

STIFEL FINANCIAL CORP
Form 10-K/A
January 26, 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, 2005**

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, 2005 (the last business day of the Registrant's second fiscal quarter), was approximately \$226.8 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, 2006: 11,789,080 shares, par value \$.15 per share.

DOCUMENTS INCORPORATED BY REFERENCE

Exhibit Index located on pages 40 and 41.

STIFEL FINACIAL CORP.

Amendment No. 1 to the Annual Report on Form 10-K
For the Year Ended December 31, 2005

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, 2005 in order to correct an error in Part II. Item 8, specifically, the unaudited pro forma financial data contained in the Notes to Consolidated Financial Statements, Note T - Acquisition, and amend the exhibits to Part IV. Item 15(a)(3) to the Annual Report on Form 10-K originally filed with the United States Securities and Exchange Commission on March 16, 2006. In Part II Item 8, the Company has restated Note T - Acquisition of the Notes to Consolidated Financial Statements changing unaudited pro forma net income for the year ended December 31, 2005, from \$15,581,000 to \$13,147,000, and unaudited pro forma diluted earnings per share, from \$1.01 to \$0.85. The error had no effect on SFC's consolidated statement of financial condition as of December 31, 2005 and 2004, or its consolidated statements of operations, stockholders' equity, and cash flows for each of the three years ended December 31, 2005. In Part IV Item 15(a)(3), the Company has added three employment agreements and updated the certification 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 Form 10-K is being supplemented, updated or amended. This Form 10-K/A does not purport to provide a general update or discussion of any other developments subsequent to the original filing.

PART II

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The information in Item 8 has been adjusted solely to correct the unaudited pro forma financial data contained in the Notes to Consolidated Financial Statements, Note T - Acquisition contained in this item. These disclosures do not purport to provide a general update or discussion of any other developments subsequent to 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, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2005. Our audits also included the financial statement schedules listed in the Index at Item 15. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules 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, 2005 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2005, 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, 2005, 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 15, 2006 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 15, 2006

Consolidated Statements of Financial Condition

| (Dollars In Thousands) | | December 31, 2005 | December 31, 2004 |
|------------------------|---|-------------------|-------------------|
| Assets | Cash and cash equivalents | \$ 12,529 | \$ 21,145 |
| | Cash segregated under federal and other regulations | 6 | 6 |
| | Securities purchased under agreements to resell | 65,599 | - - |
| | Receivable from brokers and dealers: | | |
| | Securities failed to deliver | 9,137 | 977 |
| | Deposits paid for securities borrowed | 56,278 | 15,887 |
| | Clearing organizations | 24,553 | 21,559 |
| | | 89,968 | 38,423 |
| | Receivable from customers, net of allowance for doubtful receivables of \$204 and \$47, respectively | 259,389 | 201,303 |
| | Securities owned, at fair value | 105,514 | 28,020 |
| | Securities owned and pledged, at fair value | 135,211 | - - |
| | | 240,725 | 28,020 |
| | Investments | 46,628 | 34,824 |
| | Memberships in exchanges | 275 | 300 |
| | Office equipment and leasehold improvements, at cost, net of allowances for depreciation and amortization of \$26,026 and \$22,894, respectively | 11,422 | 9,116 |
| | Goodwill and intangible assets | 13,849 | 3,636 |
| | Loans and advances to investment executives and other employees, net of allowance for doubtful receivables from former employees of \$767 and \$782, respectively | 21,195 | 16,455 |
| | Deferred tax asset | 70,170 | 21,449 |
| | Other assets | 70,170 | 21,449 |
| | TOTAL ASSETS | \$842,001 | \$382,314 |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Financial Condition (continued)

| | (In Thousands, Except Share Amounts) | December 31, 2005 | December 31, 2004 |
|---|--|-------------------|-------------------|
| Liabilities and Stockholders' Equity | Liabilities: | | |
| | Short-term borrowings from banks | \$141,000 | \$ - |
| | Drafts payable | 29,697 | 21,963 |
| | Payable to brokers and dealers: | | |
| | Securities failed to receive | 8,794 | 1,842 |
| | | 89,039 | 33,225 |
| | Deposits received from securities loaned | | |
| | Clearing organizations | 797 | 6,873 |
| | | 98,630 | 41,940 |
| | Payable to customers | 78,456 | 61,368 |
| | Securities sold, but not yet purchased, at fair value | 146,914 | 12,318 |
| | Accrued employee compensation | 35,154 | 28,599 |
| | Accounts payable and accrued expenses | 59,875 | 23,088 |
| | Debenture to Stifel Financial Capital Trust I | 34,500 | 34,500 |
| | Debenture to Stifel Financial Capital Trust II | 35,000 | - |
| | Other | 24,598 | 24,598 |
| | | 683,824 | 248,374 |
| | Liabilities subordinated to claims of general creditors | 3,084 | 2,628 |
| | 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 10,296,279 and 10,234,200 shares, respectively | 1,161 | 1,152 |
| Additional paid-in capital | 75,225 | 64,419 | |
| Retained earnings | 80,279 | 73,525 | |
| | 156,665 | 139,096 | |
| Less: | | | |
| Treasury stock, at cost, 4,316 and 342,202 shares, respectively | 9 | 6,012 | |
| Unearned employee stock ownership plan shares, at cost, 162,683 and 184,371 shares, | 1,563 | 1,772 | |

| | | |
|---|------------------|------------------|
| respectively | 155,093 | 131,312 |
| TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY | \$842,001 | \$382,314 |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Operations

