

STIFEL NICOLAUS

ONE FINANCIAL PLAZA
501 NORTH BROADWAY
ST. LOUIS, MISSOURI 63102-2188

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)

As of June 30, 2009

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
Consolidated Statement of Financial Condition (Unaudited)
June 30, 2009

(in thousands)

Assets	
Cash and cash equivalents	\$ 16,967
Receivables:	
Customers	338,570
Broker, dealers and clearing organizations	411,124
Securities purchased under agreements to resell	98,144
Trading securities owned, at fair value (includes securities pledged of \$221,825)	290,045
Investments	87,847
Goodwill	115,822
Intangible assets, net of accumulated amortization of \$8,715	15,078
Loans and advances to financial advisors and other employees, net	146,081
Deferred tax assets, net	39,684
Other assets	91,016
Total assets	\$ 1,650,378
Liabilities and stockholder's equity	
Short-term borrowings from banks	\$ 212,300
Payables:	
Customers	193,194
Brokers, dealers and clearing organizations	159,942
Drafts	37,929
Securities sold under agreements to repurchase	54,881
Trading securities sold, but not yet purchased, at fair value	189,119
Accrued compensation	102,166
Accounts payable and accrued expenses	43,515
Due to Stifel Financial Corp. and affiliates	65,224
	1,058,270
Liabilities subordinated to claims of general creditors	41,915
Stockholder's equity	
Common stock – par value \$1; authorized 30,000 shares; issued 1,000 shares	1
Additional paid-in-capital	312,005
Retained earnings	238,187
Total stockholder's equity	550,193
Total liabilities and stockholder's equity	\$ 1,650,378

See accompanying Notes to Consolidated Statement of Financial Condition.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
Notes to Consolidated Statement of Financial Condition (Unaudited)
(in thousands)

NOTE 1 – Nature of Operation and Basis of Presentation

Nature of Operations

Stifel, Nicolaus & Company, Incorporated (“Stifel Nicolaus”), is principally engaged in retail brokerage, securities trading, investment banking, investment advisory, and related financial services throughout the United States. Although we have offices throughout the United States, our major geographic area of concentration is in the Midwest and Mid-Atlantic regions, with a growing presence in the Northeast, Southeast and Western United States. We provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, insurance, and banking products to our clients.

Basis of Presentation

The consolidated statement of financial condition includes the accounts of Stifel Nicolaus and its wholly-owned subsidiaries. Intercompany balances and transactions have been eliminated. Unless otherwise indicated, the terms “we,” “us” “our” or “our company” in this report refer to Stifel, Nicolaus & Company, Incorporated and its wholly-owned subsidiaries. We are a wholly-owned subsidiary of Stifel Financial Corp. (the “Parent”).

Effective June 30, 2009, we adopted Statement of Financial Accounting Standard (“SFAS”) Statement No. 165 (“SFAS 165”), “Subsequent Events.” Under SFAS 165, subsequent events are defined as events or transactions that occur after the balance sheet date, but before the financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet. Unrecognized subsequent events are events or transactions that provide evidence about conditions that did not exist at the date of the balance sheet, but arose before the financial statements were issued. Recognized subsequent events are recorded in the consolidated financial statements and unrecognized subsequent events are excluded from the consolidated financial statements but disclosed in the notes to the consolidated financial statements if their effect is material.

Consolidation Policies

The consolidated statement of financial condition includes the accounts of Stifel Nicolaus 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 or not, we determine 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 in accordance with Accounting Research Bulletin (“ARB”) No. 51, “Consolidated Financial Statements,” when we determine that we have 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 in accordance with Financial Accounting Standards Board (“FASB”) Interpretation No. 46(R) (“FIN 46R”), “Consolidation of Variable Interest Entities (revised December 2003) – an interpretation of ARB No. 51.” The primary beneficiary is defined as the entity that has a variable interest, or a combination of variable interests, that will either: (i) absorb a majority of the VIEs expected losses; (ii) receive a majority of the VIEs expected returns; or (iii) both.

We determine whether we are the primary beneficiary of a VIE by first performing 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. Where 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 as defined in FIN 46R.

Other. We have formed several non-consolidated investment funds with third-party investors that are typically organized as limited liability companies or limited partnerships. For those funds where we act as the general partner, our economic interest is generally limited to management fee arrangements as stipulated by the Operating Agreements. We have generally provided the third-party investors with rights to terminate the funds or to remove us as the general partner. If FIN 46R does not apply, we consider Emerging Issues Task Force (“EITF”) Issue No. 04-5 (“EITF 04-5”), “Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights,” which provides guidance in determining whether a general partner controls a limited partnership. EITF 04-5 states that 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 in EITF 04-5 are met, the consolidation of the partnership or limited liability company is required. Based on our initial evaluation of these entities under the provisions of FIN 46R and EITF 04-5, it was determined that these entities were not variable interest entities of our company and do not require consolidation pursuant to EITF 04-5. See Note 17 for a further discussion of VIEs.

Use of Estimates

The preparation of the statement of financial condition in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Actual results could differ from those estimates. Management considers its significant estimates, which are most susceptible to change and impacted significantly by judgments, assumptions and estimates, to be: the fair value of investments; the accrual for litigation; the allowance for doubtful receivables from loans and advances to financial advisors and other employees; and the fair value of goodwill and intangible assets.

