

STIFEL FINANCIAL CORP
Form 10-Q/A
January 26, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

(Mark One)

x

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _ to _

Commission file number I-9305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation or
organization)

501 N. Broadway, St. Louis, Missouri

(Address of principal executive offices)

43-1273600

(I.R.S. Employer Identification No.)

63102-2188

(Zip Code)

Registrant's telephone number, including area code

314-342-2000

(Former name, former address, and former fiscal year, if changed since last report)

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 reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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 Exchange Act). Yes No

As of April 30, 2006, there were 11,887,865 shares of Stifel Financial Corp. common stock, par value \$0.15, outstanding.

Stifel Financial Corp.

**Amendment No. 1 to the Quarterly Report on Form 10-Q
For the Period Ended March 31, 2006**

Explanatory Note

Stifel Financial Corp. (the "Company") is filing this Amendment No. 1 to its Quarterly Report on Form 10-Q for the period ended March 31, 2006 ("Form 10-Q/A") in order to correct an error in Part I. Item 1, specifically, the pro forma financial data contained in the Notes to Consolidated Financial Statements, Note G - Acquisition, and amend the exhibits to Part II. Item 6 to the Quarterly Report on Form 10-Q originally filed with the United States Securities and Exchange Commission on May 10, 2006 (the "Original Filing"). In Part I Item 1, the Company has restated Note G - Acquisition of the Notes to Condensed Consolidated Financial Statements (Unaudited) changing pro forma net income for the period ended March 31, 2005, from \$6,892,955 to \$4,371,885, and pro forma diluted earnings per share, from \$0.63 to \$0.32. The error had no effect on Company's condensed consolidated statements of financial condition as of March 31, 2006 (Unaudited) and December 31, 2005, or its condensed consolidated statements of operations, and cash flows for the three months ended March 31, 2006 and 2005. In Part II Item 6, the Company has 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 this Form 10-Q/A is being supplemented, updated or amended. This Form 10-Q/A amends and restates only Items 1 and 4 of Part I and Item 6 of Part II of the Form 10-Q. The other Items are not being amended and therefore have been omitted from this Form 10-Q/A. This Form 10-Q/A does not purport to provide a general update or discussion of any other developments subsequent to the Original Filing.

PART I. FINANCIAL INFORMATION

	<u>PAGE</u>
Item 1. Financial Statements	
Condensed Consolidated Statements of Financial Condition -- March 31, 2006 (Unaudited) and December 31, 2005	3
Condensed Consolidated Statements of Operations (Unaudited) -- Three Months Ended March 31, 2006 and 2005	4
Condensed Consolidated Statements of Cash Flows (Unaudited) -- Three Months Ended March 31, 2006 and 2005	5
Notes to Condensed Consolidated Financial Statements (Unaudited)	6 - 14
Item 4. Controls and Procedures	15

PART II. OTHER INFORMATION

Item 6. Exhibits	16
Signatures	17

PART I. FINANCIAL INFORMATION

Item 1. Financial StatementsSTIFEL FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(In thousands, except par values and share amounts)

March 31, 2006 December 31, 2005

(Unaudited)

ASSETS

Cash and cash equivalents	\$ 18,420	\$ 12,529
Cash segregated under federal and other regulations	6	6
Securities purchased under agreements to resell	60,507	65,599
Receivables from brokers and dealers:		
Securities failed to deliver	15,731	9,137
Deposits paid for securities borrowed	53,570	56,278
Clearing organizations	<u>5,326</u>	<u>24,553</u>
	74,627	89,968
Receivables from customers, net of allowance for doubtful receivables of \$310 and \$204, respectively	254,857	259,389
Securities owned, at fair value	208,167	105,514
Securities owned and pledged, at fair value	<u>120,108</u>	<u>135,211</u>
	328,275	240,725
Investments	51,936	46,628
Membership in exchanges	168	275
Office equipment and leasehold improvements, at cost, net of allowances for depreciation and amortization of \$27,001 and \$26,026, respectively	11,481	11,422
Goodwill and intangible assets	14,357	13,849
Loans and advances to investment executives and other employees, net of allowance for doubtful receivables from former employees of \$749 and \$767, respectively	21,346	21,105
Deferred tax asset	8,774	10,336
Other assets	<u>46,289</u>	<u>70,170</u>
	<u>\$891,043</u>	<u>\$842,001</u>
Total Assets		