| | | <u>Years Ended December 31,</u> | | |
|---|-----------------------------------|------------------------------------|----------------|----------------|
| (In Thousands, Except Per Share Amounts) | | 2005 | 2004 | 2003 |
| Revenues | Commissions | \$ 107,976 | \$ 95,894 | \$ 82,232 |
| | Investment banking | 55,893 | 57,768 | 49,663 |
| | Principal transactions | 44,110 | 46,163 | 47,417 |
| | Asset management and service fees | 43,476 | 35,504 | 28,021 |
| | Interest | 18,022 | 13,101 | 12,285 |
| | Other | 533 | 2,759 | 2,002 |
| | Total revenues | 270,010 | 251,189 | 221,620 |
| | Less: Interest expense | 6,275 | 4,366 | 5,108 |
| | Net revenues | 263,735 | 246,823 | 216,512 |
| | Non-interest Expenses | Employee compensation and benefits | 174,765 | 157,314 |
| Occupancy and equipment rental | | 22,625 | 21,445 | 19,278 |
| Communications and office supplies | | 12,087 | 10,330 | 10,740 |
| Commissions and floor brokerage | | 4,134 | 3,658 | 3,263 |
| Other operating expenses | | 17,402 | 17,459 | 17,198 |
| Total non-interest expenses | | 231,013 | 210,206 | 191,452 |
| Income before income taxes | | 32,722 | 36,617 | 25,060 |
| Provision for income taxes | 13,078 | 13,469 | 10,053 | |
| Net income | \$ 19,644 | \$ 23,148 | \$ 15,007 | |
| Earnings Per Common Share and Share Equivalents* | Net income per share: | | | |
| | Basic earnings per share | \$ 2.00 | \$ 2.39 | \$ 1.63 |
| | Diluted earnings per share | \$ 1.56 | \$ 1.88 | \$ 1.37 |

*All shares and earnings per share amounts reflect the four-for-three stock split distributed in September 2004.

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 | | Unamortized Expense of Restricted Stock Awards | Total |
|--|--------------|---------|----------------------------------|----------------------|--|------------|--|----------|
| | Shares | Amount | | | Shares | Amount | | |
| Balance at December 31, 2002 | 7,675,781 | \$1,152 | \$53,337 | \$36,161 | (903,037) | \$(10,655) | \$(5) | \$79,990 |
| Purchase of treasury shares | -- | -- | -- | -- | (80,263) | (984) | -- | (984) |
| Tender offer | -- | -- | -- | -- | (87,471) | (1,158) | -- | (1,158) |
| Employee stock ownership plan | -- | -- | (12) | -- | 16,264 | 208 | -- | 196 |
| Employee benefit plans | -- | -- | (266) | -- | 195,633 | 2,262 | -- | 1,996 |
| Stock options exercised | -- | -- | (414) | -- | 95,684 | 1,112 | -- | 698 |
| Units and restricted stock awards amortization | -- | -- | 4,294 | -- | -- | -- | 5 | 4,299 |
| Dividend reinvestment | -- | -- | -- | -- | 5 | 1 | -- | 1 |
| Net income for the year | -- | -- | -- | 15,007 | -- | -- | -- | 15,007 |
| 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 | -- | -- | -- | 23,148 | -- | -- | -- | 23,148 |
| 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) |

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| | | | | | | | | |
|-------------------------------|------------|---------|----------|----------|-----------|------------|----|-----------|
| 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 | -- | -- | -- | 19,644 | -- | -- | -- | 19,644 |
| Balance at December 31, 2005 | 10,296,279 | \$1,161 | \$75,225 | \$80,279 | (166,999) | \$ (1,572) | -- | \$155,093 |

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

| (in thousands) | Years Ended December 31, | | |
|---|--------------------------|-----------|-----------|
| | 2005 | 2004 | 2003 |
| Cash Flows | | | |
| From Operating | | | |
| Activities | | | |
| Net income | \$ 19,644 | \$ 23,148 | \$ 15,007 |
| Noncash items included in earnings: | | | |
| Depreciation and amortization | 5,436 | 4,151 | 3,266 |
| Loans and advances amortization | 7,476 | 5,799 | 7,860 |
| Deferred items | (1,615) | (876) | 736 |
| Stock based compensation | 8,785 | 6,756 | 4,491 |
| (Gains) losses on investments | 1,151 | (1,123) | (247) |
| Decrease (increase) in operating receivables: | | | |
| Customers | (58,086) | 54,196 | 9,147 |
| Brokers and dealers | (51,545) | (3,445) | (1,984) |
| (Decrease) increase in operating payables: | | | |
| Customers | 17,088 | 17,265 | (66,399) |
| Brokers and dealers | (4,324) | 89 | (6,101) |
| Decrease (increase) in assets: | | | |
| Cash segregated under federal and other regulations | -- | (1) | 25 |
| Securities purchased under agreements to resell | (65,599) | -- | -- |
| Securities owned, including those pledged | (212,705) | (3,605) | 4,126 |
| Loans and advancements to investment executives and other employees | (11,976) | (6,352) | (3,785) |
| Other assets | (6,313) | (3,599) | (4,476) |

(Decrease) increase in liabilities:

| | | | |
|--|-------------|-----------|------------|
| | 134,596 | 6,279 | 2,175 |
| Securities sold, not yet purchased | | | |
| Drafts payable, accounts payable and accrued expenses, and accrued employee compensation | 12,389 | 4,037 | 5,959 |
| Cash From Operating Activities | \$(205,598) | \$102,719 | \$(30,200) |

