

STIFEL FINANCIAL CORP  
Form 10-K/A  
June 28, 2007

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

FORM 10-K/A

(Amendment No. 1)

(Mark One)

Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended **December 31, 2006**

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 1-9305

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)

(Zip Code)

Registrant's telephone number, including area code

314-342-2000

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange  
On Which Registered

Common Stock, Par Value \$.15 per share

New York Stock Exchange  
Chicago Stock Exchange

Preferred Stock Purchase Rights

New York Stock Exchange

Chicago Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K, or any amendment to this Form 10-K

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

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates on June 30, 2006 (the last business day of the Registrant's second fiscal quarter), was approximately \$386.0 million, based on the closing sale price of the Common Stock on the New York Stock Exchange on that date.

Shares of Common Stock outstanding at February 28, 2007: 14,917,527 shares, par value \$0.15 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Exhibit Index located on pages 40 - 42.

STIFEL FINANCIAL CORP.

Amendment No. 1 to the Annual Report on Form 10-K  
For the Year Ended December 31, 2006

Explanatory Note

Stifel Financial Corp. (the "Company") is filing this Amendment No. 1 to its Annual Report on Form 10-K for the year ended December 31, 2006 to correct the clerical error of omitting the reference to the financial statement schedule in the previously filed Report of Independent Registered Public Accounting Firm in Part II. Item 8. The correction has no effect on the Company's consolidated statements of financial condition as of December 31, 2006 and 2005, or its consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. In Part IV Item 15(a)(3), the Company is filing updated certifications pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. With the exception of the foregoing, no other information in the originally filed Form 10-K (the "Original Filing") is being corrected, supplemented, updated, or amended. This Form 10-K/A does not purport to provide a general update or discussion of any developments subsequent to the date of the Original Filing.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information in Item 8 has been adjusted solely to correct a clerical error in the Report of Independent Registered Public Accounting Firm in this item. These disclosures do not purport to provide a general update or discussion of any developments subsequent to the date of the Original Filing.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Stifel Financial Corp.

St. Louis, Missouri

We have audited the accompanying consolidated statements of financial condition of Stifel Financial Corp. and subsidiaries (the "Company") as of December 31, 2006 and 2005, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. Our audits also included the financial statement schedule listed in the Index at Item 15. These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Stifel Financial Corp. and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such consolidated financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 16, 2007 expressed an unqualified opinion on management's assessment of the effectiveness of the Company's internal control over financial reporting and an unqualified opinion on the effectiveness of the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

St. Louis, Missouri  
March 16, 2007

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## Consolidated Statements of Financial Condition

	(dollars in thousands)	December 31, 2006	December 31, 2005
Assets	<b>Cash and cash equivalents</b>	<b>\$ 20,982</b>	<b>\$ 12,529</b>
	Cash segregated under federal and other regulations	18	6
	<b>Securities purchased under agreements to resell</b>	<b>156,145</b>	<b>65,599</b>
	Receivable from brokers and dealers:		
	Securities failed to deliver	36,232	9,137
	<b>Deposits paid for securities borrowed</b>	<b>35,646</b>	<b>56,278</b>
	Clearing organizations	<u>62,342</u>	<u>24,553</u>
		<b>134,220</b>	<b>89,968</b>
	Receivable from customers, net of allowance for doubtful receivables of \$307 and \$204, respectively	274,269	259,389
	<b>Securities owned, at fair value</b>	<b>80,587</b>	<b>105,514</b>
	Securities owned and pledged, at fair value	<u>250,432</u>	<u>135,211</u>
		<b>331,019</b>	<b>240,725</b>
	Investments	49,465	46,628
	<b>Memberships in exchanges</b>	<b>168</b>	<b>275</b>
	Office equipment and leasehold improvements, at cost, net of allowances for depreciation and amortization of \$30,713 and \$26,026, respectively	14,353	11,422
	<b>Goodwill</b>	<b>15,861</b>	<b>3,310</b>
	Intangible assets, net of allowances for amortization of \$1,608 and \$793, respectively	5,842	10,539
	Loans and advances to investment executives and other employees, net of allowance for doubtful receivables from former employees of \$687 and \$767, respectively	24,517	21,105
	<b>Deferred tax asset</b>	<b>8,988</b>	<b>10,336</b>
	Other assets	48,927	70,170
	<b>TOTAL ASSETS</b>	<b>\$1,084,774</b>	<b>\$842,001</b>

See Notes to Consolidated Financial Statements.



## Consolidated Statements of Financial Condition (continued)

	(in thousands, except share amounts)	December 31, 2006	December 31, 2005
Liabilities and Stockholders' Equity	Liabilities:		
	Short-term borrowings from banks	\$195,600	\$141,000
	Drafts payable	34,900	29,697
	Payable to brokers and dealers:		
	Securities failed to receive	12,973	8,794
		86,018	89,039
	Deposits received from securities loaned		
	Clearing organizations	<u>10,778</u>	<u>797</u>
		109,769	98,630
	Payable to customers	128,676	78,456
	Securities sold, but not yet purchased, at fair value	203,376	146,914
	Accrued employee compensation	61,862	35,154
	Accounts payable and accrued expenses	31,947	59,875
	Debenture to Stifel Financial Capital Trust I	34,500	34,500
	Debenture to Stifel Financial Capital Trust II	35,000	35,000
	Other	<u>24,598</u>	<u>24,598</u>
		860,228	683,824
	Liabilities subordinated to claims of general creditors	4,281	3,084
	Stockholders' equity:		
	Preferred stock -- \$1 par value; authorized 3,000,000 shares; none issued		
	Common stock -- \$.15 par value; authorized 30,000,000 shares; issued 12,025,404 and 10,296,279 shares, respectively	1,804	1,161
	Additional paid-in capital	125,165	75,225
	Retained earnings	94,651	80,279
		221,620	156,665
	Less:		
	Treasury stock, at cost, 0 and 4,316 shares, respectively	--	9
	Unearned employee stock ownership plan shares, at cost, 140,995 and 162,683 shares,	<u>1,355</u>	<u>1,563</u>



respectively

220,265

155,093

**TOTAL LIABILITIES AND STOCKHOLDERS'  
EQUITY**

\$1,084,774

\$842,001

See Notes to Consolidated Financial Statements.

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## Consolidated Statements of Operations

		<u>Years Ended December 31,</u>		
(in thousands, except per share amounts)		2006	2005	2004
Revenues	<b>Commissions</b>	\$ 199,056	\$ 107,976	\$ 95,894
	Principal transactions	86,365	44,110	46,163
	<b>Investment banking</b>	82,856	55,893	57,768
	Asset management and service fees	57,713	43,476	35,504
	<b>Interest</b>	35,804	18,022	13,101
	Other	<u>9,594</u>	<u>533</u>	<u>2,759</u>
	<b>Total revenues</b>	471,388	270,010	251,189
	Less: Interest expense	<u>19,581</u>	<u>6,275</u>	<u>4,366</u>
	<b>Net revenues</b>	451,807	263,735	246,823
	Non-interest Expenses	Employee compensation and benefits	329,703	174,765
<b>Occupancy and equipment rental</b>		30,751	22,625	21,445
Communications and office supplies		26,666	12,087	10,330
<b>Commissions and floor brokerage</b>		6,388	4,134	3,658
Other operating expenses		<u>31,930</u>	<u>17,402</u>	<u>17,459</u>
<b>Total non-interest expenses</b>		425,438	231,013	210,206
Income before income taxes		26,369	32,722	36,617
<b>Provision for income taxes</b>		<u>10,938</u>	<u>13,078</u>	<u>13,469</u>
Net income	\$ 15,431	\$ 19,644	\$ 23,148	
Earnings Per Common Share and Share Equivalents	Net income per share:			
	Basic earnings per share	\$ 1.34	\$ 2.00	\$ 2.39
	<b>Diluted earnings per share</b>	\$ 1.11	\$ 1.56	\$ 1.88
	Average common shares and			
share equivalents used in determining earnings per share:				
	11,513	9,828	9,702	
Basic shares outstanding				
<b>Diluted shares outstanding</b>	13,909	12,586	12,281	

See Notes to Consolidated Financial Statements.



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Consolidated Statements of Stockholders' Equity

(in thousands, except share amounts)	Common Stock		Additional Paid-In Capital	Retained Earnings	Treasury Stock and Unearned Employee Stock Ownership Plan		Total
	Shares	Amount			Shares	Amount	
Balance at December 31, 2003	7,675,781	\$1,152	\$56,939	\$51,168	(763,185)	\$(9,214)	\$100,045
Purchase of treasury shares	--	--	--	--	(370,478)	(9,166)	(9,166)
Employee stock ownership plan	--	--	184	--	17,623	208	392
Employee benefit plans	--	--	2,310	(603)	481,252	6,434	8,141
Stock options exercised	--	--	(1,378)	(185)	244,460	3,953	2,390
Units amortization	--	--	6,364	--	--	--	6,364
Dividend reinvestment	--	--	--	--	5	1	1
4-for-3 Stock Split	2,558,419	--	--	(3)	(136,250)	--	(3)
Net income for the year	=	=	=	<u>23,148</u>	=	=	<u>23,148</u>
Balance at December 31, 2004	10,234,200	1,152	64,419	73,525	(526,573)	(7,784)	131,312
Purchase of treasury shares	--	--	--	--	(587,088)	(14,103)	(14,103)
Employee stock ownership plan	--	--	344	--	21,688	208	552
Employee benefit plans	36,958	5	2,246	(9,616)	682,667	14,378	7,013
Stock options exercised	25,121	4	(15)	(3,274)	242,306	5,729	2,444
Units amortization	--	--	8,231	--	--	--	8,231
Net income for the year	=	=	=	<u>19,644</u>	=	=	<u>19,644</u>
Balance at December 31, 2005	10,296,279	1,161	75,225	80,279	(166,999)	(1,572)	155,093
Purchase of treasury shares	--	--	--	--	(525,571)	(17,096)	(17,096)
Employee stock ownership plan	--	--	590	--	21,688	208	798
Employee benefit plans	563,182	468	(31,915)	(239)	463,650	15,543	(16,143)

Stock options exercised	113,723	17	1,361	(820)	66,237	1,562	2,120
Units amortization	--	--	32,583	--	--	--	32,583
Private Placement	1,052,220	158	35,899	--	--	--	36,057
Excess tax benefit	--	--	11,422	--	--	--	11,422
Net income for the year	=	=	=	<u>15,431</u>	=	=	<u>15,431</u>
Balance at December 31, 2006	12,025,404	\$1,804	\$125,165	\$94,651	(140,995)	\$ (1,355)	\$220,265

See Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

	Years Ended December 31,			
	(in thousands)	2006	2005	2004
Cash Flows From Operating Activities				
Net income		\$ 15,431	\$ 19,644	\$ 23,148
Noncash items included in earnings:				
Depreciation and amortization		7,257	5,436	4,151
Loans and advances amortization		7,806	7,476	5,799
Deferred taxes and other		642	(1,615)	(876)
Compensation related to the private placement		9,751	--	--
Stock based compensation		33,932	8,785	6,756
(Gains) losses on investments		(8,696)	1,151	(1,123)
		66,123	40,877	37,855
Decrease (increase) in operating receivables:				
Customers		(14,880)	(58,086)	54,196
Brokers and dealers		(44,252)	(51,545)	(3,445)
(Decrease) increase in operating payables:				
Customers		50,220	17,088	17,265
Brokers and dealers		13,041	(4,324)	89
Decrease (increase) in assets:				
Cash segregated under federal and other regulations		(12)	--	(1)
Securities purchased under agreements to resell		(90,546)	(65,599)	--
Securities owned, including those pledged		(90,294)	(212,705)	(3,605)
Loans and advancements to investment executives and other employees		(11,218)	(11,976)	(6,352)
Excess tax benefit associated with stock based awards		(11,422)	--	--

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Other assets	32,985	(6,313)	(3,599)
(Decrease) increase in liabilities:			
Securities sold, not yet purchased	56,462	134,596	6,279
Drafts payable, accounts payable and accrued expenses, and accrued employee compensation	<u>(10,885)</u>	<u>12,389</u>	<u>4,037</u>
Cash From Operating Activities	\$(54,678)	\$(205,598)	\$102,719

See Notes to Consolidated Financial Statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

		Years Ended December 31,		
<i>(in thousands)</i>		<u>2006</u>	<u>2005</u>	<u>2004</u>
	Cash From Operating Activities -- From Previous Page	\$(54,678)	\$(205,598)	\$102,719
Cash Flows From Investing Activities	Proceeds from sale or maturity of other investments	74,444	14,649	3,623
	Payments for:			
	Purchase of MJSK	(8,220)	--	--
	Purchase of LM Capital Markets business, net of cash acquired	(1,023)	(21,299)	--
	Purchase of office equipment and leasehold improvements	(7,572)	(4,797)	(3,729)
	Purchase of investments	<u>(68,620)</u>	<u>(15,388)</u>	<u>(3,895)</u>
	Cash From Investing Activities	(10,991)	(26,835)	(4,001)
Cash Flows From Financing Activities	Net proceeds (payments) for short-term borrowings from banks	54,600	141,000	(5,650)
	Securities loaned, net	(1,902)	61,014	(82,866)
	Reissuance of treasury stock	576	1,371	8,722
	Issuance of stock	995	209	--
	Issuance of debentures to Stifel Financial Capital Trust II	--	35,000	--
	Excess tax benefit associated with stock based awards	11,422	--	--
	Proceeds from private placement	26,306	--	--
	Payments for:			
	Purchases of stock for treasury	(17,096)	(14,103)	(9,166)
	Principal payments under capital lease obligation	--	(41)	(151)
	Reduction of subordinated debt	<u>(779)</u>	<u>(633)</u>	<u>(698)</u>
	Cash From Financing Activities	<u>74,122</u>	<u>223,817</u>	<u>(89,809)</u>
	Increase (decrease) in cash and cash equivalents	8,453	(8,616)	8,909
		<u>12,529</u>	<u>21,145</u>	<u>12,236</u>



Cash and cash equivalents - beginning of  
year

Cash and cash equivalents - end of year	\$ 20,982	\$ 12,529	\$ 21,145
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Supplemental disclosures of cash flow information:

Interest payments	\$ 18,729	\$ 5,657	\$ 4,460
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Income tax payments	\$ 2,544	\$ 15,770	\$ 15,817
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Schedule of Noncash Investing and Financing Activities:

Units, net of forfeitures	\$ 88,091	\$ 8,482	\$ 6,908
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Employee stock ownership shares	\$ 208	\$ 208	\$ 208
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Liabilities subordinated to claims of general creditors	- -	\$ 1,391	\$ 1,300
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See Notes to Consolidated Financial Statements.

Notes To Consolidated Financial Statements  
(in thousands, except share and per share amounts)

NOTE A - *Summary of Significant Accounting and Reporting Policies*

Nature of Operations

Stifel Financial Corp. (the "Parent"), through its wholly-owned subsidiaries, principally Stifel, Nicolaus & Company, Incorporated ("Stifel Nicolaus"), collectively referred to as the "Company," is principally engaged in retail brokerage, securities trading, investment banking, investment advisory, and related financial services throughout the United States. Although the Company has offices throughout the United States and three European cities, its major geographic area of concentration is in the Midwest, and Mid-Atlantic region. The Company's principal customers are individual investors, corporations, municipalities, and institutions.

Basis of Presentation

The consolidated financial statements include the accounts of the Parent and its wholly-owned subsidiaries, principally Stifel Nicolaus. Stifel Nicolaus is a broker-dealer registered under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All material intercompany balances and transactions are eliminated in consolidation.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management considers its significant estimates, which are most susceptible to change, to be the fair value of investments and the accrual for litigation.

Common Stock Split

On August 23, 2004, Stifel Financial Corp. announced a four-for-three stock split in the form of a stock dividend. The additional shares were distributed on September 15, 2004, to shareholders on record as of September 1, 2004. Each shareholder received one additional share for every three shares owned. Cash was distributed in lieu of fractional shares. The number of shares outstanding and amounts per share in the Consolidated Statements of Operations and the Notes to Consolidated Financial Statements have been restated to give retroactive effect to the stock split.

Cash and Cash Equivalents

The Company defines cash equivalents as short-term, highly liquid investments with original maturities of 90 days or less, other than those held for sale in the ordinary course of business.

Security Transactions

Securities owned, and securities sold, but not yet purchased, are carried at fair value, and unrealized gains and losses are included net in principal transaction revenues. Interest and dividends for securities owned and securities sold, but not yet purchased, are included in principal transaction revenues.

Securities failed to deliver and receive represent the contract value of securities that have not been delivered or received by settlement date.

Notes To Consolidated Financial Statements (continued)  
(in thousands, except share and per share amounts)

NOTE A - *Summary of Significant Accounting and Reporting Policies*

*(continued)*

Receivable from customers includes amounts due on cash and margin transactions. The value of securities owned by customers and held as collateral for these receivables is not reflected in the Consolidated Statements of Financial Condition.

Securities purchased under agreements to resell (Resale Agreements) and securities sold under agreements to repurchase are recorded at the contractual amounts that the securities will be resold/repurchased, including accrued interest. The Company's 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.

Customer security transactions are recorded on a settlement date basis, with related commission revenues and expenses recorded on a trade date basis. Principal securities transactions are recorded on a trade date basis.

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 the Company to deposit cash with the lender generally in excess of the market value of securities borrowed. With respect to securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of securities loaned. The Company monitors 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 the Company right of offset in the event of counterparty default; however, such receivables and payables with the same counterparty are not set off in the Company's Consolidated Statements of Financial Condition.

Fair Value

Substantially all of the Company's financial instruments are carried at fair value or amounts that approximate 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 Financial Statements, the Company's remaining financial instruments are generally short-term in nature and their carrying values approximate fair value.

Investments

Investments on the Consolidated Statements of Financial Condition contain the Company's investments in securities that are marketable and securities that are not readily marketable. Marketable securities are carried at fair value, based on either quoted market or dealer prices, or accreted cost. The fair value of investments, for which a quoted market or dealer price is not readily available, is based on management's estimates. Among the factors considered by management 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. 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. These

investments were valued at \$8,458 and \$7,329 at December 31, 2006 and 2005, respectively. The marketable investments carried at fair value were \$20,504 and \$19,990 at December 31, 2006 and 2005 respectively. Investments carried at accreted cost were \$20,503 and \$19,309, at December 31, 2006 and 2005, respectively (See Note O).

Notes To Consolidated Financial Statements (continued)  
(in thousands, except share and per share amounts)

NOTE A - *Summary of Significant Accounting and Reporting Policies*

*(continued)*

Loans and Advances

The Company offers transition pay, principally in the form of upfront loans, to investment executives and certain key revenue producers as part of the Company's overall growth strategy. These loans are generally forgiven by a charge to "Employee compensation and benefits" 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 investment executive 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.

Investment Banking

Investment banking revenues include advisory fees, management fees, underwriting fees, net of reimbursable expenses, and sales credits earned in connection with the distribution of the underwritten securities. Investment banking management fees are recorded on offering date, sales concessions on trade date, and underwriting fees at the time the underwriting is completed and the income is determinable. Expenses associated with such transactions are deferred until the related revenue is recognized or the engagement is otherwise concluded.

Asset Management and Service Fees

Asset management and service fees are recorded when earned and consist of customer account service fees, per account fees (such as IRA fees), and wrap fees on managed accounts.

Stock-Based Compensation

On January 1, 2006, the Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 123 (revised 2004), *Share-Based Payment* ("SFAS No. 123R"), using the modified prospective application method, which requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on estimated fair values. Under this method, SFAS No. 123R applies to new awards and to awards outstanding on the effective date as well as those that are subsequently modified or cancelled. Compensation expense for outstanding awards for which the requisite service had not been rendered as of the effective date will be recognized over the remaining service period using the compensation cost calculated for pro forma disclosure purposes under SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123"). Accordingly, prior period amounts have not been restated to reflect the impact of SFAS No. 123R.

In the twelve months of 2006, the adoption of SFAS No. 123R resulted in incremental stock-based compensation expense of \$551. Additionally, SFAS No. 123R amends SFAS No. 95, *Statement of Cash Flows*, to require the excess tax benefits to be reported as a financing cash inflow rather than a reduction of taxes paid, which is included within operating cash flows. Accordingly, cash provided by operating activities decreased and cash provided by financing activities increased by \$11,422 related to excess tax benefits from stock-based awards.