Cash and Cash Equivalents

Cash and cash equivalents are short-term, highly liquid investments with original maturities of 90 days or less including money market mutual funds, other than those held for sale in the ordinary course of business.

Repurchase Agreements

Securities purchased under agreements to resell (“Resale Agreements”) and securities sold under agreements to repurchase (“Repurchase Agreements”) are recorded at the contractual amounts that the securities will be resold/repurchased, including accrued interest. Our policy is to obtain possession or control of securities purchased under Resale Agreements and to obtain additional collateral when necessary to minimize the risk associated with this activity. All resale and repurchase agreement activity is concentrated with one counterparty.

Securities Borrowing and Lending Activities

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require our company to deposit cash with the lender generally in excess of the market value of securities borrowed. With respect to securities loaned, we receive collateral in the form of cash in an amount generally in excess of the market value of securities loaned. We monitor the market value of securities borrowed and loaned generally on a daily basis, with additional collateral obtained or refunded as necessary. Substantially all of these transactions are executed under master netting agreements, which give us right of offset in the event of counterparty default; however, such receivables and payables with the same counterparty are not set-off in the consolidated statement of financial condition.

Customer Receivables and Allowance for Doubtful Accounts

Customer receivables represent amounts due on cash and margin transactions and are generally collateralized by securities owned by clients. The receivables are reported at their outstanding principal balance, adjusted for any allowance for doubtful accounts. When a receivable is considered to be impaired, the amount of the impairment is generally measured based on the fair value of the securities acting as collateral, which is measured based on current prices from independent sources such as listed market prices or broker-dealer price quotations. Securities owned by customers, including those that collateralize margin or other similar transactions, are not reflected in the consolidated statement of financial condition.

Financial Instruments

Trading securities owned, certain investments, and trading securities sold, but not yet purchased, on our consolidated statement of financial condition are recorded at fair value. Securities owned, and securities sold, but not yet purchased are valued using quoted market or dealer prices. Customer receivables, primarily consisting of floating-rate loans collateralized by customer-owned securities, are charged interest at rates similar to other such loans made throughout the industry. Other than those separately discussed in the notes to consolidated statement of financial condition, our company's remaining financial instruments are generally short-term in nature and their carrying values approximate fair value.

Fair Value Hierarchy

On January 1, 2008, the Company adopted SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that the observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect our assumptions that market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. See Note 5 for a further discussion of financial instruments recorded at fair value.

Investments

Investments on the consolidated statement of financial condition contain investments in securities that are marketable and securities that are not readily marketable. These investments are not included in our trading inventory and represent the acquiring and disposing of debt or equity instruments for our benefit.

We report changes in fair value of marketable and non-marketable securities through current period earnings based on guidance provided by the AICPA Audit and Accounting Guide, "Brokers and Dealers in Securities." The fair value of these investments is based on either quoted market or dealer prices.

Goodwill and Intangible Assets

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. We do not amortize goodwill. In accordance with SFAS No. 142 ("SFAS 142"), "Goodwill and Other Intangible Assets," goodwill is tested for impairment at least annually or whenever indications of impairment exist. In testing for the potential impairment of goodwill, management estimates the fair value of each of our reporting units (generally defined as the businesses for which financial information is available and reviewed regularly by management), and compares it to their carrying value. If the estimated fair value of a reporting unit is less than its carrying value, management is required to estimate the fair value of all assets and liabilities of the reporting unit, including goodwill. If the carrying value of the reporting unit's goodwill is greater than the estimated fair value, an impairment charge is recognized for the excess. We have elected July 31 as our annual impairment testing date.

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 in accordance with SFAS 144, "Accounting for the Impairment or Disposal of Long-Lived Assets."

Loans and Advances

We offer transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of our overall growth strategy. These loans are generally forgiven over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. Management monitors and compares individual financial advisor production to each loan issued to ensure future recoverability. If the individual leaves before the term of the loan expires or fails to meet certain performance standards, the individual is required to repay the balance. In determining the allowance for doubtful receivables from former employees, management considers the facts and circumstances surrounding each receivable, including the amount of the unforgiven balance, the reasons for the terminated employment relationship, and the former employees' overall financial positions. The loan balance from former employees at June 30, 2009 was \$2,679 with associated loss allowances of \$1,015.

Legal Loss Allowances

We record loss allowances related to legal proceedings resulting from lawsuits and arbitrations, which arise from business activities. Some of these lawsuits and arbitrations claim substantial amounts, including punitive damage claims. Management has determined that it is likely that the ultimate resolution of certain of these claims will result in losses to our company. We have, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses to the extent they believe certain claims are probable of loss and the amount of the loss can be reasonably estimated. This determination is inherently subjective, as it requires estimates that are subject to potentially significant revision as more information become available and due to subsequent events. Factors considered by management in estimating our liability are the loss and damages sought by the claimant/plaintiff, the merits of the claim, the amount of loss in the client's account, the possibility of wrongdoing on the part of an employee of our company, the total cost of defending the litigation, the likelihood of a successful defense against the claim, and the potential for fines and penalties from regulatory agencies. Results of litigation and arbitration are inherently uncertain, and management's assessment of risk associated therewith is subject to change as the proceedings evolve. After discussion with counsel, management, based on its understanding of the facts, accrues what they consider appropriate to provide loss allowances for certain claims, which is included in the consolidated statement of financial condition under the caption "Accounts payable and accrued expenses."