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (continued)

| (in thousands) | | Years Ended December 31, | | |
|----------------|--|--------------------------|-----------------|----------------|
| | | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| | Cash From Operating Activities -- | | | |
| | From Previous Page | \$(205,598) | \$102,719 | \$(30,200) |
| Cash Flows | Proceeds from sale of investments | 14,649 | 3,623 | 2,683 |
| From Investing | Payments for: | | | |
| Activities | | | | |
| | Purchase of LM Capital Markets | | | |
| | business, net of cash acquired | (21,299) | -- | -- |
| | Purchase of office equipment and | (4,797) | (3,729) | (2,383) |
| | leasehold improvements | (15,388) | (3,895) | (5,349) |
| | Purchase of investments | | | |
| | Cash From Investing Activities | (26,835) | (4,001) | (5,049) |
| Cash Flows | Net proceeds (payments) for short-term | | | |
| From Financing | borrowings | | | |
| Activities | | | | |
| | from banks | 141,000 | (5,650) | (37,750) |
| | Securities loaned | 61,014 | (82,866) | 71,902 |
| | Proceeds from: | | | |
| | | 1,580 | 8,722 | 2,700 |
| | Issuance of stock | | | |
| | Issuance of debentures to Stifel | | | |
| | Financial | | | |
| | Capital Trust II | 35,000 | -- | -- |
| | Payments for: | | | |
| | | (14,103) | (9,166) | (2,142) |
| | Purchases of stock for treasury | | | |
| | Principal payments under capital | (41) | (151) | (314) |
| | lease obligation | (633) | (698) | (796) |
| | Reduction of subordinated debt | | | |
| | Cash From Financing Activities | 223,817 | (89,809) | 33,600 |
| | Increase (decrease) in cash and cash | (8,616) | 8,909 | (1,649) |
| | equivalents | | | |
| | Cash and cash equivalents -- beginning of | 21,145 | 12,236 | 13,885 |
| | year | | | |
| | Cash and cash equivalents -- end of year | \$ 12,529 | \$ 21,145 | \$ 12,236 |

Supplemental disclosures of cash flow information:

| | | | |
|---------------------|-----------|-----------|----------|
| Interest payments | \$ 5,657 | \$ 4,460 | \$ 5,015 |
| Income tax payments | \$ 15,770 | \$ 15,817 | \$ 8,998 |

Schedule of Noncash Investing and Financing Activities:

| | | | |
|---|----------|----------|----------|
| Units, net of forfeitures | \$ 8,482 | \$ 6,908 | \$ 6,840 |
| Employee stock ownership shares | \$ 208 | \$ 208 | \$ 208 |
| Liabilities subordinated to claims of general creditors | \$ 1,391 | \$ 1,300 | \$ 918 |

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 two European offices, 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.

Where appropriate, prior years' financial information has been reclassified to conform with the current year presentation. The Company changed the classification within the Consolidated Statements of Cash Flows of the activities associated with securities loaned, net of securities borrowed. Securities loaned will remain as a financing activity while securities borrowed will be classified as an operating activity. The Company believes these changes better reflect the primary business purpose of these transactions.

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
(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 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

The "Investments" caption on the Consolidated Statement of Financial Condition contains 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 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 \$7,329 and \$9,071 at December 31, 2005 and 2004, respectively. The marketable investments carried at fair value were \$19,990 and \$7,569 at December 31, 2005 and 2004 respectively. Investments carried at accreted cost were \$19,309 and \$18,184, at December 31, 2005 and 2004, respectively (See Note N).

Notes To Consolidated Financial Statements
(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. 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. Management monitors and compares individual investment executive production to each loan issued to ensure future recoverability.

Deferred Compensation

Deferred compensation costs are amortized on a straight-line basis over a three to five year deferral period.

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

The Company applies the provisions of Accounting Principles Board Opinion 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:

Notes To Consolidated Financial Statements
(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> | <u>2003</u> |
| Net income | | | |
| As reported | \$19,644 | \$23,148 | \$15,007 |
| Add: Stock-based employee compensation expense included in reported net income, net of related tax | 9,273 | 7,325 | 4,380 |
| Deduct: Total stock-based employee compensation expense determined under SFAS 123 ⁽¹⁾ | (9,892) | (7,870) | (5,488) |
| Pro forma | \$19,025 | \$22,603 | \$13,899 |
| Basic earnings per share | | | |
| As reported | \$ 2.00 | \$ 2.39 | \$ 1.63 |
| Pro forma | \$ 1.94 | \$ 2.33 | \$ 1.51 |
| Diluted earnings per share | | | |
| As reported | \$ 1.56 | \$ 1.88 | \$ 1.37 |
| Pro forma | \$ 1.51 | \$ 1.85 | \$ 1.27 |

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. In 2003, the ESPP was considered compensatory and a pro-forma expense of \$488 was included above. 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, 2004, and 2003, respectively: dividend yield of 0.00% for all years; expected volatility of 32.6%, 28.4%, and 25.8%; risk-free interest rates of 3.94%, 3.41%, and 3.05%, and expected lives of 5.79 years, 5.66 years, and 5.00 years.

Under the provisions of SFAS No. 123 the amended 2003 ESPP, is considered non-compensatory. In 2003, the ESPP was considered compensatory and the fair value of each employee's purchase rights was estimated using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in 2003: dividend yield of 0.00; expected volatility of 23.7%; risk-free interest rates of 1.23%; and expected life of one year. The weighted-average fair value of those purchase rights granted in 2003 was \$1.10.

Income Taxes

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
(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. 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 31st as its annual impairment testing date.

Identifiable intangible assets 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."

Other

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.

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.

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

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

(Continued)

Recent Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 47, "Accounting for Conditional Asset Retirement Obligations, an interpretation of Statement of Financial Accounting Standards ("SFAS") No. 143, Accounting for Asset Retirement Obligations ("FIN 47)". FIN 47 clarifies the term conditional asset retirement obligation as used in SFAS No. 143. FIN 47 refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. FIN 47 is effective no later than the end of fiscal years ending after December 15, 2005. The Company's adoption of FIN 47 did not have a material impact on the consolidated financial statements.

In December 2004, the FASB issued SFAS No. 123 (revised 2004) ("SFAS No. 123R"), "Share-Based Payment," which requires companies to expense the estimated fair value of employee stock options and similar awards. The accounting provisions of SFAS No. 123R, as deferred by the United States Securities and Exchange Commission on April 21, 2005, will be effective for the Company for fiscal years beginning after June 15, 2005. The Company adopted the provisions of SFAS No. 123R, effective January 1, 2006, using a modified prospective application. Under the modified prospective application, SFAS No. 123R, which provides certain changes to the method for valuing stock-based compensation among other changes, will apply to new awards and to awards that are outstanding on the effective date and 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"). For option grants outstanding at December 31, 2005, compensation expense, as determined in accordance with SFAS No. 123R, will be approximately \$595 before income taxes during 2006. The Company will incur additional expense during 2006 related to future awards granted that cannot yet be quantified. The adoption of SFAS No. 123R by the Company had a material impact on the consolidated financial statements beginning January 1, 2006 (See Note U).

