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)

[X] 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 [X]

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 [X]

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 [X] 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 [X] 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 [X]

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	21,105	16,455
	Deferred tax asset	10,336	7,637
	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
	Deposits received from securities loaned	89,039	33,225
	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

	(In Thousands, Except Per Share Amounts)	Years Ended December 31, 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	140,973
	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.

Consolidated Statements of Stockholders' Equity

(in thousands, Except share amounts)	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Treasury Stock and Unearned Employee Stock Ownership Plan Shares	Treasury Stock and Unearned Employee Stock Ownership Plan Amount	Unamortized Expense of Restricted Stock Awards	Total
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)

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

		Years Ended December 31,		
	(in thousands)	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)
		40,877	37,855	31,113
	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:			
Securities sold, not yet purchased	134,596	6,279	2,175
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)

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

	December 31, 2005		December 31, 2004	
Securities, at fair value	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
Goodwill				
Balance at December 31, 2004	$L54	$I,676	$I,180	$K,310
	- -	- -	- -	- -

Goodwill acquired

Impairment losses