Prior to the adoption of SFAS No. 123R, the Company applied Accounting Principles Board Opinion ("APB") No. 25, *Accounting for Stock Issued to Employees* ("APB Opinion No. 25") and related interpretations to account for its employees' participation in the Company's stock plans. Based on the provisions of the plans, no compensation expense has been recognized for options issued under these plans. Had compensation cost for the Company's stock-based compensation plans been determined based on the fair value at the grant dates for awards under the Fixed Stock Option and the Employee Stock Purchase Plans consistent with the method of SFAS No. 123, *Accounting for Stock-Based Compensation*, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below:

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## Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

## NOTE A - Summary of Significant Accounting and Reporting Policies

*(continued)*

	Years Ended December 31,	
	<u>2005</u>	<u>2004</u>
Net income		
As reported	\$19,644	\$23,148
Add: Stock-based employee compensation expense included in reported net income, net of related tax	9,273	7,325
Deduct: Total stock-based employee compensation expense determined under SFAS 123 <sup>(1)</sup>	(9,892)	(7,870)
Pro forma	\$19,025	\$22,603
Basic earnings per share		
As reported	\$ 2.00	\$ 2.39
Pro forma	\$ 1.94	\$ 2.33
Diluted earnings per share		
As reported	\$ 1.56	\$ 1.88
Pro forma	\$ 1.51	\$ 1.85

1. In 2004, the Company amended its Employee Stock Purchase Plan ("ESPP") and under the provisions of FASB Statement No. 123, the amended plan is considered non-compensatory. There was no ESPP in 2005.

For the Company's pro forma computation, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 2005 and 2004, respectively: dividend yield of 0.00% for both years; expected volatility of 32.6% and 28.4%; risk-free interest rates of 3.94% and 3.41%; and expected lives of 5.79 years and 5.66 years.

## Income Taxes

The provision for income taxes and related tax reserves is based on management's 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 the Company's tax return filings. Factors considered by management in estimating the Company's liability are results of tax audits, historical experience, and consultation with tax attorneys and other experts. 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.

#### Comprehensive Income

The Company had no other comprehensive income items; accordingly, net income and other comprehensive income are the same.



Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

NOTE A - *Summary of Significant Accounting and Reporting Policies*

*(continued)*

Goodwill and Intangible Assets

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. The Company does not amortize goodwill. In accordance with SFAS No. 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 the Company's reporting units (generally defined as the Company's 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. The Company has elected July 31<sup>st</sup> as its 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 No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* ("SFAS No.144").

Office Equipment and Leasehold Improvements

Amortization of assets under capital lease is computed on a straight-line basis over the estimated useful life of the asset. Leasehold improvements are amortized over the remaining term of the lease. Depreciation of office equipment is provided over estimated useful lives of three to seven years using accelerated methods. Office equipment and leasehold improvements are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or group may not be fully recoverable in accordance with SFAS No. 144.

Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

NOTE A - *Summary of Significant Accounting and Reporting Policies*

*(continued)*

Recent Accounting Pronouncements

In June 2005, the Financial Accounting Standards Board ("FASB") issued SFAS No. 154, *Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3* ("SFAS No. 154"). SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The adoption of SFAS No. 154 did not have a material impact on the Company's Consolidated Financial Statements.

In June 2006, the FASB issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a Company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 will be effective for the Company beginning in the first quarter of 2007. The adoption of FIN 48 is not expected to have a material impact on the Company's Consolidated Financial Statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for the fiscal years beginning after November 15, 2007. The Company is currently assessing the impact that SFAS No. 157 will have on the Company's Consolidated Financial Statements.

Notes To Consolidated Financial Statements (continued)  
(in thousands, except share and per share amounts)

NOTE A - *Summary of Significant Accounting and Reporting Policies*

(continued)

In September 2006, the Securities and Exchange Commission (

"SEC") issued Staff Accounting Bulletin No. 108 *Financial Statements - Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements* ("SAB 108"). SAB 108 provides guidance on the consideration of prior misstatements in determining whether the current year's financial statements are materially misstated. In providing this guidance, the SEC staff references both the "iron curtain" and "rollover" approaches to quantifying a current year misstatement for purposes of determining materiality. The iron curtain approach focuses on how the current year's statement of financial condition would be affected in correcting misstatement without considering the year in which the misstatement originated. The rollover approach focuses on the amount of the misstatements that originated in the current year's statement of operation. The SEC staff indicated that registrants should quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. Registrants may either restate their financial for any material misstatements arising from the application of SAB 108 or recognize a cumulative effect of applying SAB 108 within the current year opening balance in retained earnings. The adoption of SAB 108 did not have a material impact on the Company's Consolidated Financial Statements.

In December 2006, the FASB issued FASB Staff Position EITF 00-19-2, *Accounting for Registration Payment Arrangements* ("FSP EITF 00-19-2") which provides guidance on the accounting for registration payment arrangements. FSP EITF 00-19-2 specifies that the contingent obligation to make future payments or otherwise transfer consideration under a registration payment arrangement, whether issued as a separate agreement or included as a provision of a financial instrument or other agreement, should be separately recognized and measured in accordance with FASB Statement No. 5, *Accounting for Contingencies*. A registration payment arrangement is defined in FSP EITF 00-19-2 as an arrangement with both of the following characteristics: (1) the arrangement specifies that the issuer will endeavor (a) to file a registration statement for the resale of specified financial instruments and/or for the resale of equity shares that are issuable upon exercise or conversion of specified financial instruments and for that registration statement to be declared effective by the Securities and Exchange Commission within a specified grace period, and/or (b) to maintain the effectiveness of the registration statement for a specified period of time (or in perpetuity); and (2) the arrangement requires the issuer to transfer consideration to the counterparty if the registration statement for the resale of the financial instrument or instruments subject to the arrangement is not declared effective or if effectiveness of the registration statement is not maintained. FSP EITF 00-19-2 is effective for registration payment arrangements and the financial instruments subject to those arrangements that are entered into or modified subsequent to December 21, 2006. For registration payment arrangements and financial instruments subject to those arrangements that were entered into prior to the issuance of FSP EITF 00-19-2, this guidance shall be effective for financial statements issued for fiscal years beginning after December 15, 2006, and interim periods within those fiscal years. The Company does not expect the adoption of FSP EITF 00-19-2 to have a material impact on the Company's Consolidated Financial Statements.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* ("SFAS No. 159"). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is

permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The choice to adopt early should be made after issuance of this Statement but within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements, including notes to those financial statements, for any interim period of the fiscal year of adoption. The Company is evaluating the impact that the adoption of SFAS No. 159 will have, if any, on the Company's Consolidated Financial Statements.

Notes To Consolidated Financial Statements (continued)  
(in thousands, except share and per share amounts)

## NOTE B

**- Cash Segregated Under Federal and Other Regulations**

At December 31, 2006 and 2005, cash of \$17 and \$6, respectively, has been segregated in a special reserve bank account for the exclusive benefit of customers pursuant to Rule 15c3-3 under the Exchange Act. Stifel Nicolaus performs a weekly reserve calculation for proprietary accounts of introducing brokers ("PAIB"), for two introducing brokers which includes accounts of an affiliated introducing broker, Century Securities Associates, Inc. ("CSA"). At December 31, 2006 and 2005, no deposit was required. Cash of \$1 has been segregated in a reserve account at December 31, 2006 for the exclusive benefit of PAIB.

## NOTE C

**- Securities Owned and Securities Sold, But Not Yet Purchased**

The components of securities owned and securities sold, but not yet purchased at December 31, 2006 and 2005, are as follows:

Securities, at fair value	December 31, 2006		December 31, 2005	
	Owned	Sold, But Not Yet Purchased	Owned	Sold, But Not Yet Purchased
U.S. Government obligations	\$ 152,182	\$ 190,963	\$ 104,435	\$ 143,569
State and municipal bonds	54,811	16	55,733	427
Corporate obligations	115,159	10,831	55,686	1,056
Corporate stocks	<u>8,867</u>	<u>1,566</u>	<u>24,871</u>	<u>1,862</u>
	331,019	\$203,376	240,725	\$146,914

The Company pledges securities owned as collateral to counterparties, who have the ability to repledge the collateral; therefore, the Company has reported the pledged securities under the caption "Securities owned and pledged, at fair value" in the Consolidated Statements of Financial Condition.

## NOTE D

**- Short-Term Financing**

The Company's short-term financing is generally obtained through the use of bank loans and securities lending arrangements. Stifel Nicolaus borrows 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 Statements of Financial Condition. Available ongoing credit arrangements with banks totaled \$605,000 at December 31, 2006, of which \$409,400 was unused. There are no compensating balance requirements under these arrangements. At December 31, 2006, short-term borrowings from banks were \$195,600 at an average rate of 5.63%, which were collateralized by company-owned securities valued at \$250,432. At December 31, 2005, short-term borrowings from banks were \$141,000 at an average rate of 4.40%, of which \$18,250 were collateralized by customer-owned securities of \$77,095. The remaining short-term borrowings of \$122,750 were collateralized by company-owned securities valued at \$135,211. The average bank borrowing was \$148,683, \$5,607, and \$3,672 in 2006, 2005, and 2004,

respectively, at weighted average daily interest rates of 5.36%, 3.09%, and 1.74%, respectively. At December 31, 2006 and 2005, Stifel Nicolaus had a stock loan balance of \$86,018 and \$89,039, respectively, at weighted average daily interest rates of 5.01% and 4.15%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$114,913, \$52,193, and \$81,635 in 2006, 2005, and 2004, respectively, at weighted average daily effective interest rates of 4.85%, 2.39%, and 1.37%, respectively. Customer owned securities were utilized in these arrangements.

## Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

## NOTE E

**- Commitments and Contingencies**

In the normal course of business, the Company enters into underwriting commitments. Settlement of transactions relating to such underwriting commitments, which were open December 31, 2006, had no material effect on the consolidated financial statements.

In connection with margin deposit requirements of The Options Clearing Corporation ("OCC"), the Company had pledged customer-owned securities valued at \$31,505, at December 31, 2006. The amounts on deposit satisfied the minimum margin deposit requirement of \$27,205.

In connection with margin deposit requirements of the National Securities Clearing Corporation, the Company had deposited \$5,400 in cash, at December 31, 2006. The amounts on deposit satisfied the minimum margin deposit requirement of \$4,101.

The Company also provides guarantees to securities clearing houses 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 clearing house, other members would be required to meet shortfalls. The 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 the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these transactions.

The future minimum rental and third-party vendor service commitments at December 31, 2006, with initial or remaining non-cancelable terms in excess of one year, some of which contain escalation clauses and renewal options, are as follows:

Year Ended December 31	Operating Leases and Service Agreements
2007	\$17,473
2008	15,435
2009	12,680
2010	10,674
2011	7,827
Thereafter	<u>27,974</u>
<b>Minimum Commitments</b>	<b>\$92,063</b>

Rental expense for the years ended December 31, 2006, 2005, and 2004, approximated \$15,197, \$10,508, and \$11,025, respectively. The Company amortizes office lease incentives and rent escalations on a straight-line basis over the life of the lease.