In June 2005, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 04-5, "Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights" ("EITF No. 04-5"). EITF No 04-5 consensus requires a general partner in a limited partnership to consolidate the limited partnership unless the presumption of control is overcome. The general partner may overcome this presumption of control and not consolidate the entity if the limited partners have: (a) the substantive ability to dissolve or liquidate the limited partnership or otherwise remove the general partner without having to show cause; or (b) substantive participating rights in managing the partnership. This consensus is effective for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified subsequent to the date of the ratification of this consensus (June 29, 2005). The guidance in this issue is effective for existing partnerships no later than the beginning of the first reporting period in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of EITF No. 04-5 to have a material impact on the Company's consolidated financial statements.

In June 2005, the 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. SFAS No. 154 is effective for accounting changes

made in fiscal years beginning after December 15, 2005. The Company does not expect the adoption of SFAS No. 154 to have a material impact on the Company's consolidated financial statements.

Notes To Consolidated Financial Statements

(in thousands, except share and per share amounts)

NOTE B

-- Cash Segregated Under Federal and Other Regulations

At December 31, 2005, cash of \$6 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, which includes accounts of an affiliated introducing broker. At December 31, 2005, no deposit was required.

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, 2005 and 2004, are as follows:

| Securities, at fair value | December 31, 2005 | | December 31, 2004 | |
|------------------------------------|-------------------|-----------------------------|-------------------|-----------------------------|
| | Owned | Sold, But Not Yet Purchased | Owned | Sold, But Not Yet Purchased |
| U.S. Government obligations | \$ 104,435 | \$ 143,569 | \$ 1,379 | \$ 911 |
| State and municipal bonds | 55,733 | 427 | 13,659 | 411 |
| Corporate obligations | 55,686 | 1,056 | 3,619 | 942 |
| Corporate stocks | 24,871 | 1,862 | 9,363 | 10,054 |
| | 240,725 | \$146,914 | 28,020 | \$12,318 |
| Less: Securities owned and pledged | 135,211 | | - - | |
| Total | \$105,514 | | \$28,020 | |

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. Available ongoing credit arrangements with banks totaled \$605,000 at December 31, 2005, of which \$464,000 was unused. There are no compensating balance requirements under these arrangements. At December 31, 2005, short-term borrowings were \$141,000 at an average rate of 4.40%, of which \$18,250 were collateralized by customer-owned securities of \$77,095. The value of the customer-owned securities is not reflected in the consolidated statement of financial condition. The remaining short-term borrowings of \$122,750 were collateralized by company-owned securities valued at \$135,211. There were no short-term borrowings at December 31, 2004. At December 31, 2003, short-term borrowings were \$5,650 at an average rate of 1.38%, of which \$3,650

were collateralized by customer-owned securities of \$13,858. The value of the customer-owned securities is not reflected in the consolidated statement of financial condition. The remaining short-term borrowings of \$2,000 were collateralized by company-owned securities valued at \$9,690. The average bank borrowing was \$5,607, \$3,672, and \$8,003 in 2005, 2004, and 2003, respectively, at weighted average daily interest rates of 3.09%, 1.74%, and 1.66%, respectively. At December 31, 2005 and 2004, Stifel Nicolaus had a stock loan balance of \$89,039 and \$33,225, respectively, at weighted average daily interest rates of 4.15% and 2.12%, respectively. The average outstanding securities lending arrangements utilized in financing activities were \$52,193, \$81,635, and \$119,528 in 2005, 2004, and 2003, respectively, at weighted average daily effective interest rates of 2.39%, 1.37%, and 1.17%, respectively. Customer securities were utilized in these arrangements.

Notes To Consolidated Financial Statements
(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, 2005, 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 \$25,815, at December 31, 2005. The amounts on deposit satisfied the minimum margin deposit requirement of \$21,614.

In connection with margin deposit requirements of the National Securities Clearing Corporation, the Company had pledged \$6,000 in cash, at December 31, 2005. The amounts on deposit satisfied the minimum margin deposit requirement of \$4,189.

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, 2005, 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 |
|----------------------------|--|
| 2006 | \$17,006 |
| 2007 | 11,358 |
| 2008 | 8,389 |
| 2009 | 6,849 |
| 2010 | 5,751 |
| Thereafter | 9,384 |
| Minimum Commitments | \$58,737 |

Rental expense for the years ended December 31, 2005, 2004, and 2003, approximated \$10,508, \$11,025, and \$10,135, 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 and assets under capital lease for 2005, 2004, and 2003 was \$3,723, \$2,931, and \$3,053, respectively.

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

NOTE E

-- Commitments and Contingencies (Continued)

On February 19, 2002, the Company entered into a \$4,000 sale-leaseback arrangement for certain office furniture and equipment. The Company made quarterly principal payments of approximately \$320. At the time of the original sale, the Company's recorded net book value for the equipment was \$2.9 million, resulting in a deferred gain of \$1.1 million, which was amortized ratably over the life of the lease. The transaction was accounted for as an operating lease. The lease expired in February 2005 and the Company exercised its option to purchase the equipment at 15% of the original purchase price.

NOTE F

-- Net Capital Requirements

As a register 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 \$250 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, Century Securities Associates, Inc. ("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, 2005, Stifel Nicolaus had net capital of \$106,700, which was 36.65% of aggregate debit items and \$100,878 in excess of minimum required net capital. CSA had net capital of \$1,899, which was \$1,767 in excess of minimum required net capital.

