Fargo Bank, NA ("Wells Fargo"), indenture trustee for the bonds (collectively, "plaintiffs"), also brought a Wisconsin state court suit against EDC, our company and G&K, based on alleged misrepresentations about the enforceability of the indenture and the bonds and the waiver of sovereign immunity. The parties have agreed to stay the state court action until the federal court rules on whether it has jurisdiction over the new federal action. Saybrook is the plaintiff in the new federal action and in the state court action. The plaintiffs allege that G&K represented in various legal opinions issued in the transaction, as well as in other documents associated with the transaction, that (i) the bonds and indenture were legally enforceable obligations of EDC and (ii) EDC's waivers of sovereign immunity were valid. The claims asserted against us are for breaches of implied warranties of validity and title, securities fraud and statutory misrepresentation under Wisconsin state law, intentional and negligent misrepresentations relating to the validity of the bond documents and the Tribe's waiver of its sovereign immunity. To the extent EDC does not fully perform its obligations to Saybrook pursuant to the bonds, the plaintiffs seek a judgment for rescission, restitutionary damages, including the amounts paid by the plaintiffs for the bonds, and costs; alternatively, the plaintiffs seek to recover damages, costs and attorneys' fees from us. On May 2, 2012, we filed a motion to dismiss all of the claims alleged against our company and Stifel Nicolaus in the new federal court action. The case is currently stayed while the federal court considers whether it has jurisdiction over the lawsuit. If the federal court determines it does not have jurisdiction, the action will continue in Wisconsin state court. While there can be no assurance that we will be successful, we believe we have meritorious legal and factual defenses to the matter, and we intend to vigorously defend the 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, 2011 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

The following table sets forth information with respect to 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 June 30, 2012.

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publically Announced Plans	Maximum Number of Shares That May Yet be Purchased Under the Plan or Program
April 1 – 30, 2012	—	$ —	—	4,332,776
May 1 – 31, 2012	112,122	31.85	112,122	4,220,654
June 1 – 30, 2012	100,658	30.15	100,658	4,119,996
	212,780	$ 31.05	212,780	

We have an ongoing authorization from the Board of Directors to repurchase our common stock in the open market or in negotiated transactions. On November 7, 2011, the Board authorized the repurchase of an additional 3.0 million shares. At June 30, 2012, the maximum number of shares that may yet be purchased under this plan was 4.1 million.

ITEM 6. EXHIBITS

Exhibit No.	Description
11.1	Statement Re: Computation of per Share Earnings (The calculation of per share earnings is included in Part I, Item 1 in the Notes to Consolidated Financial Statements (Earnings Per Share) and is omitted here in accordance with Section (b)(11) of Item 601 of Regulation S-K).
31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer.*
32.2	Section 1350 Certification of Chief Financial Officer.*
101.INS	Interactive Data Files Pursuant to Rule 405 of Regulation S-T: (i) Consolidated Statements of Financial Condition as of June 30, 2012 and December 31, 2011; (ii) Consolidated Statements of Operations for the three and six months ended June 30, 2012 and 2011; (iii) Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2012 and 2011; (v) Consolidated Statements of Cash Flows for the six months ended June 30, 2012 and 2011; and (vi) Notes to Consolidated Financial Statements. *

* The certifications attached as Exhibits 32.1 and 32.2 and the interactive data files attached as Exhibits 101 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 of the Board, President, and
Chief Executive Officer

/s/ James M. Zemlyak

James M. Zemlyak
Senior Vice President and
Chief Financial Officer

Date: August 9, 2012