Stock-Based Compensation

We participate in several incentive stock award plans sponsored by the Parent that provide for the granting of stock options, stock appreciation rights, restricted stock, performance awards and stock units to our employees. See Note 12 for a further discussion of stock-based compensation plans.

Income Taxes

We are included in the consolidated federal and certain state income tax returns filed by the Parent. We also file on a stand-alone basis in certain other states. Our portion of the consolidated current income tax liability, computed on a separate return basis pursuant to a tax sharing agreement, and our stand-alone tax liability or receivable are included in the accompanying consolidated statement of financial condition.

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial reporting and income tax bases of assets and liabilities. Valuation allowances are established when necessary to reduce deferred taxes to amounts expected to be realized.

FASB Interpretation No. 48 ("FIN 48") "Accounting for Uncertainty in Income Taxes-An interpretation of FAS Statement No. 109," clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS 109 and prescribed recognition threshold and measurement attributes for financial statement disclosure of tax positions taken or expected to be taken on a tax return. Under FIN 48, 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. See Note 15 of for a further discussion on income taxes.

NOTE 2 – Recently Adopted Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement No. 157 ("SFAS 157"), "Fair Value Measurements," which defines fair value, establishes guidelines for measuring fair value and expands disclosures regarding fair value measurements. SFAS 157 does not require any new fair value measurements but rather eliminates inconsistencies in guidance found in various prior accounting pronouncements and is effective for fiscal years beginning after November 15, 2007. We adopted SFAS 157 for all nonfinancial assets and nonfinancial liabilities on January 1, 2009. These nonfinancial items include assets and liabilities such as reporting units measured at fair value in a goodwill impairment test and nonfinancial assets acquired and liabilities assumed in a business combination. The adoption of SFAS 157 for nonfinancial assets and liabilities did not have a material impact on the consolidated statement of financial condition.

In December 2007, the FASB issued Statement No. 141 (revised 2007) ("SFAS 141R"), "Business Combinations" and SFAS No. 160 ("SFAS 160"), "Noncontrolling Interests in Consolidated Financial Statements – an amendment of Accounting Research Bulletin No. 51." SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. We adopted SFAS 141R and SFAS 160 in the

first quarter of 2009. The adoption of SFAS 141R and SFAS 160 did not have a material impact on the consolidated statement of financial condition.

In March 2008, the FASB issued Statement No. 161 (“SFAS 161”), “Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133,” which requires companies with derivative instruments to disclose information that should enable financial statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under FASB Statement No. 133 (“SFAS 133”), “Accounting for Derivative Instruments and Hedging Activities” and how derivative instruments and related hedged items affect a company’s financial position, financial performance and cash flows. We adopted SFAS 161 in the first quarter of 2009. The adoption did not have a material effect on the consolidated statement of financial condition.

In April 2008, the FASB issued FASB Staff Position (“FSP”) No. 142-3 (“FSP 142-3”), “Determination of the Useful Life of Intangible Assets.” FSP 142-3 amends the factors an entity should consider in developing renewal or extension assumptions used in determining the useful life of recognized intangible assets under FASB Statement No. 142, “Goodwill and Other Intangible Assets.” We adopted FSP 142-3 in the first quarter of 2009. FSP 142-3 will be applied prospectively to business combinations and asset acquisitions that occur on or after January 1, 2009.

In September 2008, the FASB issued FSP No. 133-1 and FASB Interpretation (“FIN”) FIN 45-4 (“FSP FAS 133-1 and FIN 45-4”), “Disclosures about Credit Derivatives and Certain Guarantees: An Amendment of FASB Statement No. 133 and FASB Interpretation No. 45; and Clarification of the Effective Date of FASB Statement No. 161.” FSP FAS 133-1 and FIN 45-4 amend SFAS 133 to require disclosures by sellers of credit derivatives, including credit derivatives embedded in hybrid instruments. FSP FAS 133-1 and FIN 45-4 also amend FIN No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness to Others,” to require additional disclosure about the current status of the payment/performance risk of a guarantee. We adopted the provisions of FSP FAS 133-1 and FIN 45-4 in the first quarter of 2009. FSP FAS 133-1 and FIN 45-4 also clarify the effective date in SFAS 161. The adoption did not impact the consolidated statement of financial condition.

In November 2008, the Emerging Issues Task Force (“EITF”) reached a consensus on Issue No. 08-7 (“EITF 08-7”), “Accounting for Defensive Intangible Assets,” which requires that a defensive intangible asset be accounted for as a separate unit of accounting and should not be included as part of the cost of the acquirer’s existing intangible assets. In addition, EITF 08-7 requires that a defensive intangible asset be assigned a useful life that reflects the entity’s consumption of the expected benefits related to the asset. EITF 08-7 is to be applied to all business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted the provisions of EITF 08-7 in the first quarter of 2009. EITF 08-7 will be applied prospectively to business combinations and asset acquisitions that occur on or after January 1, 2009.