The Company's international subsidiary, Stifel Nicolaus Limited, is subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. The FSA also has the power to set minimum capital requirements, which Stifel Nicolaus Limited has met.

NOTE G

- Goodwill and Intangible Assets

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, 2004 | \$L54 | \$I,676 | \$I,180 | \$K,310 |
| | -- | -- | -- | -- |

| | | | | |
|--|---------|----------|---------|----------|
| Goodwill acquired | -- | -- | -- | -- |
| Impairment losses | | | | |
| Balance at December 31, 2005 | L54 | 1,676 | 1,180 | K,310 |
| <u>Intangible Assets</u> | | | | |
| Balance at December 31, 2004 | K26 | -- | -- | K26 |
| | K85 | 8,232 | 1,887 | 10,504 |
| Intangible assets acquired | | | | |
| Amortization of intangible assets | (145) | (146) | -- | (291) |
| | -- | -- | -- | -- |
| Impairment losses | | | | |
| Balance at December 31, 2005 | M66 | 8,086 | 1,887 | 10,539 |
| Total Goodwill and intangible assets | \$1,020 | \$ 9,762 | \$K,067 | \$13,849 |

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

NOTE H

-- **Employee Benefit Plans**

The Company has a profit sharing 401(k) plan (the "PSP") covering qualified employees as defined in the plan. Contributions to the PSP were based upon a company match of 50% of the employees' first one thousand dollars in annual contributions. Effective January 1, 2006 the company match was changed to 50% of the employees' first two 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 \$626, \$419, and \$418, for 2005, 2004, and 2003, 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 \$170) 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, 2005, the plan held 479,670 shares, of which 162,683 shares, with a fair value of \$6,115, were unallocated. The Company charged to employee compensation and benefits \$553, \$392, and \$196 for the ESOP contributions for 2005, 2004, and 2003, respectively.

NOTE I

-- **Stock-Based Compensation Plans**

The Company has several stock-based compensation plans, which are described below. All option 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 options may be granted under the Plans, and determine the terms of each option.

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 may grant stock units up to 933,333 shares.

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

NOTE I -- Stock-Based Compensation Plans (Continued)

The summary of the status of the Company's fixed stock option plans as of December 31, 2005, 2004, and 2003, and changes during the years ending on those dates is presented below:

| Fixed Options | 2005 | | 2004 | | 2003 | |
|--|-----------|---------------------------------|-----------|---------------------------------|-----------|---------------------------------|
| | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price | Shares | Weighted Average Exercise Price |
| Outstanding at beginning of year | 1,869,121 | \$ 8.85 | 2,204,187 | \$ 8.50 | 2,067,377 | \$ 7.92 |
| Granted | 93,208 | 26.90 | 55,164 | 19.24 | 322,000 | 10.98 |
| Exercised | (267,426) | 8.12 | (317,795) | 8.09 | (127,606) | 5.48 |
| Forfeited | (29,540) | 10.37 | (72,435) | 9.56 | (57,584) | 7.93 |
| Outstanding at end of year | 1,665,363 | \$ 9.95 | 1,869,121 | \$ 8.85 | 2,204,187 | \$ 8.50 |
| Options exercisable at year-end | 1,243,972 | | 1,195,395 | | 1,196,725 | |
| Weighted-average fair value of options granted during the year | \$10.51 | | \$6.54 | | \$3.11 | |

The following table summarizes information about fixed stock options outstanding at December 31, 2005:

| 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 | 274,179 | 3.13 | \$ 7.09 | 274,179 | \$ 7.09 | |
| 0.46 - 0.80 | 302,693 | 5.22 | 7.73 | 224,783 | 7.71 | |
| 0.83 - 8.12 | 267,754 | 3.68 | 7.94 | 254,419 | 7.94 | |
| 8.16 - 8.69 | 354,512 | 6.07 | 8.48 | 247,754 | 8.44 | |
| 8.70 - 11.48 | 269,827 | 4.58 | 9.67 | 198,946 | 9.72 | |
| 11.48 - 12.23 | 241,801 | 7.47 | 16.46 | 124,502 | 15.72 | |
| 17.59 - 37.59 | 35,208 | 10.00 | 37.59 | - | 0.00 | |
| | 1,665,363 | 5.26 | \$ 9.95 | 1,243,972 | \$ 8.78 | |

\$4.70 - \$37.59

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 5% 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 and 2003. Under the ESPP, the Company granted 266,661 and 252,144 shares to employees in 2004, and 2003, respectively.

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

NOTE I -- *Stock-Based Compensation Plans (Continued)*

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, 2005, there were 950,175 units outstanding under this deferred compensation plan. The Company charged \$3,644, \$2,766, and \$1,981 to employee compensation and benefits relating to units granted under this plan for 2005, 2004, and 2003, 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 Statement of Financial Condition under the caption "Investments" are \$4,539 in 2005 and \$4,308 in 2004 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, 2005, there were 1,917,992 units outstanding under this deferred compensation plan. Charges to employee compensation and benefits related to these plans were \$5,308, \$4,300, and \$2,243 for 2005, 2004, and 2003, respectively.

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, 2005, there were 75,329 units outstanding under this plan. The Company charged \$320, \$259, and \$156 to directors' fees relating to units granted under this plan for 2005, 2004, and 2003, respectively.

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

NOTE J

-- Legal Proceedings

The Company is named in and subject to various proceedings and claims incidental to its securities business activities, including lawsuits, arbitration claims and regulatory matters. 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 financial condition of the Company but could be material to its operating results in one or more future periods. It is reasonably possible that certain of these lawsuits, arbitrations, claims and regulatory matters could be resolved in the next year and management does not believe such resolutions will result in losses materially in excess of the amounts previously provided.