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q/A

Short-term borrowings from banks	\$ 68,100	\$ 141,000
Drafts payable	20,955	29,697
Payables to brokers and dealers:		
Securities failed to receive	14,915	8,794
Deposits received from securities loaned	106,513	89,039
Clearing organizations	<u>21,617</u>	<u>797</u>
	143,045	98,630
Payables to customers	107,337	78,456
Securities sold, but not yet purchased, at fair value	201,591	146,914
Accrued employee compensation	33,110	35,154
Accounts payable and accrued expenses	23,957	59,875
Debenture to Stifel Financial Capital Trust I	34,500	34,500
Debenture to Stifel Financial Capital Trust II	35,000	35,000
Other	<u>24,598</u>	<u>24,598</u>
	<u>692,193</u>	<u>683,824</u>
Liabilities subordinated to claims of general creditors	<u>2,575</u>	<u>3,084</u>
Stockholders' Equity		
Preferred stock -- \$1 par value; authorized 3,000,000 shares; none issued	--	--
Common stock -- \$0.15 par value; authorized 30,000,000 shares; issued 11,859,830 and 10,296,279 shares respectively	1,779	1,161
Additional paid-in capital	115,252	75,225
Retained earnings	<u>80,755</u>	<u>80,279</u>
	197,786	156,665
Less:		
Treasury stock, at cost, 1,191 and 4,316 shares, respectively	--	9
Unearned employee stock ownership plan shares, at cost, 157,261 and 162,683 shares, respectively	<u>1,511</u>	<u>1,563</u>
Total Stockholders' Equity	<u>196,275</u>	<u>155,093</u>
Total Liabilities and Stockholders' Equity	<u>\$891,043</u>	<u>\$842,001</u>

See Notes to Condensed Consolidated Financial Statements (unaudited).

STIFEL FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

(In thousands, except per share amounts)

	<u>Three Months Ended</u>	
	<u>March 31,</u>	
	<u>2006</u>	<u>2005</u>
<u>REVENUES</u>		
Commissions	\$ 49,309	\$ 24,335
Investment banking	15,729	13,741
Principal transactions	20,509	10,981
Asset management and service fees	13,498	9,451
Interest	7,191	3,440
Other	<u>7,358</u>	<u>(655)</u>
Total revenues	<u>113,594</u>	<u>61,293</u>
Less: Interest expense	<u>4,063</u>	<u>1,105</u>
Net revenues	<u>109,531</u>	<u>60,188</u>
<u>NON-INTEREST EXPENSES</u>		
Employee compensation and benefits	86,694	40,689
Occupancy and equipment rental	7,495	5,505
Communications and office supplies	6,413	2,561
Commissions and floor brokerage	1,267	844
Other operating expenses	<u>6,879</u>	<u>3,325</u>
Total non-interest expenses	<u>108,748</u>	<u>52,924</u>
Income before income taxes	783	7,264
Provision for income taxes	<u>307</u>	<u>2,906</u>
	<u>\$ 476</u>	<u>\$ 4,358</u>

Net income

Earnings per share:

Basic	\$ 0.04	\$ 0.44
Diluted	\$ 0.04	\$ 0.35
Weighted average common equivalent shares outstanding:		
Basic	11,254	9,830
Diluted	13,422	12,415

See Notes to Condensed Consolidated Financial Statements (unaudited).