In April 2009, the FASB issued FSP No. FAS 141(R)-1 (“FSP FAS 141R-1”), “Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies” whereby assets acquired and liabilities assumed in a business combination that arise from contingencies should be recognized at fair value on the acquisition date if fair value can be determined during the measurement period. If fair value cannot be determined, companies should typically account for the acquired contingencies using existing accounting guidance. FSP FAS 141R-1 is effective for new acquisitions consummated on or after January 1, 2009.

In April 2009, the FASB issued FSP No. 157-4 (“FSP FAS 157-4”), “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly,” which provides additional guidance for estimating fair value in accordance with SFAS 157 when the volume and level of activity for the asset or liability have significantly decreased. FSP FAS 157-4 also includes guidance on identifying circumstances that indicate a transaction is distressed. We adopted FSP FAS 157-4 during the second quarter of 2009. The adoption of FAP FAS 157-4 did not have a material impact on the consolidated statement of financial condition.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2 (“FSP FAS 115-2 and FAS 124-2”), “Recognition and Presentation of Other-Than-Temporary-Impairments.” FSP FAS 115-2 and FAS 124-2 amend existing guidance to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. FSP FAS 115-2 and FAS 124-2 require separate display of losses related to credit deterioration and losses related to other market factors. When an entity does not intend to sell the

security and it is more likely than not that an entity will not have to sell the security before recovery of its cost basis, it must recognize the credit component of an other-than-temporary impairment in earnings and the remaining portion in other comprehensive income. We adopted FSP FAS 115-2 and FAS 124-2 during the second quarter of 2009. The adoption of FSP FAS 115-2 and FAS 124-2 did not have a material impact on the consolidated statement of financial condition.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1 (“FSP FAS 107-1 and APB 28-1”), “Interim Disclosures about Fair Value of Financial Instruments,” which require disclosures about fair value of financial instruments for interim reporting periods. FSP FAS 107-1 and APB 28-1 relate to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to adoption, we were required to disclose the fair values for these assets and liabilities in our annual audited financial statements. We adopted FSP FAS 107-1 and APB 28-1 during the second quarter of 2009. The adoption of FSP FAS 107-1 and APB 28-1 did not have a material impact on the consolidated statement of financial condition.

Recently Issued Accounting Pronouncements

In May 2009, the FASB issued Statement No. 165 (“SFAS 165”), “Subsequent Events,” which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. SFAS 165 defines the period after the balance sheet date during which management should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in the financial statements, and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. We adopted SFAS 165 on June 30, 2009. The adoption of SFAS 165 did not impact the consolidated statement of financial condition.

In June 2009, the FASB issued Statement No. 166 (“SFAS 166”), “Accounting for Transfers of Financial Assets – an amendment of FASB Statement No. 140,” which improves the relevance, representational faithfulness and comparability of the information that a reporting entity provides in its financial statements about a transfer of financial assets. SFAS 166 removes the concept of a qualifying special-purpose entity from FASB Statement No. 140, “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities” and removes the exception from applying FASB Interpretation No. 46 (revised December 2003), “Consolidation of Variable Interest Entities,” to variable interest entities that are qualifying special-purpose entities. SFAS 166 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009 (January 1, 2010 for our company) and will apply only to original transfers made after that date. Early adoption is prohibited. We are evaluating the impact that the adoption of SFAS 166 will have on the consolidated statement of financial condition.

In June 2009, the FASB issued Statement No. 167 (“SFAS 167”), “Amendments to FASB Interpretation 46(R),” which improves financial reporting by enterprises involved with variable interest entities and to provide more relevant and reliable information to users of financial statements. SFAS 167 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2009 (January 1, 2010 for our company). Early adoption is prohibited. We are evaluating the impact that the adoption of SFAS 167 will have on the consolidated statement of financial condition.

In June 2009, the FASB issued Statement No. 168 (“SFAS 168”) “The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162,” which makes the FASB Accounting Standards Codification (the “Codification”) the single source of authoritative non-governmental generally accepted accounting principles, superseding existing FASB, American Institute of Certified Public Accountants, Emerging Issues Task Force and related accounting literature. Also included is relevant Securities and Exchange Commission (“SEC”) guidance organized using the same topical structure in separate sections. SFAS 168 is effective for interim and annual reporting periods ending after September 15, 2009. SFAS 168 will impact our financial statement disclosures since all future references to authoritative accounting literature will be referenced in accordance with the Codification.

NOTE 3 – Acquisitions

On March 23, 2009, Stifel Nicolaus entered into a definitive agreement with UBS Financial Services Inc. (“UBS”), which was amended on May 4, 2009, June 1, 2009 and August 12, 2009, to acquire 56 branches from the UBS Wealth Management Americas branch network. The transaction is structured as an asset purchase for cash at a premium over certain balance sheet items, subject to adjustment. The total consideration includes: (1) an upfront cash payment of up to approximately \$29,000 based on the actual number of branches and financial

advisors acquired; and (2) aggregate payments of up to approximately \$21,100 for net fixed assets and employee loans. In addition, we will issue transition pay in the form of upfront payments of up to \$37,100. Of the upfront payments issued to UBS financial advisors, we expect to pay 70% in cash and the remaining payments in the Parent's stock units. A contingent earn-out payment is payable based on the performance of UBS financial advisors who become our employees, over the two-year period following the closing. The closing of the acquisition is subject to customary conditions and the approval of all required governmental and other regulatory entities and is expected to occur in four phases. The first three phases, which represent 40 branches, is expected to close during the third quarter of 2009. The final phase is expected to close during the fourth quarter of 2009.