NOTE K

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

NOTE K

-- Off-Balance Sheet Credit Risk (continued)

At December 31, 2005, securities, primarily from customer margin and securities borrowing transactions, of approximately \$378,000 were available to the Company to utilize as collateral on various borrowings or other purposes. The Company had utilized a portion of these available securities as collateral for stock loans of \$85,301, OCC margin requirements of \$25,815, and customer short sales of \$11,768.

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 Missouri and Illinois.

NOTE L

-- 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 \$34.5 million (net proceeds of approximately \$32.9 million 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

(in thousands, except share and per share amounts)

NOTE M

-- 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> |
|------------------|-------------------------------------|---------------|
| 2000 | 2006 | \$ 779 |
| 2001 | 2007 | 720 |
| 2002 | 2008 | 914 |
| 2003 | 2009 | 1,300 |
| 2004 | 2010 | 1,391 |
| | | 5,104 |
| | Unamortized expense | (2,020) |
| | | \$ 3,084 |

At December 31, 2005, the fair value of the liabilities subordinated to claims of general creditors using interest rates commensurate with borrowings of similar terms was \$4,335.

NOTE N

-- 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 Statement 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 \$19,309 and \$18,184 at December 31, 2005 and 2004, respectively, are held to maturity and are included under the caption "Investments." The fair value of the securities is \$20,445 and \$20,265 at December 31, 2005 and 2004, 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 \$2,531 and \$3,607 at December 31, 2005 and 2004, 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
(in thousands, except share and per share amounts)

NOTE O

-- Preferred Stock Purchase Rights

On July 23, 1996, the Company's Board of Directors authorized and declared a dividend distribution of one preferred stock purchase right for each outstanding share of the Company's common stock, par value \$0.15 per share. The dividend was distributed to stockholders of record on August 12, 1996. Each right will entitle the registered holder to purchase one one-hundredth of a share of a Series A Junior Participating Preferred Stock, par value \$1.00 per share, at an exercise price of \$35 per right. The rights become exercisable on the tenth day after public announcement that a person or group has acquired 15% or more of the Company's common stock or upon commencement of announcement of intent to make a tender offer for 15% or more of the outstanding shares of common stock without prior written consent of the Company. If the Company is acquired by any person after the rights become exercisable, each right will entitle its holder to purchase shares of common stock at one-half the then current market price and, in the event of a subsequent merger or other acquisition of the Company, to buy shares of common stock of the acquiring entity at one-half of the market price of those shares. The rights may be redeemed by the Company prior to becoming exercisable by action of the Board of Directors at a redemption price of \$.01 per right. These rights will expire, if not previously exercised, on August 12, 2006.

NOTE P

-- Income Taxes

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

| | Years Ended December 31, | | |
|-----------|--------------------------|-------------|-------------|
| | <u>2005</u> | <u>2004</u> | <u>2003</u> |
| Current: | | | |
| Federal | \$ 13,163 | \$ 12,669 | \$ 7,827 |
| State | 2,614 | 2,912 | 1,799 |
| | 15,777 | 15,581 | 9,626 |
| Deferred: | | | |
| Federal | (2,252) | (1,717) | 347 |
| State | (447) | (395) | 80 |
| | (2,699) | (2,112) | 427 |
| | \$13,078 | \$13,469 | \$10,053 |

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>J005</u> | <u>J004</u> | <u>J003</u> |

| | | | |
|---|-----------|-----------|----------|
| Federal tax computed at statutory rates | \$ 11,452 | \$ 12,816 | \$ 8,772 |
| State income taxes, net of federal income tax benefit | 1,409 | 1,514 | 1,237 |
| Settlement of a state tax matter | - - | (1,000) | -- |
| Other, net | 217 | 139 | 44 |
| Provision for income taxes | \$13,078 | \$13,469 | \$10,053 |

The effective tax rates for the years ended December 31, 2005, 2004, and 2003 were 40.0%, 36.8%, and 40.1%, respectively. The change in 2004 was due to a \$1.0 million tax benefit recorded in that year resulting from the settlement of a state tax matter covering a number of years. Excluding the \$1.0 million tax benefit, the Company's effective tax rate for the year ending December 31, 2004 was 39.5%.

Notes To Consolidated Financial Statements
(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, 2005</u> | <u>December 31, 2004</u> |
|---|-------------------------------|------------------------------|
| Deferred Tax Asset | | |
| Accruals not currently deductible | \$ 2,140 | \$1,131 |
| Deferred compensation | 6,439 | 4,525 |
| Acquired net operating loss | 520 | 624 |
| Deferred revenue | 32 | 58 |
| Office equipment and leasehold improvements | 112 | -- |
| Investment valuation | 1,530 | 1,970 |
| Reserve for bad debt | 381 | 324 |
| | 11,154 | 8,632 |
| | Deferred Tax Asset | |
| Deferred Tax Liability | | |
| Office equipment and leasehold improvements | -- | (325) |
| Prepaid expenses | (789) | (565) |
| Intangible assets, principally tax over book amortization | (29) | (105) |
| | (818) | (995) |
| | Deferred Tax Liability | |
| Net Deferred Tax Asset | \$10,336 | \$7,637 |

The Company has a capital loss carry forward of \$2,200 relating to its investment portfolio. This capital loss carry forward expires December 2007. The Company also has acquired a net operating loss that is being used 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
(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. Prior years' financial information has been reclassified to conform with the current year presentation. 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. 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 Legg Mason Capital Markets business ("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, | | |
|------------------------------|--------------------------|------------------|------------------|
| | 2005 | 2004 | 2003 |
| Net Revenues | | | |
| Private Client Group | \$197,356 | \$187,477 | \$163,822 |
| Equity Capital Markets | 43,415 | 38,855 | 35,533 |
| Fixed Income Capital Markets | 18,155 | 16,630 | 15,384 |
| Other | 4,809 | 3,861 | 1,773 |
| Total Net Revenues | \$263,735 | \$246,823 | \$216,512 |
| Operating Contributions | | | |
| Private Client Group | \$ 48,157 | \$ 47,965 | \$ 36,309 |
| Equity Capital Markets | 13,626 | 12,480 | 10,789 |
| Fixed Income Capital Markets | 2,361 | 2,977 | 2,750 |
| Other/Unallocated Overhead | (31,422) | (26,805) | (24,788) |
| Income before income taxes | \$ 32,722 | \$ 36,617 | \$ 25,060 |