STIFEL FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)(In thousands)

Three Months Ended

	<u>March 31, 2006</u>	<u>March 31, 2005</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES</u>		
Net income	\$ 1,76	\$1,358
Non-cash items included in net income:		
Depreciation and amortization	730	1,121
Loans and advances amortization	1,383	1,759
Loss (gains) on investments	(6,759)	1,297
Deferred items	2,166	43
Excess tax benefit associated with stock based awards	(9,448)	--
Compensation related to the private placement	9,751	--
Stock based compensation	<u>6,305</u>	<u>2,466</u>
	4,604	11,044
Decrease (increase) in assets:		
Operating receivables	19,873	11,035
Securities purchased under agreements to resell	5,092	--
Securities owned, including those pledged	(87,550)	(31,615)
Loans and advances to investment executives and other employees	(1,624)	(1,017)
Other assets	32,604	(103)
Increase (decrease) in liabilities:		
Operating payables	55,047	11,373
	54,677	1,784

Securities sold, but not yet purchased

Drafts payable, accrued employee compensation, and accounts payable and accrued expenses	<u>(59,155)</u>	<u>(23,115)</u>
Cash Flows From Operating Activities	<u>23,568</u>	<u>(20,614)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES</u>		
Proceeds from sale or maturity of other investments	14,153	1,026
Payments for:		
Purchase of office equipment and leasehold improvements	(1,080)	(1,675)
Purchase of investments	<u>(12,595)</u>	<u>(539)</u>
Cash Flows From Investing Activities	<u>478</u>	<u>(1,188)</u>
<u>CASH FLOWS FROM FINANCING ACTIVITIES</u>		
Short-term borrowings, net	(72,900)	35,150
Securities loaned	18,248	23,326
Excess tax benefit associated with stock based awards	9,448	--
Issuance of stock	748	235
Proceeds from private placement	26,306	--
Payments for:		
Purchase of stock for treasury	(5)	(7,132)
Reduction of subordinated debt	--	(633)
Principal payments under capital lease obligation	--	<u>(23)</u>
Cash Flows From Financing Activities	<u>(18,155)</u>	<u>50,923</u>
Increase in cash and cash equivalents	5,891	29,121
	<u>12,529</u>	<u>21,145</u>

Cash and cash equivalents - beginning of period

Cash and Cash Equivalents - end of period	<u>\$18,420</u>	<u>\$M0,266</u>
---	-----------------	-----------------

Supplemental disclosure of cash flow information:

Income tax payments	\$ 737	\$ 5,305
---------------------	--------	----------

Interest payments	\$ 4,352	\$ 1,016
-------------------	----------	----------

Schedule of non-cash investing and financing activities:

Employee stock ownership plan	\$ 52	\$ 52
-------------------------------	-------	-------

Stock units, net of forfeitures	\$ 72,209	\$ 4,179
---------------------------------	-----------	----------

See Notes to Condensed Consolidated Financial Statements (unaudited).

STIFEL FINANCIAL CORP.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A - REPORTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of Stifel Financial Corp. and its subsidiaries (collectively referred to as the "Company"). The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2005. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2005.

The preparation of the condensed consolidated 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 disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management considers its significant estimates, which are most susceptible to change, to be the fair value of investments, the accrual for litigation, the allowance for doubtful receivables from loans and advances to employees, and interim incentive compensation accruals. Actual results could differ from those estimates.

Where appropriate, prior periods' financial information has been reclassified to conform to the current period presentation. The reclassification primarily relates to certain fees, which had been recorded in other revenues and are now reflected in commissions.

Comprehensive Income

The Company's comprehensive income for the three months ended March 31, 2006 and 2005 was equal to the Company's net income.

Stock-Based Compensation

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

In the first quarter of 2006, the adoption of SFAS No. 123R resulted in incremental stock-based compensation expense of \$162,081, which caused net income to decrease by \$80,716 and basic and diluted earnings per share to decrease by \$0.01 per share. Additionally, SFAS No. 123R amends SFAS No. 95, "Statement of Cash Flows," to require the excess tax benefits to be reported as a financing cash inflow rather than a reduction of taxes paid, which is included within operating cash flows. Accordingly, cash provided by operating activities decreased and cash provided by financing activities increased by \$9,448,227 for the three months ended March 31, 2006 related to excess tax benefits from stock-based awards.