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

Amounts receivable from brokers, dealers and clearing organizations at June 30, 2009 included (*in thousands*):

Securities failed to deliver	\$	186,090
Receivable from clearing organization		148,869
Deposits paid for securities borrowed		76,165
	\$	<u>411,124</u>

Amounts payable to brokers, dealers and clearing organizations at June 30, 2009 included (*in thousands*):

Securities failed to receive	\$	103,867
Deposits received from securities loaned		56,075
	\$	<u>159,942</u>

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

NOTE 5 – Fair Value of Financial Instruments

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

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

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

Cash equivalents

Cash equivalents include highly liquid investments with original maturities of 90 days or less. Actively traded money market funds are measured at their net asset value and classified as Level I.

Financial instruments (Trading securities)

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

If quoted prices are not available, fair values are obtained from pricing services, broker quotes, or other model-based valuation techniques with observable inputs such as the present value of estimated cash flows and reported as Level II. 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 II financial instruments generally include certain U.S. government agency securities, certain corporate bonds, and certain municipal securities.

Level III financial instruments have little to no pricing observability as of the report date. These financial instruments do not have active two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation. We have identified Level III financial instruments to include certain corporate bonds where there was less frequent or nominal market activity. Level III corporate bonds are valued using prices from comparable securities.

Investments

Investments in public companies are valued based on quoted prices on active markets and reported in Level I. Investments in certain equity securities with unobservable inputs and auction-rate securities for which the market has been dislocated and largely ceased to function are reported as Level III assets. Investments in certain 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.

The following table summarizes the valuation of our financial instruments by SFAS 157 pricing observability levels as of June 30, 2009 (*in thousands*):

	<u>Total</u>	<u>Level I</u>	<u>Level II</u>	<u>Level III</u>
Assets:				
Cash equivalents	\$ 87	\$ 87	\$ —	\$ —
Trading securities owned:				
U.S. government agency securities	74,315	—	74,315	—
U.S. government securities	15,494	15,494	—	—
Corporate securities:				
Equity securities	11,154	11,154	—	—
Fixed income securities	152,338	88,530	62,712	1,096
State and municipal securities	36,744	6,684	30,060	—
Total trading securities owned	290,045	121,862	167,087	1,096
Investments:				
Corporate equity securities	2,085	2,085	—	—
Mutual funds	24,206	24,206	—	—
Auction-rate securities:				
Equity securities	46,740	—	—	46,740
Municipal securities	10,338	—	—	10,338
Other	4,478	566	90	3,822
Total investments	87,847	26,857	90	60,900
	<u>\$ 377,979</u>	<u>\$ 148,806</u>	<u>\$ 167,177</u>	<u>\$ 61,996</u>
Liabilities:				
Trading securities sold, but not yet purchased:				
U.S. government agency securities	\$ 8,552	\$ —	\$ 8,552	\$ —
U.S. government securities	85,854	85,854	—	—
Corporate securities:				
Equity securities	6,779	6,779	—	—
Fixed income securities	87,508	57,533	29,975	—
State and municipal securities	426	—	426	—
	<u>\$ 189,119</u>	<u>\$ 150,166</u>	<u>\$ 38,953</u>	<u>\$ —</u>

The following table summarizes the changes in fair value carrying values associated with Level III financial instruments during the six months ended June 30, 2009 (*in thousands*):

	Trading securities owned	Auction-rate securities		
		Equity securities	Municipal securities	Investments
Balance at December 31, 2008	\$ 4,161	\$ 11,470	\$ 7,039	\$ 3,701
Purchases/(sales), net	(2,454)	(3,220)	(176)	273
Net transfers in/(out)	—	38,490	3,475	(484)
Realized gains	352	—	—	—
Unrealized gains/(losses)	(963)	—	—	332
Balance at June 30, 2009	<u>\$ 1,096</u>	<u>\$ 46,740</u>	<u>\$ 10,338</u>	<u>\$ 3,822</u>

The results included in the table above are only a component of the overall trading strategies of our company. The table above does not present Level I or Level II valued assets or liabilities. We did not have any Level III liabilities at June 30, 2009. The changes to our company's Level III classified instruments during the six months ended June 30, 2009 were principally a result of: purchases of auction-rate securities ("ARS") from our customers, sales of airplane trust certificates, redemptions of ARS at par, unrealized gains and losses, and the transfer of an investment from Level III to Level I due to our ability to price the investment in an actively traded market as a result of an initial public offering. There were no changes in unrealized gains/(losses) recorded in earnings for the six months ended June 30, 2009 relating to Level III assets still held at June 30, 2009.