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

NOTE R

-- Earnings per Share

The following table reflects a reconciliation between Basic Earnings Per Share and Diluted Earnings Per Share.

| | Years Ended December 31, | | | | | | | | |
|---|--------------------------|------------|------------------|----------|------------|------------------|----------|------------|------------------|
| | 2005 | | | 2004 | | | 2003 | | |
| | Income | Shares | Per Share Amount | Income | Shares | Per Share Amount | Income | Shares | Per Share Amount |
| Basic Earnings Per Share | | | | | | | | | |
| Income available to shareholders | \$19,644 | 9,827,734 | \$2.00 | \$23,148 | 9,701,699 | \$2.39 | \$15,007 | 9,232,858 | \$1.63 |
| Effect of Dilutive Securities | | | | | | | | | |
| Employee benefits plans | -- | 2,758,200 | -- | -- | 2,579,794 | -- | -- | 1,738,468 | -- |
| Diluted Earnings Per Share | | | | | | | | | |
| Income available to common stockholders and assumed conversions | \$19,644 | 12,585,934 | \$1.56 | \$23,148 | 12,281,493 | \$1.88 | \$15,007 | 10,971,326 | \$1.37 |

NOTE S

-- Share Repurchases

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 332,030, 472,872, and 107,017 shares for the years ending December 31, 2005, 2004, and 2003, respectively, using existing board authorizations, at average prices of \$20.94, \$19.38, and \$9.19 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 255,058 shares in 2005. The Company reissued 924,974, 942,615, and 388,423 shares for the years ending December 31, 2005, 2004, and 2003, respectively, for employee benefit plans. In 2005, the Company issued 62,079 new shares for employee benefit plans. Under existing board authorizations, the Company is permitted to buy an additional 2,079,112 shares.

NOTE T - Acquisition (Restated)

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 approximately 500 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 Legg Mason 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 \$12,200 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 Legg Mason 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, the Company acquired \$45,900 in net securities inventories associated with the LM Capital Markets in a broker to broker trade with LMWW.

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

NOTE T -- Acquisition (Restated) (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 |
|---|-------------------|-------------------|
| 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 pro forma net income and diluted earnings per share for the year ended December 31, 2005 has been revised from the originally filed Form 10-K in order to correct an error. The pro forma net income and diluted earnings per share in the originally filed Form 10-K were \$15,581 and \$1.01, respectively.

The above 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 \$21,500 and \$9,800 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. (See Note U). 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 current valuation estimate, is as follows:

| | |
|---------------------------|----------|
| Cash | \$K25 |
| Investments | I2,275 |
| Furniture & fixtures | I,513 |
| Accounts receivables | K5,123 |
| Prepaid expenses | N23 |
| Intangible assets | 9,434 |
| Total assets acquired | M9,293 |
| Accounts payables | J,643 |
| Accrued expenses | K5,026 |
| Total liabilities assumed | K7,669 |
| Net assets acquired | \$J1,624 |

The intangible assets of \$9,434 were assigned to the Equity Capital Markets and Fixed Income Capital Markets in the amounts of \$7,547 and \$1,887, respectively. The total amount of intangible assets of \$9,434 are expected to be deductible for tax purposes.

The final allocation of the purchase price on the Company's consolidated financial statements may differ from that reflected herein as a result of (i) completion of the valuation study required to finalize the purchase price allocation and (ii) final resolution of contingent consideration for this acquisition. Management believes that the foregoing will not result in material changes to the consolidated financial statements.

Notes To Consolidated Financial Statements

(in thousands, except share and per share amounts)

NOTE U -- *Subsequent Events*

Stock-Based Compensation

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 will incur annual compensation expense of \$21,517, net of estimated forfeitures.

On January 23, 2006, the Company completed its 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 is 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 approximately \$9,800 in January 2006.

Future Impact of Scheduled NYSE/Archipelago Merger

On March 7, 2006, the New York Stock Exchange ("NYSE") and Archipelago Holdings Inc. ("Archipelago") completed the combination of their business through a series of mergers into a new holding company, NYSE Group, Inc. ("NYSE Group"). Shares of NYSE Group common stock were listed on the NYSE under the ticker symbol "NYX" and commenced trading on March 8, 2006. As a result of the merger, NYSE members will be entitled to receive \$300 in cash, a cash dividend of \$71 and 80,177 shares of NYSE Group common stock for each 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.

Stifel Nicolaus has one membership seat included in "Membership and exchanges" on the Consolidated Statement of Financial Condition at a cost of \$107. As a result of the closing, the Company expects to receive consideration of approximately \$6,668. The amount of the gain represented by the difference between the consideration received and the cost of \$107 will be discounted for the transfer restrictions on the shares received and recorded in the first quarter 2006. Subsequent gains and losses will be recorded as the share price of NYSE Group stock fluctuates and the transfer restrictions lapse.

* * * * *

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 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 ⁽¹⁾ | 78,106 | 75,718 | 8,004 | 4,770 | 0.48 | 0.38 |
| Year 2004 By Quarter | | | | | | |
| First ⁽²⁾ | \$68,535 | \$67,450 | \$9,800 | \$6,874 | \$0.71 | \$0.57 |
| Second | 60,470 | 59,411 | 8,322 | 5,035 | 0.51 | 0.41 |
| Third | 56,818 | 55,695 | 7,037 | 4,257 | 0.44 | 0.35 |
| Fourth | 65,366 | 64,267 | 11,458 | 6,982 | 0.72 | 0.56 |

*All earnings per share amounts reflect the four-for-three stock split distributed in September 2004.