Amortization and depreciation expense of owned furniture and equipment, leasehold improvements, and assets under capital lease for 2006, 2005, and 2004 was \$4,948, \$3,723, and \$2,931, respectively.





## Notes To Consolidated Financial Statements (continued)

(in thousands, except share and per share amounts)

## NOTE F

**- Net Capital Requirements**

As a registered broker-dealer, Stifel Nicolaus is subject to the Uniform Net Capital Rule, Rule 15c3-1 under the Exchange Act (the "Rule"), which requires the maintenance of minimum net capital, as defined. Stifel Nicolaus has elected to use the alternative method permitted by the Rule that requires maintenance of minimum net capital equal to the greater of \$1,000 or 2% of aggregate debit items arising from customer transactions, as defined. The Rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. Another subsidiary, CSA, is also subject to minimum capital requirements that may restrict the payment of cash dividends and advances to the Company. CSA has consistently operated in excess of their capital adequacy requirements. The only restriction with regard to the payment of cash dividends by the Company is its ability to obtain cash through dividends and advances from its subsidiaries, if needed.

At December 31, 2006, Stifel Nicolaus had net capital of \$134,369, which was 43.32% of aggregate debit items and \$128,166 in excess of minimum required net capital. CSA had net capital of \$3,036, which was \$2,871 in excess of minimum required net capital.

The Company's international subsidiary, Stifel Nicolaus Limited ("SN Ltd"), is subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. At December 31, 2006, SN Ltd's capital and reserves were \$8,405 which was \$3,728 in excess of the financial resources requirement under the rules of the FSA.

NOTE G - *Acquisitions*

On December 1, 2005, the Company closed on the acquisition of the LM Capital Markets, whose results have been included in the Company's Consolidated Financial Statements since that date, from Citigroup Inc. The LM Capital Markets business was part of Legg Mason Wood Walker, Inc. ("LMWW"), which Citigroup Inc. acquired from Legg Mason, Inc. in a substantially simultaneous closing. The LM Capital Markets business acquired by the Company includes the Investment Banking, Equity and Fixed Income Research, Equity Sales and Trading, and Taxable Fixed Income Sales and Trading Departments of LMWW and employed 429 professional and support staff who became employees of the Company on December 1, 2005. The acquisition was made to grow the Company's business and in particular the Company's Capital Markets business leveraging the skill set of the LM Capital Markets associates. Under the terms of the agreement, the Company paid Citigroup Inc. an amount equal to the net book value of assets being acquired of \$12,178 plus a premium of \$7,000 paid in cash at closing with the balance of up to an additional \$30,000 in potential earn-out payment by the Company to Citigroup Inc., based on the performance of the combined capital markets business of both the Company's pre-closing Fixed Income and Equity Capital Markets business and LM Capital Markets for calendar years 2006, 2007, and 2008. Such payments, if any, will be accounted for as additional purchase price. Additionally, the Company assumed \$34,191 in Accrued Employee Compensation for which a receivable, from Citigroup Inc., for the same amount was included in Other Assets on the Consolidated Statement of Financial Condition as of December 31, 2005. In addition in December of 2005, the Company acquired \$45,900 in net securities inventories associated with the LM Capital Markets in a broker to broker trade with LMWW. For calendar year 2006, the Company recorded an earn-out liability of \$360.

Notes To Consolidated Financial Statements (continued)  
*(in thousands, except share and per share amounts)*

NOTE G - *Acquisitions (continued)*

The following is unaudited pro forma financial data for the combined operations, assuming the transaction had taken place on January 1 of each year.

Years Ended	December 31, 2005	December 31, 2004
	(unaudited)	(unaudited)
Total revenues	\$460,260	\$494,513
Net income	\$ 13,147	\$ 30,069
Diluted earnings per share	\$0.85	\$2.07
Diluted weighted average shares outstanding	15,446	14,538

The above unaudited pro forma data excludes reductions of certain administrative allocations by Legg Mason which as a result of synergies of the combined operations, management believes, will be significantly reduced. In addition, for each period presented, the Company included compensation expense of \$22,443 and \$9,751 associated with the issuance of restricted stock units and the discounted offering price on its private placement respectively to key associates of the LM Capital Markets. These results do not purport to be indicative of the results which actually would have occurred.

A summary of the fair values of the net assets acquired as of December 1, 2005, based upon the final purchase price allocation, is as follows:

Cash	\$K25
Investments	I2,275
Furniture & fixtures	I,513
Accounts receivables	K5,123
Prepaid expenses	N23
Goodwill	8,202
Intangible assets	<u>J.255</u>
	N0,316
Total assets acquired	
Accounts payables	J,643
Accrued expenses	<u>K5,026</u>
Total liabilities assumed	<u>K7,669</u>
	\$J2,647
Net assets acquired	

The goodwill and intangible assets of \$10,457 were assigned to the Equity Capital Markets and Fixed Income Capital Markets in the amounts of \$8,366 and \$2,091, respectively. The total amount of goodwill and intangible assets of

\$10,457 is deductible for tax purposes.

## Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*NOTE G - *Acquisitions (continued)*

On December 5, 2006, the Company closed on the acquisition of the private client business and purchased certain assets and assumed certain lease obligations of Miller Johnson Steichen and Kinnard ("MJSK"), a privately held broker dealer. Under the terms of the agreement the Company paid \$7,780 in cash. In addition the Company paid \$440 for transfer and legal fees. Eighty-four former employees of MJSK became employees of the Company on December 5, 2006. The acquisition was made to continue to grow the Company's Private Client business. In addition in January 2007, Stifel Nicolaus issued approximately \$4,133 in upfront notes and approximately \$493 in Company restricted stock units to certain investment executives. The summary of the fair values of the net assets acquired as of December 5, 2006, based upon the current valuation estimate, is as follows: Customer list of \$2,296, goodwill of \$4,846, non-compete agreements of \$734, and fixed assets of \$344. The customer list will be amortized over a ten-year period and the non-compete agreements will be amortized over a five-year period.

Supplemental pro forma information is not presented because the acquisition is not considered to be material. The results of operations of MJSK are included in the Company's Consolidated Statements of Operations from the date of acquisition.

## NOTE H

*- Goodwill and Intangible Assets*

The Company completed an annual goodwill impairment test as of July 31 in each of the years ended December 31, 2006, 2005, and 2004 in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*. The Company's testing did not indicate any impairment of the carrying value of goodwill.

As a result of the finalization of the LM Capital Markets purchase price allocation, \$7,178 classified as intangible assets at December 31, 2005 was transferred to goodwill in the current year.

The carrying amount of goodwill and intangible assets attributable to each of the Company's reportable segments is presented in the following table:

	Private Client Group	Equity Capital Markets	Fixed Income Capital Markets	Total
<u>Goodwill</u>				
Balance at December 31, 2005	\$L54	\$I,676	\$I,180	\$K,310
Acquisitions/purchase price adjustments	L,846	818	J05	M,869
Transfers	- -	5,743	1,435	7,178
Sale/disposal	- -	(496)	- -	(496)
Impairment losses	<u>- -</u>	<u>- -</u>	<u>- -</u>	<u>- -</u>
Balance at December 31, 2006	M,300	O,741	J,820	I5,861

Intangible Assets

Balance at December 31, 2005	M66	8,086	I,887	I0,539
Net additions	J,934	K62	- -	K,296
Transfers	- -	(5,743)	(1,435)	(7,178)
Amortization of intangible assets	(212)	(570)	(33)	(815)
Impairment losses	— --	— --	— --	— --
Balance at December 31, 2006	K,288	J,135	L19	M,842
<b>Total goodwill and intangible assets</b>	<b>\$ 8,588</b>	<b>\$ 9,876</b>	<b>\$K,239</b>	<b>\$J1,703</b>

## Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

## NOTE H

**- Goodwill and Intangible Assets (continued)**

The changes in goodwill during the year ended December 31, 2006 include adjustments due to the finalization of the allocation of purchase price related to the LM Capital Markets acquisition, the acquisition of MJSK, and the sale of Macroeconomic Advisors LLC.

Intangible assets consist of acquired customer lists and non-compete agreements that are amortized to expense over their contractual or determined useful lives. The gross and accumulated amortization balances of intangibles are as follows:

	December 31, 2006			December 31, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets						
Customer lists	\$5,914	\$1,022	\$4,892	\$10,647	\$647	\$10,000
Non-compete agreements	<u>1,536</u>	<u>586</u>	<u>950</u>	<u>685</u>	<u>146</u>	<u>539</u>
Total amortized intangible assets	\$7,450	\$1,608	\$5,842	\$11,332	\$793	\$10,539

Aggregate amortization expense related to intangible assets was \$815, \$291, and \$93 for each of the years ended December 31, 2006, 2005, and 2004 respectively. Estimated annual amortization expense for the next five years is: 2007 - \$1,178; 2008 - \$1,119; 2009 - \$704; 2010 - \$582; and 2011 - \$519.

## NOTE I

**- Employee Benefit Plans**

The Company has a profit sharing 401(k) plan (the "PSP") covering qualified employees as defined in the plan. Effective January 1, 2006, contributions to the PSP were based upon a Company match of 50% of the employees' first two thousand dollars in annual contributions. For 2005 and 2004, the company match was 50% of the employees' first one thousand dollars in annual contributions. Additional contributions by the Company are discretionary. Under the PSP, participants can purchase up to 333,333 shares of the Company's common stock. The amounts charged to employee compensation and benefits for the PSP were \$1,233, \$626, and \$419, for 2006, 2005, and 2004, respectively.

The Company has an employee stock ownership plan (the "ESOP") covering qualified employees as defined in the plan. Employer contributions are made to the ESOP as determined by the Compensation Committee of the Board of Directors of the Company on behalf of all eligible employees based upon the relationship of individual compensation (up to a maximum of \$175) to total compensation. In 1997, the Company purchased 330,750 shares for \$3,178 and contributed these shares to the ESOP. The unallocated shares are being released for allocation to the participants based

upon employer contributions to fund an internal loan between the Company and the ESOP. At December 31, 2006, the plan held 451,622 shares, of which 140,995 shares, with a fair value of \$5,531, were unallocated. The Company charged to employee compensation and benefits \$798, \$553, and \$392 for the ESOP contributions for 2006, 2005, and 2004, respectively.

Notes To Consolidated Financial Statements (continued)  
(in thousands, except share and per share amounts)

NOTE J

**- Stock-Based Compensation Plans**

The Company has several stock-based compensation plans, which are described below. 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.