NOTE 6 – Trading Securities Owned and Trading Securities Sold, But Not Yet Purchased

The components of trading securities owned and trading securities sold, but not yet purchased at June 30, 2009, are as follows (*in thousands*):

Trading securities owned:	
U.S. government agency securities	\$ 74,315
U.S. government securities	15,494
Corporate securities:	
Equity securities	11,154
Fixed income securities	152,338
State and municipal securities	36,744
	<u>\$ 290,045</u>
Trading securities sold, but not yet purchased:	
U.S. government agency securities	\$ 8,552
U.S. government securities	85,854
Corporate securities:	
Equity securities	6,779
Fixed income securities	87,508
State and municipal securities	426
	<u>\$ 189,119</u>

At June 30, 2009 trading securities owned in the amount of \$221,825 were pledged as collateral for our Repurchase Agreements and short-term borrowings from banks.

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. We are obligated to acquire the securities sold short at prevailing market prices, which may exceed the amount reflected on the consolidated statement of financial condition. We economically hedge changes in market value of our trading securities owned utilizing trading securities sold, but not yet purchased.

NOTE 7 – Goodwill and Intangible Assets

The carrying amount of goodwill and intangible assets is presented in the following table (*in thousands*):

Goodwill	
Balance at December 31, 2008	\$ 111,593
Net additions	4,229
Balance at June 30, 2009	\$ 115,822
Intangible assets	
Balance at December 31, 2008	\$ 14,630
Net additions	1,676
Amortization of intangible assets	(1,228)
Balance at June 30, 2009	\$ 15,078

The changes in goodwill during the six months ended June 30, 2009 primarily consist of payments for the contingent earn-out for the Ryan Beck acquisition and purchase price adjustments related to our acquisition of Butler Wick on December 31, 2008.

Intangible assets consist of acquired customer lists and non-compete agreements that are amortized to expense over their contractual or determined useful lives. Intangible assets subject to amortization as of June 30, 2009 were as follows (*in thousands*):

	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Value</u>
Customer lists	\$ 21,004	\$ 6,456	\$ 14,548
Non-compete agreements	2,789	2,259	530
	<u>\$ 23,793</u>	<u>\$ 8,715</u>	<u>\$ 15,078</u>

The weighted-average remaining lives of the following intangible assets at June 30, 2009 are: customer lists 6.9 years; and non-compete agreements 2.4 years. As of June 30, 2009, we expect amortization expense in future periods to be as follows (*in thousands*):

Fiscal year	
Remainder of 2009	\$ 1,171
2010	2,051
2011	1,848
2012	1,514
2013	1,401
Thereafter	7,093
	<u>\$ 15,078</u>

NOTE 8 – Short-term Borrowings from Banks

Our short-term financing is generally obtained through the use of bank loans and securities lending arrangements. We borrow from various banks on a demand basis with company-owned and customer securities pledged as collateral. The value of the customer-owned securities is not reflected in the consolidated statement of financial condition. We maintain available ongoing credit arrangements with banks that provided a peak daily borrowing of \$379,300 during the six months ended June 30, 2009. There are no compensating balance requirements under these arrangements. At June 30, 2009, short-term borrowings from banks were \$212,300 at an average rate of 1.03%, which were collateralized by company-owned securities valued at \$215,925.

NOTE 9 – Commitments and Contingencies

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 company's 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 alleviate 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, 2009, we did not have significant concentrations of credit risk with any one customer or counterparty, or any group of customers or counterparties.

Other Commitments

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, 2009, had no material effect on the condensed consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation, we pledged customer-owned securities valued at \$87,917 to satisfy the minimum margin deposit requirement of \$64,555 at June 30, 2009.

In connection with margin deposit requirements of the National Securities Clearing Corporation, we deposited \$30,000 in cash at June 30, 2009, which satisfied the minimum margin deposit requirements of \$11,865.

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 company's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for our company to make payments under these arrangements is considered remote. Accordingly, no liability has been recognized for these arrangements.

We have received inquiries from the SEC, the Financial Industry Regulatory Authority ("FINRA"), and several state regulatory authorities requesting information concerning our transactions in auction-rate securities ("ARS"). Additionally, the Parent and its subsidiary Stifel Nicolaus have been named in civil suits. See further information regarding the civil suits in Note 10.

On June 23, 2009, the Parent announced that Stifel Nicolaus had received acceptance from approximately 95 percent of its clients that are eligible to participate in its voluntary plan to repurchase 100 percent of their ARS. The eligible ARS were purchased by our retail clients before the collapse of the ARS market in February 2008. We estimate that our retail clients who are participating in the voluntary plan to repurchase held \$118,275 of eligible ARS at June 30, 2009 after we purchased \$39,025 of ARS from eligible customers during the second quarter. The repurchased ARS are included in "Investments" in our consolidated statement of financial condition at June 30, 2009.

As part of the first phase, we repurchased at par the greater of ten percent or twenty-five thousand dollars of eligible ARS. After the initial repurchases, the voluntary plan provides for additional repurchases from eligible investors during each of the next three years. During phases two, three and four, we estimate that we will repurchase \$21,550, \$15,575 and \$81,150, which will be completed by each June 30, of 2010, 2011 and 2012, respectively.