(1)

Fourth quarter results include \$3.3 million in acquisition charges related to the LM Capital Markets acquisition.

(2)

First quarter results include a \$1.0 million tax benefit resulting from the settlement of a state tax matter covering a number of years.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. CONTROLS AND PROCEDURES

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

As of the period covered by this report on Form 10-K/A, we carried out an evaluation under the supervision and with the participation of the company's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedure. Based upon that evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded that our disclosure controls and procedures are effective. The Report of Management, including internal control over financial reporting, is on page 33 of this annual report on Form 10-K/A.

On January 26, 2007, the company amended its 2005 Annual Report on Form 10-K filed March 15, 2006 to restate certain of the unaudited pro-forma financial data contained in Note T of the Notes to Consolidated Financial Statements. Management believes the restatement is immaterial for the following reasons:

- ◆ The restatement corrects an error in the footnote disclosure of unaudited pro forma financial data for combined operations which do not purport to be indicative of the results which actually would have occurred;
- ◆ The correction has no effect on the Company's Consolidated Statement of Financial Condition as of December 31, 2005 and 2004, or its Consolidated Statements of Operations, Stockholders Equity, and Cash Flows for each of the three years ended December 31, 2005, and
- ◆ It is not probable that the judgment of a reasonable person relying upon the 2005 Annual Report on Form 10-K would have been changed by the correction of certain of the unaudited pro-forma financial data in the footnote.

Accordingly, management believes there is no material weakness in internal control and has not changed its conclusion that the company's internal controls over financial reporting are designed and operating effectively as of December 31, 2005. Management's assessment of the effectiveness of internal control over financial reporting as of December 31, 2005, has been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their report which is on page 3 of this annual report on Form 10-K/A.

There have been no changes in our internal controls or in other factors that could materially affect these controls subsequent to the date the controls were evaluated.

Management's Report on Internal Control over Financial Reporting

Management of Stifel Financial Corp. and subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process designed under the supervision of the Company's Chief Executive Officer and Chief Financial Officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

The Company's internal control over financial reporting includes those policies and procedures that: (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the Company's consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The Company's management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2005. In making this assessment, the Company's management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control-Integrated Framework*. Based on its assessment, management believes that, as of December 31, 2005, the Company's internal control over financial reporting is effective based on those criteria.

On December 1, 2005, the Company acquired substantially all of the Legg Mason Capital Markets business ("LM Capital Markets"). As permitted under Section 404 of the Sarbanes-Oxley Act, the Company excluded LM Capital Markets from the scope of the internal control evaluation. LM Capital Markets represented 5% of the Company's consolidated net revenues for the year ended December 31, 2005.

The Company's independent registered public accounting firm, Deloitte & Touche LLP, has audited management's assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2005, as stated in their report, appearing on page 34, which expresses unqualified opinions on management's assessment and on the effectiveness of the Company's internal control over financial reporting as of December 31, 2005.

March 15, 2006

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

Stifel Financial Corp.

St. Louis, Missouri

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that Stifel Financial Corp. and Subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2005, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. As described in Management's Report on Internal Control Over Financial Reporting, management excluded from their assessment the internal control over financial for the Legg Mason Capital Markets business, which was acquired on December 1, 2005 and whose financial statements reflect five percent of total assets and revenues of the related consolidated financial statement amounts as of and for the year ended December 31, 2005. Accordingly, our audit did not include the internal control over financial reporting for the Legg Mason Capital Markets business. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit 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 effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 31, 2005, is fairly stated, in all material respects, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2005, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedule as of and for the year ended December 31, 2005 of the Company and our report dated March 15, 2006 expressed an unqualified opinion on those financial statements and financial statement schedule.

/s/ Deloitte & Touche LLP

St. Louis, Missouri
March 15, 2006

Changes in Internal Control Over Financial Reporting

Further, other than described above, there were no significant changes in the Company's internal controls over financial reporting during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None

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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:

Schedule II - Valuation and Qualifying Accounts

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 80 and 81 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 26th day of January 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 ⁽¹⁾ | Balance At End Of Period |
|--|--------------------------------------|--|---------------------------|--------------------------------|
| 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 |
| Year Ended December 31, 2003 | | | | |
| Deducted from asset account: | | | | |
| Allowances for doubtful accounts | 144 | 82 | 144 | 82 |
| Deducted from asset account: | | | | |
| Allowances for doubtful notes receivables | 677 | 1,233 | 513 | 1,397 |

(1)

Uncollected notes written off and recoveries.

EXHIBIT INDEX

STIFEL FINANCIAL CORP. AND SUBSIDIARIES
ANNUAL REPORT ON FORM 10-K
YEAR ENDED DECEMBER 31, 2005

| 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. | (a) Preferred Stock Purchase Rights of Financial, incorporated herein by reference to Financial's Registration Statement on Form 8-A (File No. 1-9305) filed July 30, 1996. |
| 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. |
| | (c) 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.(l) 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 Appendix B of Financial's Proxy Statement for the 2004 Annual Meeting of Stockholders filed April 5, 2004. * |
| | (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. * |
| | (g)(1) |

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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. 2, incorporated herein by reference to Financial's Proxy Statement for the special meeting of stockholders filed September 28, 2005.
- (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.
- (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.*
 - (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.
 - (p) Employment Agreement with Richard Himelfarb dated September 6, 2005, filed herewith. *
 - (q) Employment Agreement with Thomas Mulroy dated September 7, 2005, filed herewith. *
 - (r) Employment Agreement with Joseph Sullivan dated September 6, 2005, filed herewith. *
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, 2005.
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, filed herewith.
- 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, filed herewith.
32. Certification pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, incorporated herein by reference to Exhibit 31.(i).2 to Financial's Annual Report on Form 10-K (File No. 1-9305) for the year ended December 31, 2005. This exhibit is furnished to the SEC.

* Management contract or compensatory plan or arrangement.