**Stock Option/Incentive Award Plans**

The Company has four incentive stock award plans. Under the Company's 1997 and 2001 Incentive Stock Plans, the Company may grant incentive stock options, stock appreciation rights, restricted stock, performance awards, and stock units up to an aggregate of 8,748,659 shares. Options under these plans are generally granted at market value at the date of the grant and expire ten years from the date of grant. The options generally vest ratably over a three- to five-year vesting period. The Company has also granted stock options to external board members under a non-qualified plan and the "Equity Incentive Plan for Non-Employee Directors." Under the Equity Incentive Plan for Non-Employee Directors, the Company may grant stock options and stock units up to 200,000 shares. The exercise price of the option is equal to market value at the date of the grant and are exercisable six months to one year from date of grant and expire ten years from date of grant. Under the Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan ("SWAP"), a deferred compensation plan for Investment Executives, the Company authorized 933,333 stock units to be granted under the plan.

As of December 31, 2006, there was \$1,671 of total unrecognized compensation cost related to non-vested option awards. That cost is expected to be recognized over a weighted average period of 2.39 years.



Notes To Consolidated Financial Statements (continued)  
(in thousands, except share and per share amounts)

## NOTE J - Stock-Based Compensation Plans (continued)

The summary of the status of the Company's stock option plans as of December 31, 2006, 2005, and 2004, and changes during the years ended on those dates is presented below:

Options	2006		2005		2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,665,363	\$ 9.95	1,869,121	\$ 8.85	2,204,187	\$ 8.50
Granted	45,000	39.06	93,208	26.90	55,164	19.24
Exercised	(179,960)	8.73	(267,426)	8.12	(317,795)	8.09
Forfeited	<u>(17,729)</u>	12.96	<u>(29,540)</u>	10.37	<u>(72,435)</u>	9.56
Outstanding at end of year	1,512,674	\$ 10.92	1,665,363	\$ 9.95	1,869,121	\$ 8.85
Options exercisable at year-end	1,237,310		1,243,972		1,195,395	
Weighted-average fair value of options granted during the year	\$15.61		\$10.51		\$6.54	

The total intrinsic value of options exercised was \$5,119, \$5,285 and \$3,376, for 2006, 2005 and 2004 respectively. The total fair value of options vested during the years ended December 31, 2006, 2005, and 2004 was \$6,611, \$7,581, and \$6,605, respectively.

The following table summarizes information about stock options outstanding at December 31, 2006:

Range of Exercise Price	Options Outstanding			Options Exercisable		
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price	
\$4.70 - \$7.46	246,831	2.13	\$ 7.09	246,831	\$ 7.09	
0.50 - 0.80	214,597	4.76	7.78	181,673	7.78	
0.83 - 8.12	246,519	2.64	7.95	246,519	7.95	
8.16 - 8.69	319,447	5.09	8.48	258,803	8.45	
8.70 - 11.48	219,217	3.41	9.67	189,915	9.67	
13.89 - 17.23	186,855	7.57	17.52	106,727	17.57	
17.59 - 20.23	<u>79,208</u>	9.47	38.42	<u>6,842</u>	37.59	

1,512,674	4.45	\$ 10.92	1,237,310	\$ 9.11
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\$4.70 - \$39.23

The weighted-average fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the following weighted-average assumptions: dividend yield of 0.00%; expected volatility of 34.7%; risk-free interest rates of 4.71%; and expected lives of 5.37 years.

The risk-free rate is based on the U.S. Treasury yield curve in effect at the time of grant. The expected life (estimated period of time outstanding) of options granted was estimated using the historical exercise behavior of employees. The expected volatility was based on historical volatility for a period equal to the stock option's expected life.

Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

NOTE J - *Stock-Based Compensation Plans (continued)*

The total option compensation cost recognized during 2006 was \$551. There was no option compensation costs recognized during 2005 or 2004. The Company received cash in the amounts of \$1,571, \$2,165 and \$2,572 from the exercise of stock options during 2006, 2005, and 2004, respectively. The total tax benefit related thereto was \$2,004, \$2,110, and \$1,594 for 2006, 2005, and 2004, respectively.

Employee Stock Purchase Plan

Under the 2003 Employee Stock Purchase Plan ("ESPP"), the Company was authorized to issue up to 266,667 shares of common stock, to its full-time employees, nearly all of whom were eligible to participate. Under the terms of the ESPP, employees could choose each year to have a specified percentage of their compensation withheld in 1% increments not to exceed 10%. The participant could also specify a maximum dollar amount to be withheld. At the beginning of every year, each participant was granted an option to purchase up to 1,333 shares of common stock at a price equal to the lower of 85% of the beginning-of-year or end-of-year fair market value of the common stock. In 2004, the 2003 ESPP was amended and the employees elected monthly to purchase a minimum of 5 shares to a maximum of 1,333 shares, not to exceed 1,333 shares for the calendar year. At the beginning of every month, each participant was granted an option to purchase up to 1,333 shares of common stock at a price equal to the lower of 95% of the beginning-of-month or end-of-month fair market value of the common stock. On January 1, 2005 the Company cancelled the ESPP. Approximately 32% to 36% of eligible employees participated in the ESPP in 2004. Under the ESPP, the Company granted 266,661 shares to employees in 2004.

Stock Units

A stock unit represents the right to receive a share of common stock from the Company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive. A deferred compensation 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 the Company. Participants may elect to defer up to an additional 15% of their incentive compensation with a 25% matching contribution by the Company. Units generally vest over a three- to five-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. As of December 31, 2006, there were 1,993,386 units outstanding under this deferred compensation plan. The Company charged \$26,214, \$3,644, and \$2,766 to employee compensation and benefits relating to units granted under this plan for 2006, 2005, and 2004, respectively.

Stifel Nicolaus has a deferred compensation plan for its investment executives ("I.E.s") who achieve certain levels of production, whereby a certain percentage of their earnings is deferred as defined by the plan, of which 50% is deferred into Company stock units with a 25% matching contribution and 50% earns a return based on optional investments chosen by the I.E.s. Investment executives may choose to base their return on the performance of an index mutual fund as designated by the Company or a fixed income option. I.E.s have no ownership in the mutual funds. Included on the Consolidated Statements of Financial Condition under the caption "Investments" are \$6,149 in 2006 and \$4,539 in 2005 in mutual funds that were purchased by the Company to economically hedge its liability to the I.E.s that choose to base the performance of their return on the index mutual fund option. I.E.s may elect to defer an additional 1% of earnings into Company stock units with a 25% matching contribution. In addition, certain I.E.s, upon joining the firm, may receive Company stock units in lieu of transition cash payments. Deferred compensation for both plans cliff vests over a five-year period. Deferred compensation costs are amortized on a straight-line basis over the deferral period. As of December 31, 2006, there were 1,700,073 units outstanding under this deferred compensation plan.

Charges to employee compensation and benefits related to these plans were \$7,506, \$5,308, and \$4,300 for 2006, 2005, and 2004, respectively.

## Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

## NOTE J - Stock-Based Compensation Plans (continued)

Under the Equity Incentive Plan for Non-Employee Directors, the Company granted stock units to non-employee directors that elected to defer their director compensation. Participants that elected to defer their compensation were given a 25% matching contribution by the Company. Beginning in May 2004, all directors' compensation is deferred without a matching contribution by the Company. These units are 100% vested and are distributable after five full calendar years. Directors' fees are expensed on the grant date. As of December 31, 2006, there were 87,041 units outstanding under this plan. The Company charged \$498, \$320, and \$259 to directors' fees relating to units granted under this plan for 2006, 2005, and 2004, respectively.

The summary of the status of the Company's stock units as of December 31, 2006, 2005, and 2004, and changes during the years ending on those dates is presented below:

Stock Units	2006		2005		2004	
	Shares	Average Grant Price	Shares	Average Grant Price	Shares	Average Grant Price
Outstanding at beginning of year	2,943,496		3,305,802		2,925,751	
Granted	2,419,848	\$ 37.34	511,103	26.90	549,513	19.24
Converted	(1,450,950)		(675,972)		(81,418)	
Cancelled	<u>(131,894)</u>		<u>(197,437)</u>		<u>(88,044)</u>	
Outstanding at end of year	3,780,500		2,943,496		3,305,802	

On January 2, 2006, the Company granted 1,807,610 restricted stock units to key associates of the LM Capital Markets. The units were granted in accordance with the Company's 2001 incentive stock award plan as amended with a grant date fair value of \$37.59 per unit. The units vest ratably over a three year period, and accordingly, the Company incurred compensation expense of \$22,443 net of forfeitures in 2006.

The total tax benefit for 2006, 2005, and 2004 related thereto was \$9,419, \$5,765 and \$213, respectively.

Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

NOTE K

***- Legal Proceedings***

The Company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from its securities business activities, including lawsuits, arbitration claims and regulatory matters. Some of these claims seek substantial or indeterminate damages, and regulatory investigations can result in substantial fines and penalties. Through counsel, the Company has asserted what it believes to be meritorious defenses in all significant litigation, arbitration and regulatory matters pending or threatened against the Company. Management, based on its understanding of the facts and after consultation with counsel, reasonably estimates and appropriately records loss reserves. While the ultimate outcome of pending litigation, claims and regulatory matters cannot be predicted with certainty, based upon information currently known, management believes that resolution of all such matters will not have a material adverse effect on the consolidated Statements of Financial Condition of the Company. However, there can be no assurances that the ultimate resolution of these proceedings and claims will not exceed the estimated loss reserves as determined by management, and the outcome and timing of any particular matter may be material to the operating results for any particular period depending on the operating results for that period.

NOTE L

***- Off-Balance Sheet Credit Risk***

The Company clears and executes transactions for three introducing broker-dealers. Pursuant to the clearing agreement, the introducing broker-dealer guarantees the performance of its customers to the Company. To the extent the introducing broker-dealer is unable to satisfy its obligations under the terms of the clearing agreement, the Company would be secondarily liable. However, the potential requirement for the Company to fulfill these obligations under this arrangement is remote. Accordingly, no liability has been recognized for these transactions.

In the normal course of business, the Company executes, settles, and finances customer and proprietary securities transactions. These activities expose the 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 three business days after trade date. Should a customer or broker fail to deliver cash or securities as agreed, the Company may be required to purchase or sell securities at unfavorable market prices.