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

The future minimum rental and third-party vendor service commitments at December 31, 2008, with initial or remaining non-cancelable terms in excess of one year, some of which contain escalation clauses and renewal options, are as follows (*in thousands*):

Period Ending	Operating Leases
<u>June 30,</u>	
2010	\$ 41,470
2011	33,343
2012	26,331
2013	22,642
2014	10,046
Thereafter	56,799
Minimum Commitments	<u>\$ 190,631</u>

The Company leases furniture and equipment, under a month-to-month lease agreement, from the Parent.

Note 10 – Legal Proceedings

The Parent 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. The Parent and its subsidiaries are also involved in other reviews, investigations and proceedings by governmental and self-regulatory organizations regarding our business which may result in adverse judgments, settlements, fines, penalties, injunctions and other relief. We are contesting the allegations in these claims, and we believe that there are meritorious defenses in each of these lawsuits, arbitrations and regulatory investigations. In view of the number and diversity of claims against the company, the number of jurisdictions in which litigation is pending and the inherent difficulty of predicting the outcome of litigation and other claims, we cannot state with certainty what the eventual outcome of pending litigation or other claims will be. In our opinion, based on currently available information, review with outside legal counsel, and consideration of amounts provided for in our consolidated statement of financial condition with respect to these matters, the ultimate resolution of these matters will not have a material adverse impact on our financial position.

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

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

The Parent is named in an action filed in the Circuit Court of Franklin County, Missouri, on March 12, 2009, by the Missouri Secretary of State concerning sales of ARS to our customers. The Secretary of State seeks relief, which includes requiring us to pay restitution with interest to those customers who purchased ARS from Stifel Nicolaus and continue to hold ARS, disgorgement of commissions and fees earned on the ARS sales and financial penalties. The case was removed to the United States District Court for the Eastern District of Missouri on April 13, 2009 and remanded to the Circuit Court of Franklin County, Missouri on July 21, 2009. Furthermore, on May 7, 2009, the State Corporation Commission of the Commonwealth of Virginia filed a Rule to Show Cause against Stifel Nicolaus with the Virginia State Corporation Commission concerning sales of ARS to Virginia residents seeking various remedies under the Virginia statutes, including penalties, assessments and injunctive relief. On June 17, 2009, Stifel Nicolaus filed its Response to the Rule to Show Cause which denied the allegations on a number of legal and factual bases. We believe that, based upon currently available information and review with outside counsel, we have meritorious defenses to these matters and intend to vigorously defend the claims made by the Missouri Secretary of State and Commonwealth of Virginia.

Additionally, the Parent is named in a civil lawsuit filed in the Circuit Court of Milwaukee, Wisconsin (the "Wisconsin State Court") on September 29, 2008. The lawsuit has been filed against the Parent and Stifel Nicolaus, Royal Bank of Canada Europe Ltd. ("RBC") and certain other RBC entities by the school districts and the individual trustees for other post-employment benefit ("OPEB") trusts established by those school districts (the "Plaintiffs"). The suit was removed to the United States District Court for the Eastern District of Wisconsin (the "Wisconsin Federal Court") on October 31, 2008, which remanded the case to the Wisconsin State Court on April 10, 2009.

The suit arises out of the purchase of certain CDOs by the OPEB trusts. The RBC entities structured and served as "arranger" for the CDOs. We served as placement agent/broker in connection with the OPEB trusts purchase of the investments. The total amount of the investments made by the OPEB trusts was \$200,000. Plaintiffs assert that the school districts contributed \$37,500 to the OPEB trusts to purchase the investments. The balance of \$162,500 used to purchase the investments was borrowed by the OPEB trusts. The recourse of the lender is the OPEB trust assets and the moral obligation of the school districts. The legal claims asserted include violation of the Wisconsin Securities Act, fraud and negligence. The lawsuit seeks equitable relief, unspecified compensatory damages, treble damages, punitive damages and attorney's fees and costs. The Plaintiffs claim that the RBC entities and our company either made misrepresentations or failed to disclose material facts in connection with the sale of the CDOs in violation of the Wisconsin Securities Act. We believe the Plaintiffs reviewed and understood the relevant offering materials and that the investments were suitable based upon, among other things, our receipt of a written acknowledgement of risks from the Plaintiffs. We believe, based upon currently available information and review with outside counsel, that we have meritorious defenses to this lawsuit, and intend to vigorously defend all of the Plaintiffs' claims.

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

NOTE 11 – Regulatory Capital Requirements

We operate in a highly regulated environment and are subject to net capital requirements, which may limit distributions to the Parent. Distributions 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 organization, such as FINRA, including censures, fines, suspension, or expulsion. We have chosen to calculate our net capital under the alternative method, which prescribes that our net capital shall not be less than the greater of \$1,000, or two percent of aggregate debit balances (primarily receivables from customers) computed in accordance with the SEC's Customer Protection Rule (Rule 15c3-3). We have consistently operated in excess of our capital adequacy requirements. At June 30, 2009, we had net capital of \$147,239, which was 35.5% of aggregate debit items and \$138,948 in excess of its minimum required net capital.