The Company borrows and lends securities to finance transactions and facilitate the settlement process, utilizing customer margin securities held as collateral. The Company monitors the adequacy of collateral levels on a daily basis. The Company periodically borrows 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, the Company is subject to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls its exposure to credit risk by continually monitoring its counterparties' positions, and, where deemed necessary, the Company may require a deposit of additional collateral and/or a reduction or diversification of positions. The Company sells securities it does not currently own (short sales) and is obligated to subsequently purchase such securities at prevailing market prices. The Company is exposed to risk of loss if securities prices increase prior to closing the transactions. The Company controls its exposure to price risk for short sales

through daily review and setting position and trading limits.

The Company manages its 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.

Notes To Consolidated Financial Statements (continued)  
(in thousands, except share and per share amounts)

NOTE L

**- Off-Balance Sheet Credit Risk (continued)**

The Company has accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, the Company is 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 December 31, 2006, the fair value of securities accepted as collateral where the Company is permitted to sell or repledge the securities was \$531,545, and the fair value of the collateral that had been sold or repledged was \$286,470.

Concentrations of Credit Risk

The Company maintains margin and cash security accounts for its customers located throughout the United States. The majority of the Company's customer receivables are serviced by branch locations in the Midwest.

NOTE M

**- Debenture to Stifel Financial Capital Trusts**

On April 25, 2002, Stifel Financial Capital Trust I (the "Trust I"), a Delaware Trust and non-consolidated wholly-owned subsidiary of the Company, completed the offering of 1,380,000 shares of 9% Cumulative Trust Preferred Securities for \$34,500 (net proceeds of approximately \$32,900 after offering expenses and underwriting commissions). The trust preferred securities represent an indirect interest in a junior subordinated debenture purchased from the Company by the Trust I. The debenture bears the same terms as the trust preferred securities. The trust preferred securities may be redeemed by the Company, and in turn, the Trust would call the debenture no earlier than June 30, 2007, but no later than June 30, 2032. The interest payments on the debenture will be made quarterly, and undistributed payments will accumulate interest of 9% per annum compounded quarterly.

As of December 31, 2003, the Company elected to apply the provisions of FIN 46R to the Trust. The adoption resulted in the deconsolidation of the Trust and the trust preferred securities are now presented as "Debenture to Stifel Financial Capital Trust I" in the Consolidated Statements of Financial Condition.

On August 12, 2005, the Company completed its private placement of \$35,000 of 6.38% Cumulative Trust Preferred Securities. The Preferred Securities were offered by Stifel Financial Capital Trust II (the "Trust II"), a non-consolidated wholly-owned Delaware business trust subsidiary of the Company. The Trust Preferred Securities mature on September 30, 2035, but may be redeemed by the Company and in turn, the Trust II would call the debenture beginning September 30, 2010. The Trust II requires quarterly distributions of interest to the holder of the Trust Preferred Securities. Distributions will be payable at a fixed interest rate equal to 6.38% per annum from the issue date to September 30, 2010 and then will be payable at a floating interest rate equal to three-month London Interbank Offered Rate ("LIBOR") plus 1.70% per annum. The trust preferred securities represent an indirect interest in a junior subordinated debenture purchased from the Company by the Trust II. The debenture bears the same terms as the trust preferred securities and is presented as "Debenture to Stifel Financial Capital Trust II" in the Consolidated Statements of Financial Condition.



## Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

## NOTE N

**- Liabilities Subordinated to Claims of General Creditors**

The Company has a deferred compensation plan available to I.E.s who achieve a certain level of production, whereby a certain percentage of their earnings is deferred as defined by the plan, a portion of which is deferred in stock units and the balance into optional investment choices. The Company obtained approval from the New York Stock Exchange to subordinate the liability for future payments to I.E.s for that portion of compensation not deferred in stock units. The Company issued cash subordination agreements to participants in the plan pursuant to provisions of Appendix D of Exchange Act Rule 15c3-1 and included in its computation of net capital the following:

<u>Plan Year</u>	<u>Distribution January 31.</u>	<u>Amount</u>
2001	2007	\$ 720
2002	2008	914
2003	2009	1,300
2004	2010	1,391
		<u>4,325</u>
	Unamortized expense	(44)
		<u>\$ 4,281</u>

At December 31, 2006, the fair value of the liabilities subordinated to claims of general creditors using interest rates commensurate with borrowings of similar terms was \$3,600.

## NOTE O

**- Investments in Qualified Missouri Businesses**

The Company formed two Limited Liability Corporations, referred to collectively as the "LLC," to be certified capital companies under the statutes of the State of Missouri, which provide venture capital for qualified Missouri businesses, as defined. The LLC issued \$4,600 non-interest bearing notes due May 15, 2008, \$10,600 non-interest bearing notes due February 15, 2009, \$8,417 non-interest bearing notes due February 15, 2010, and \$981 non-interest bearing participating debentures due December 31, 2010, which are included in the Company's Consolidated Statements of Financial Condition under the caption "Other" liabilities. Proceeds from the notes are first invested in zero coupon U.S. Government securities in an amount sufficient to accrete to the repayment amount of the notes and are placed in an irrevocable trust. These securities, carried at accreted cost of \$20,503 and \$19,309 at December 31, 2006 and 2005, respectively, are held to maturity and are included under the caption "Investments." The fair value of the securities is \$21,187 and \$20,445 at December 31, 2006 and 2005, respectively. The remaining proceeds were invested in qualified Missouri businesses.

The LLC invests in qualified Missouri businesses in the form of debt, preferred, and/or common equity. These securities, valued at approximately \$2,425 and \$2,531 at December 31, 2006 and 2005, respectively, are included under the caption "Investments." Due to the structure of the LLC and under the statutes of the State of Missouri, the Company participates in a portion of the appreciation of these investments. Management monitors these investments

on a continuous basis.

## Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

## NOTE P

**- Income Taxes**

The Company's provision (benefit) for income taxes consists of:

	Years Ended December 31,		
	<u>2006</u>	<u>2005</u>	<u>2004</u>
Current:			
Federal	\$ 7,904	\$ 13,163	\$ 12,669
State	1,686	2,614	2,912
	9,590	15,777	15,581
Deferred:			
Federal	1,111	(2,252)	(1,717)
State	237	(447)	(395)
	<u>1,348</u>	<u>(2,699)</u>	<u>(2,112)</u>
	\$10,938	\$13,078	\$13,469

The provision for income taxes differs from the amount computed by applying the statutory federal income tax rate to income before income taxes for the following reasons:

	Years Ended December 31,		
	<u>J006</u>	<u>J005</u>	<u>J004</u>
Federal tax computed at statutory rates	\$ 9,229	\$ 11,452	\$ 12,816
State income taxes, net of federal income tax benefit	1,247	1,409	1,514
Settlement of a state tax matter	--	--	<u>(1,000)</u>
Other, net	462	217	139
Provision for income taxes	\$10,938	\$13,078	\$13,469

The effective tax rates for the years ended December 31, 2006, 2005, and 2004 were 41.5%, 40.0%, and 36.8%, respectively. The change in 2004 was due to a \$1,000 tax benefit recorded in that year resulting from the settlement of a state tax matter covering a number of years. Excluding the \$1,000 tax benefit, the Company's effective tax rate for the year ending December 31, 2004 was 39.5%.



## Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

## NOTE P

**- Income Taxes (continued)**

The net deferred tax asset consists of the following temporary differences:

		<u>December 31, 2006</u>	<u>December 31,</u> <u>2005</u>
Deferred Tax Asset	Accruals not currently deductible	\$ 973	\$ 2,140
	Deferred compensation	9,263	6,439
	Acquired net operating loss	417	520
	Deferred revenue	25	32
	Office equipment and leasehold improvements	490	112
	Investment valuation	--	1,530
	Reserve for bad debt	<u>432</u>	<u>381</u>
	Deferred Tax Asset	11,600	11,154
Deferred Tax Liability	Investment valuation	(1,304)	--
	Prepaid expenses	(1,192)	(789)
	Intangible assets and goodwill amortization	<u>(116)</u>	<u>(29)</u>
	Deferred Tax Liability	(2,612)	(818)
	Net Deferred Tax Asset	\$8,988	\$10,336

During 2006, the Company utilized gains from its investment portfolio to extinguish a capital loss carry forward of \$2,200. The Company also has acquired a net operating loss that is utilized for tax purposes over ten years and will expire in 2010.

The Company believes that a valuation allowance with respect to the realization of the total gross deferred tax asset is not necessary. Based on the Company's historical earnings and taxes previously paid, future expectations of taxable income, and the future reversals of gross deferred tax liability, management believes it is more likely than not that the Company will realize the gross deferred tax asset.

## Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

## NOTE Q - Segment Reporting

The Company's reportable segments include the Private Client Group, Equity Capital Markets, Fixed Income Capital Markets, and Other. The Private Client Group segment includes branch offices and independent contractor offices of the Company's broker-dealer subsidiaries located throughout the U.S., primarily in the Midwest and Mid-Atlantic regions. These branches provide securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, to their private clients. The Equity Capital Markets segment includes corporate finance management and participation in underwritings (exclusive of sales credits, which are included in the Private Client Group segment), mergers and acquisitions, institutional sales, trading, research, and market making. The Fixed Income Capital Markets segment includes public finance, institutional sales and competitive underwriting, and trading. The "Other" segment includes clearing revenue, interest income from stock borrow activities, unallocated interest expense, interest income and gains and losses from investments held, and all unallocated overhead cost associated with the execution of orders; processing of securities transactions; custody of client securities; receipt, identification, and delivery of funds and securities; compliance with regulatory and legal requirements; internal financial accounting and controls; acquisition charges related to the LM Capital Markets acquisition; and general administration.

Intersegment revenues and charges are eliminated between segments. The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenues.

Information concerning operations in these segments of business is as follows:

	Years ended December 31,		
	2006	2005	2004
Net Revenues			
Private Client Group	\$231,364	\$197,356	\$187,477
Equity Capital Markets	150,038	43,415	38,855
Fixed Income Capital Markets	53,570	18,155	16,630
Other	<u>16,835</u>	<u>4,809</u>	<u>3,861</u>
Total Net Revenues	\$451,807	\$263,735	\$246,823
Operating Contributions			
Private Client Group	\$ 50,218	\$ 48,157	\$ 47,965
Equity Capital Markets	31,959	13,626	12,480
Fixed Income Capital Markets	10,620	2,361	2,977
Other/Unallocated Overhead	<u>(66,428)</u>	<u>(31,422)</u>	<u>(26,805)</u>
Income before income taxes	\$ 26,369	\$ 32,722	\$ 36,617

Information regarding net revenue by geographic area for 2006, 2005 and 2004 is as follows:

Years ended December 31,

	2006	2005	2004
Net Revenues			
United States	\$435,894	\$263,033	\$246,823
United Kingdom	10,602	417	- -
Other European	<u>5,311</u>	<u>285</u>	<u>- -</u>
Total Net Revenues	\$451,807	\$263,735	\$246,823

Our foreign operations are conducted through our wholly-owned subsidiary, SN Ltd. Net revenues in the preceding table are attributable to the country or territory in which our subsidiaries are located.

## Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

## NOTE R

**- Earnings per Share**

Basic earnings per share of common stock is computed by dividing income available to shareholders by the weighted average number of common shares outstanding during the periods. Diluted earnings per share 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 reflects a reconciliation between Basic Earnings Per Share and Diluted Earnings Per Share:

	Years Ended December 31,								
	2006			2005			2004		
	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount	Income	Shares	Per Share Amount
Basic Earnings Per Share									
Income available to shareholders	\$15,431	11,513,290	\$1.34	\$19,644	9,827,734	\$2.00	\$23,148	9,701,699	\$2.39
Effect of Dilutive Securities									
Employee benefits plans	--	2,395,226	--	--	2,758,200	--	--	2,579,794	--
Diluted Earnings Per Share									
Income available to common stockholders and assumed conversions	\$15,431	13,908,516	\$1.11	\$19,644	12,585,934	\$1.56	\$23,148	12,281,493	\$1.88

## NOTE S



**- Stockholders' Equity**

On May 5, 2005, the Company's board of directors authorized the repurchase of up to 2,000,000 additional shares on top of an existing authorization of 1,000,000 shares. 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 the Company's employee benefit plans and for general corporate purposes.

The Company repurchased 367,304, 332,030, and 472,872 shares for the years ending December 31, 2006, 2005, and 2004, respectively, using existing board authorizations, at average prices of \$32.26, \$20.94 and \$19.38 per share, respectively, to meet obligations under the Company's employee benefit plans and for general corporate purposes. To satisfy the withholding obligations for the conversion of the Company's stock units, the Company withheld 158,267 shares in 2006. The Company reissued 529,887, 924,974, and 942,615 shares for the years ending December 31, 2006, 2005, and 2004, respectively, for employee benefit plans. In 2006, the Company issued 1,729,125 new shares for employee benefit plans. Under existing board authorizations, the Company is permitted to buy an additional 1,711,807 shares.

On January 23, 2006, the Company completed a private placement of 1,052,220 shares of its common stock at \$25.00 per share. The shares were purchased by key associates of the LM Capital Markets business. The Company was required to charge to compensation the difference of \$25.00 per share and the grant date fair value, as determined in accordance with SFAS No. 123R, of \$34.27 per share. As a result, the Company incurred a compensation charge of \$9,751 in January 2006.

Notes To Consolidated Financial Statements (continued)  
(in thousands, except share and per share amounts)

**NOTE T - Impact of the NYSE/Archipelago Merger**

On March 7, 2006, the New York Stock Exchange ("NYSE") and Archipelago Holdings Inc. ("Archipelago") completed the combination of their businesses through a series of mergers into a new holding company, NYSE Group, Inc. ("NYSE Group"). As a result of the merger, the Company received \$370 in cash, and 80,177 shares of NYSE Group common stock for its NYSE seat membership. The shares are subject to certain transfer restrictions that expire ratably over a three-year period, unless the NYSE Group board of directors elects to remove or reduce the restrictions. On May 5, 2006, the Company sold 51,900 shares of NYSE Group through a secondary public offering. The Company received cash proceeds of \$3,128 or \$60.27 per share which represented the fixed offering price.

The Company recorded a net gain of \$5,520 which is included in Other revenues in the Consolidated Statements of Operations for the year ended December 31, 2006. The gain was impacted by a valuation adjustment for the transfer restrictions on the shares received. Subsequent gains and losses will be recorded as the share price of NYSE Group stock fluctuates and the transfer restrictions lapse.

**NOTE U -**

***Subsequent Events***

On February 28, 2007, the Company closed on the acquisition of Ryan Beck Holdings, Inc. and its wholly-owned broker-dealer subsidiary Ryan Beck & Company, Inc. ("Ryan Beck") from BankAtlantic Bancorp, Inc. Ryan Beck will continue to operate as a separate broker-dealer until after all existing branches of Ryan Beck are converted to Stifel Nicolaus. Under the terms of the agreement, the Company paid initial consideration of \$2,653 in cash and issued 2,467,600 shares of Company common stock valued at \$41.55 per share which was the five day average closing price of Company common stock for the two days prior to and two days subsequent to the deal announcement date of January 9, 2006 for a total initial consideration of \$105,181. In addition the Company will issue five-year immediately exercisable warrants to purchase up to 500,000 shares of Company common stock at an exercise price of \$36.00 per share, pending shareholder approval. If shareholder approval is not obtained by June 30, 2007, the Company will pay \$20,000 cash in lieu of the warrants. The estimated value of the warrants on date of announcement using the Black-Scholes pricing model was \$8,530. The cash portion of the purchase price was funded from cash generated from operations. In addition, a contingent earn-out payment is payable based on defined revenues attributable to specified individuals in Ryan Beck's existing private client division over the two-year period following closing. This earn-out is capped at \$40,000. A second contingent payment is payable based on defined revenues attributable to specified individuals in Ryan Beck's existing investment banking division. The investment banking earn-out is equal to 25% of the amount of investment banking fees over \$25,000 for each of the next two years. Each of the contingent earn-out payments is payable, at the Company's election, in cash or common stock. In addition to the transaction consideration described above, the Company has agreed to establish a retention program for the certain associates of Ryan Beck valued at approximately \$42,000 consisting of cash and Company common stock and to fund \$7,000 of change in control payments for certain executives of Ryan Beck. The Company has filed a preliminary proxy statement which would seek approval from the holders of its shares of common stock to increase the number of shares of Company common stock available for the retention program, as well as for the warrants and the contingent earn-out payments, in the event the Company elects to make the contingent earn-out payments in shares of its common stock. If shareholders do not approve the additional shares for the issuance of warrants, the Company will make the contingent payments in cash.

On February 1, 2007, the Company entered into a loan agreement and promissory note with the Mayor and City Council of Baltimore, whereby the Company will borrow \$750 to construct leasehold improvements and purchase furniture, fixtures, and equipment at the leasehold premises in downtown Baltimore for the Company's Baltimore

operations. The promissory note has a fixed rate interest of 2.0% with interest only payments commencing on March 1, 2007 and continuing through February 1, 2011. Commencing March 1, 2011 and continuing through February 1, 2017, the Company will be required to pay principal and interest payments with a final balloon payment due at maturity on February 1, 2017 in the amount of \$367.

Notes To Consolidated Financial Statements (continued)

*(in thousands, except share and per share amounts)*

NOTE U -

***Subsequent Events (continued)***

On November 20, 2006, the Company, and its wholly-owned subsidiary, FSFC Acquisition Co., entered into an Agreement and Plan of Merger with First Service Financial Company, ("First Service"), pursuant to which the Company will acquire First Service and its wholly-owned bank subsidiary, FirstService Bank, by means of the merger of FSFC Acquisition Co. with and into First Service. The total consideration payable by the Company in the merger for all of the outstanding shares of First Service is approximately \$37,900. The Company is seeking approval from the Federal Reserve to become a bank holding company and financial holding company subject to the supervision and regulation of the Board of Governors of the Federal Reserve System. The merger is anticipated to close in the second quarter of 2007.

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## Quarterly Results

## Quarterly Operating Results (Unaudited)

(in thousands, except per share amounts)	Revenue	Net Revenues	Earnings Before Income Taxes	Net Income	Basic Earnings Per Share	Diluted Earnings Per Share
Year 2006 By Quarter						
First <sup>(1)</sup>	\$113,594	\$109,531	\$783	\$476	\$0.04	\$0.04
Second <sup>(1)</sup>	107,351	102,667	3,973	2,298	0.20	0.16
Third <sup>(1)</sup>	115,238	109,816	9,241	5,424	0.47	0.39
Fourth <sup>(1)</sup>	135,205	129,793	12,372	7,233	0.63	0.51
Year 2005 By Quarter						
First	\$61,293	\$60,188	\$7,264	\$4,358	\$0.44	\$0.35
Second	65,211	63,971	9,305	5,620	0.58	0.46
Third	65,400	63,858	8,149	4,896	0.50	0.39
Fourth <sup>(2)</sup>	78,106	75,718	8,004	4,770	0.48	0.38

(1)

Quarterly results in 2006 include pre-tax acquisition related charges, principally stock based compensation, related to the LM Capital Markets acquisition of \$17.8 million, \$8.3 million, \$7.3 million, and \$8.0 million in the first, second, third, and fourth quarters, respectively.

(2)

Fourth quarter 2005 results include \$3.3 million in pre-tax acquisition related charges, primarily severance, related to the LM Capital Markets acquisition.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

- (a) (1) Consolidated Financial Statements are contained in Item 8 and made part hereof.
- (2) Consolidated Financial Statement Schedules:

Page

Schedule II - Valuation and Qualifying Accounts

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All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable and, therefore, have been omitted.

- (3) Exhibits: See Exhibit Index on pages 40, 41 and 42 hereof.

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SIGNATURES

Pursuant to the requirements of Section 13 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, in the City of St. Louis, State of Missouri, on the 27<sup>th</sup> day of June 2007.

STIFEL FINANCIAL CORP.