NOTE 12 – Stock-Based Compensation Plans

Our employees participate in several incentive stock award plans sponsored by the Parent that provide for the granting of stock options, stock appreciation rights, restricted stock, performance awards and stock units to our employees. 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. In addition, our employees participate in the Parent's profit sharing 401(k) plan and Employee Stock Ownership Plan.

All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors of the Parent, 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.

Deferred Compensation Plans

We maintain a deferred compensation plan for our financial advisors who achieve certain levels of production, whereby a certain percentage of their earnings are deferred as defined by the plan, of which 50% is deferred into stock units of the Parent with a 25% matching contribution and 50% is deferred 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. Financial advisors may elect to defer an additional 1% of earnings into stock units of the Parent

with a 25% matching contribution. Financial advisors have no ownership in the mutual funds. Included on the condensed consolidated statement of financial condition under the caption “Investments” are \$24,206 at June 30, 2009, in mutual funds 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, 2009, the deferred compensation liability of \$21,740 is included in “Accrued compensation” on the condensed consolidated statement of financial condition.

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

NOTE 13 – Liabilities Subordinated to Claims of General Creditors

As previously discussed in Note 12, we have a deferred compensation plan available to financial advisors who achieve a certain level of production whereby a certain percentage of their earnings are deferred as defined by the Plan, a portion of which is deferred in stock units and the balance into optional investment choices. We obtained approval from FINRA and its predecessor, the New York Stock Exchange, to subordinate the liability for future payments to financial advisors for that portion of compensation not deferred in the Parent’s stock units. We issued cash subordination agreements to participants in the plan pursuant to provisions of Appendix D of Securities and Exchange Act Rule 15c3-1. In addition, we entered into a \$35,000 subordinated loan agreement with the Parent, as approved by the FINRA. The loan is callable September 30, 2010 and bears interest at 6.38% per annum.

The Company included in its computation of net capital the following (*in thousands*):

<u>Lender</u>	<u>Due</u>	<u>Amount</u>
Various Financial Advisors	January 31, 2010	\$ 1,391
Stifel Financial Corp.	September 30, 2010	35,000
Various Financial Advisors	January 31, 2011	1,474
Various Financial Advisors	January 31, 2012	1,722
Various Financial Advisors	January 31, 2013	2,328
		<u>\$ 41,915</u>

At June 30, 2009, the fair value of the liabilities subordinated to claims of general creditors using interest rates commensurate with borrowings of similar terms was \$40,027.

NOTE 14 – 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 finance transactions and facilitate the settlement process, 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, 2009, the fair value of securities accepted as collateral where we are permitted to sell or repledge the securities was \$588,077, and the fair value of the collateral that had been sold or repledged was \$215,535.

NOTE 15 – Income Taxes

The liability for unrecognized tax benefits of \$1,359 was included in “Accounts payable and accrued expenses” on the consolidated statement of financial condition at June 30, 2009. The total amount of unrecognized tax benefits that, if recognized, would affect the effective tax rate for income before taxes are \$1,359 at June 30, 2009.

We recognize the accrual of interest and penalties related to income tax matters in the “Provision for income taxes” on the condensed consolidated statements of operations. As of June 30, 2009, accrued interest and penalties included in the unrecognized tax benefits liability were \$215.

We are included in the consolidated federal and certain state income tax returns filed by the Parent. We also file on a stand-alone basis in certain other states with varying statutes of limitation. For most state jurisdictions, the years 2005 through 2008 remain subject to examination by their respective authorities. We are subject to examination by state tax jurisdictions. It is possible that these examinations will be resolved in the next twelve months. We do not anticipate that payments made during the next twelve month period for these examinations will be material, nor do we expect that the reduction to unrecognized tax benefits as a result of a lapse of applicable statute of limitations will be significant.

NOTE 16 – Related Party Transactions

Under an operating agreement, we provide all funding for the Parent’s cash requirements and accordingly all expenditures of the Parent are recorded through an inter-company account. We lease certain furniture and equipment from the Parent. In addition, we record the Parent’s cash receipts through an inter-company account. At June 30, 2009 the amount due to the Parent of \$61,726 is included in “Due to Stifel Financial Corp. and affiliates” on the consolidated statement of financial condition.

NOTE 17 – Variable Interest Entities (“VIE”)

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 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. Where qualitative analysis is not conclusive, we perform a quantitative analysis. Our company’s involvement with VIEs is limited to entities used as investment vehicles.

We have investments in and/or act as the general partner or managing member to 12 partnerships and limited liability companies (“LLCs”). These entities were established for the purpose of investing in equity and debt securities of public and private investments and were initially financed through the capital commitments of the members. These entities meet the definition of a VIE; however, we are not the primary beneficiary of the entities as a result of our minority interest in the expected losses or expected residual returns of these entities. These partnerships and LLCs have assets of approximately \$185,000 at June 30, 2009. At June 30, 2009, the carrying value of our investment in these partnerships and LLCs is not material. Our remaining capital commitment to these partnerships and LLCs is not material at June 30, 2009. Management fee revenue earned by our company during the six months ended June 30, 2009 was insignificant.

A current copy of the copy of the consolidated statement of financial condition filed pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 is available for examination at the Chicago regional office of the Securities and Exchange Commission noted above or at our principal office at One Financial Plaza, 501 North Broadway, St. Louis, Missouri 63102.