(Registrant)

By /s/ Ronald J. Kruszewski

Ronald J. Kruszewski  
Chairman of the Board, President,  
Chief Executive Officer, and Director

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 SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS  
 STIFEL FINANCIAL CORP. AND SUBSIDIARIES

(In Thousands)

Description	Balance at Beginning Of Period	Additions Charged to Costs And Expenses	Deductions <sup>(1)</sup>	Balance At End Of Period
Year Ended December 31, 2006				
Deducted from asset account:				
Allowances for doubtful accounts	\$ 204	\$ 143	\$ 40	\$ 307
Deducted from asset account:				
Allowances for doubtful notes receivables	767	243	323	687
Year Ended December 31, 2005				
Deducted from asset account:				
Allowances for doubtful accounts	47	203	46	204
Deducted from asset account:				
Allowances for doubtful notes receivables	782	242	257	767
Year Ended December 31, 2004				
Deducted from asset account:				
Allowances for doubtful accounts	82	41	76	47
Deducted from asset account:				
Allowances for doubtful notes receivables	1,397	142	757	782

1. Uncollected notes written off and recoveries.



EXHIBIT INDEX

STIFEL FINANCIAL CORP. AND SUBSIDIARIES  
ANNUAL REPORT ON FORM 10-K  
YEAR ENDED DECEMBER 31, 2006

Exhibit No.	Description
3.	(a) Restated Certificate of Incorporation and as amended of Financial filed with the Secretary of State of Delaware on May 31, 2001, incorporated herein by reference to Exhibit 3.(a) to Financial's Quarterly Report on Form 10-Q (File No. 001-9305) for the quarterly period ended June 30, 2001.
	(b) Amended and Restated By-Laws of Financial, incorporated herein by reference to Exhibit 3.(b)(1) to Financial's Annual Report on Form 10-K (File No. 1-9305) for fiscal year ended July 30, 1993.
4.	Registration Rights Agreement dated February 28, 2007 of Financial, incorporated herein by reference to Financial's Current Report on Form 8-K/A (File No. 1-09305) filed March 6, 2007.
10.	(a) Form of Indemnification Agreement with directors dated as of June 30, 1987, incorporated herein by reference to Exhibit 10.2 to Financial's Current Report on Form 8-K (date of earliest event reported - June 22, 1987) filed July 14, 1987.
	(b) Dividend Reinvestment and Stock Purchase Plan of Financial, incorporated herein by reference to Financial's Registration Statement on Form S-3 (Registration File No. 33-53699) filed May 18, 1994.
I	Amended and Restated 1997 Incentive Plan of Financial, incorporated herein by reference to Financial's Registration Statement on Form S-8 (Registration File No. 333-84717) filed on August 6, 1999. *
	(d)(1) Employment Letter with Ronald J. Kruszewski, incorporated herein by reference to Exhibit 10.(1) to Financial's Annual Report on Form 10-K (File No. 1-9305) for the year ended December 31, 1997.*
	(d)(2) Stock Unit Agreement with Ronald J. Kruszewski, incorporated herein by reference to Exhibit 10.(j)(2) to Financial's Annual Report on Form 10-K (File No. 1-9305) for the year ended December 31, 1998. *
	(e) 1999 Executive Incentive Performance Plan of Financial, incorporated herein by reference to Annex B of Financial's Proxy Statement for the 1999 Annual Meeting of Stockholders filed March 26, 1999. *
	(f) Equity Incentive Plan for Non-Employee Directors of Financial, incorporated herein by reference to Financial's Registration Statement on Form S-8 (Registration File No. 333-52694) filed December 22, 2000. *

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- (g)(1) Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan, incorporated herein by reference to Financial's Registration Statement on Form S-8 (Registration File No. 333-60506) filed May 9, 2001. \*
- (g)(2) Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan Amendment No. 1, incorporated herein by reference to Financial's Registration Statement on Form S-8 (Registration File No. 333-105759) filed June 2, 2003. \*
- (h) Stifel Nicolaus Profit Sharing 401(k) Plan, incorporated herein by reference to Financial's Registration Statement on Form S-8 (Registration File No. 333-60516) filed May 9, 2001. \*
- (i)(1) Stifel Financial Corp. 2001 Incentive Plan, incorporated herein by reference to Financial's Registration Statement on Form S-8 (Registration File No. 333-82328) filed February 7, 2002. \*
- (i)(2) Stifel Financial Corp. 2001 Incentive Plan Amendment No. 1, incorporated herein by reference to Financial's Registration Statement on Form S-8 (Registration File No. 333-105756) filed June 2, 2003. \*
- (i)(3) Stifel Financial Corp. 2001 Incentive Plan Amendment No. 2, incorporated herein by reference to Financial's Registration Statement on Form S-8 (Registration File No. 333-140662) filed February 13, 2007. \*
- (j) Stock Unit Agreement with James M. Zemlyak dated January 11, 2000, incorporated herein by reference to Exhibit 10.(s) to Financial's Annual Report on Form 10-K / A Amendment No. 1 (File No. 1-9305) for the year ended December 31, 2001, filed on April 9, 2002. \*
- (k) Stock Unit Agreement with Scott B. McCuaig dated December 20, 1998, incorporated herein by reference to Exhibit 10.(t) to Financial's Annual Report on Form 10-K / A Amendment No. 1 (File No. 1-9305) for the year ended December 31, 2001, filed on April 9, 2002. \*
- (l) Amended and Restated Promissory Note dated December 21, 1998, from Ronald J. Kruszewski payable to Financial, incorporated herein by reference to Exhibit 10.(u) to Financial's Annual Report on Form 10-K / A Amendment No. 1 (File No. 1-9305) for the year ended December 31, 2001, filed on April 9, 2002. \*
- (m)(1) Third Amendment to Lease by and among EBS Building, L.L.C., Stifel Financial Corp., and Stifel, Nicolaus & Company, Incorporated, dated September 1, 1999, incorporated herein by reference to EBS Building, L.L.C.'s Annual Report on Form 10-K (File No. 000-24167) for the year ended December 31, 2001.
- (m)(2) Fourth Amendment to Lease by and among EBS Building, L.L.C., Stifel Financial Corp., and Stifel, Nicolaus & Company, Incorporated, dated November 1, 1999, incorporated herein by reference to EBS Building, L.L.C.'s Annual Report on Form 10-K (File No. 000-24167) for the year ended December 31, 2001.
- (m)(3) Fifth Amendment to Lease by and among EBS Building, L.L.C., Stifel Financial Corp., and Stifel, Nicolaus & Company, Incorporated dated June 11, 2001, incorporated herein by reference to EBS Building, L.L.C.'s Annual Report on Form 10-K (File No. 000-24167) for the year ended December 31, 2001.

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- (n) Stifel Financial Corp. 2003 Employee Stock Purchase Plan, incorporated herein by reference to Financial's Registration Statement on Form S-8 (Registration File No. 333-100414) filed October 8, 2002. \*
- (o)(1) Acquisition agreement by and between Stifel Financial Corp. and Citigroup Inc., incorporated herein by reference to Exhibit 10 to Financial's quarterly report on Form 10-Q/A No. 1 (File No. 1-9305) for the quarterly period ended September 30, 2005.
- (o)(2) Amendment No.1 to Acquisition Agreement by and between Stifel Financial Corp. and Citigroup Inc., incorporated herein by reference to Exhibit 10.(v)(2) to Financial's Annual Report on Form 10-K (File No. 1-9305) for the year ended December 31, 2005, filed on March 16, 2006. .
- (o)(3) Amendment No.2 to Acquisition Agreement by and between Stifel Financial Corp. and Citigroup Inc., incorporated herein by reference to Exhibit 10.(v)(3) to Financial's Annual Report on Form 10-K (File No. 1-9305) for the year ended December 31, 2005, filed on March 16, 2006.
- (p) Employment Agreement with Richard Himelfarb dated September 6, 2005, incorporated herein by reference to Exhibit 10.(p) to Financial's Annual Report on Form 10-K/A Amendment No. 1 (File No. 1-9305) for the year ended December 31, 2005, filed on January 26, 2007. \*
- (q) Employment Agreement with Thomas Mulroy dated September 7, 2005, incorporated herein by reference to Exhibit 10.(q) to Financial's Annual Report on Form 10-K/A Amendment No. 1 (File No. 1-9305) for the year ended December 31, 2005, filed on January 26, 2007. \*
- (r) Employment Agreement with Joseph Sullivan dated September 6, 2005, incorporated herein by reference to Exhibit 10.(r) to Financial's Annual Report on Form 10-K/A Amendment No. 1 (File No. 1-9305) for the year ended December 31, 2005, filed on January 26, 2007. \*
- (s) Agreement and Plan of Merger, dated as of November 20, 2006, by and among Stifel Financial Corp., FSFC Acquisition Co. and First Service Financial Company incorporated herein by reference to Exhibit 2.1 to Financial's Current Report on Form 8-K (date of earliest event reported-November 20, 2006) filed on November 20, 2006).
- (t)(1) Office Sublease Agreement by and between Deutsch Bank Securities, Inc. (Lessor) and Stifel, Nicolaus & Company, Incorporated (Lessee), incorporated herein by reference to Exhibit 10.(t)(1) to Financial's Annual Report on Form 10-K (File No. 1-9305) for the year ended December 31, 2006, filed on March 16, 2007.
- (t)(2) Office Lease Agreement by and between ABB South Street Associates, LLC (Landlord) and Stifel, Nicolaus & Company, Incorporated (Tenant), incorporated herein by reference to Exhibit 10.(t)(2) to Financial's Annual Report on Form 10-K (File No. 1-9305) for the year ended December 31, 2006, filed on March 16, 2007.
- (u) Agreement and Plan of Merger, dated as of January 8, 2007 by and among Stifel Financial Corp., SF RB Merger Sub, Inc., BankAtlantic Bancorp, Inc. and Ryan Beck Holdings, Inc. incorporated herein by reference to Exhibit 2.1 to Financial's Current Report on Form 8-K / A

(date of earliest event reported-January 8, 2007) filed on January 12, 2007.

- (v)(1) Promissory Note dated as of February 1, 2007 by and between Stifel Financial Corp. and the Mayor and City Council of Baltimore, a body politic and corporate and political subdivision of the State of Maryland, by and through the Department of Housing and Community Development, c/o City of Baltimore Development Corporation, incorporated herein by reference to Exhibit 10.(v)(1) to Financial's Annual Report on Form 10-K (File No. 1-9305) for the year ended December 31, 2006, filed on March 16, 2007.
- (v)(2) Loan Agreement dated as of February 1, 2007 by and between Stifel Financial Corp. and the Mayor and City Council of Baltimore, a body politic and corporate and political subdivision of the State of Maryland, by and through the Department of Housing and Community Development, c/o City of Baltimore Development Corporation, incorporated herein by reference to Exhibit 10.(v)(2) to Financial's Annual Report on Form 10-K (File No. 1-9305) for the year ended December 31, 2006, filed on March 16, 2007..
- 21. List of Subsidiaries of Stifel Financial Corp., incorporated herein by reference to Exhibit 21. to Financial's Annual Report on Form 10-K (File No. 1-9305) for the year ended December 31, 2006, filed on March 16, 2007.
- 23. Consent of Independent Registered Public Accounting Firm, filed herewith.
- 31(i).1 Certification by the Chief Executive Officer pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 31(i).2 Certification by the Chief Financial Officer pursuant to Rule 13a-14(a) promulgated under the Securities Exchange Act of 1934, as amended.
- 32. Certification pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This exhibit is furnished to the SEC.

\* Management contract or compensatory plan or arrangement.