Prior to the adoption of SFAS No. 123R, the Company applied Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25") to account for its stock-based awards. The following table details the effect on net income and earnings per share had compensation expense for the Employee Stock-Based Awards been recorded in the first quarter of 2005 based on the fair value method under SFAS No. 123:

(in thousands, except per share amounts)	Three Months Ended <u>March 31, 2005</u>
<u>Net Income:</u>	
As reported	\$ <u>L,358</u>
Add: Stock-based employee compensation expense included in reported net income, net of related tax	1,951
Deduct: Total stock-based employee compensation expense determined under SFAS 123	<u>(2,070)</u>
Pro forma	<u>\$L,239</u>
<u>Basic earnings per share</u>	
:	
As reported	\$0.44
Pro forma	\$0.43
<u>Diluted earnings per share</u>	
:	
As reported	\$0.35
Pro forma	\$0.34

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: dividend yield of 0.00%; expected volatility of 30.34%; risk-free interest rates of 3.88%; and expected lives of 5.63

years.

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. The Company's adoption of FIN 47 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

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 adoption of EITF No. 04-5 did not have a material impact on the Company's Condensed 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. The adoption of SFAS No. 154 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

NOTE B - STOCK-BASED COMPENSATION PLANS

The Company has several stock-based compensation plans. All option plans are administered by the Compensation Committee of the Board of Directors of Stifel Financial Corp., 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 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.

During the three-month period ended March 31, 2006, the Company granted 2,004,909 units at an average value of \$38.32 per unit and converted 682,984 units into common stock.

On January 2, 2006, the Company granted 1,807,610 restricted stock units to key associates of the Legg Mason Capital Markets business ("LM Capital Markets") (See Note G). The units were granted in accordance with the Company's 2001 incentive stock award plan as amended with a grant date fair value of \$37.59 per unit. The units vest ratably over a three year period, and accordingly, the Company incurred compensation expense of \$5,520,865 in the first quarter of 2006.

The total compensation cost recognized for the three-month periods ended March 31, 2006 and March 31, 2005 was \$8,295,727 and \$2,631,814, respectively. The total tax benefit for the three-month periods ended March 31, 2006 and March 31, 2005 related thereto was \$8,506,513 and \$1,424,360, respectively.

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.

As of March 31, 2006, there was \$1,576,789 of total unrecognized compensation cost related to non-vested option awards. That cost is expected to be recognized over a weighted average period of 2.44 years.

The summary of the status of the Company's fixed stock option plans as of March 31, 2006 and changes during the three-month period is presented below:

Fixed Options	2006	
	Shares	Weighted Average Exercise Price
Outstanding at beginning of year	1,665,363	\$ 9.95
Granted	8,000	\$38.25
Exercised	(84,169)	\$ 8.88
Cancelled	--	--
Outstanding at end of period	1,589,194	\$ 10.15
Options exercisable	1,250,267	\$ 8.78
Weighted-average fair value of options granted during the period	\$10.51	

The total intrinsic value of options exercised during the three-month periods ended March 31, 2006 and March 31, 2005 was \$2,401,107 and \$537,647, respectively. The total fair value of shares vested during the three-month period ended March 31, 2006 was \$244,786.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q/A

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

Range of Exercise Price	Options Outstanding			Options Exercisable	
	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
\$4.70 - \$7.41	229,046	2.90	\$ 7.01	229,046	\$ 7.02
O.41 - O.80	271,776	5.09	7.74	237,921	7.73
O.83 - 8.12	263,620	3.43	7.94	250,565	7.95
8.16 - 8.69	334,979	5.85	8.48	257,016	8.45
8.70 - 11.48	248,911	4.30	9.64	189,628	9.67
13.89 - 17.23	197,654	8.31	17.47	86,091	17.83
17.24 - 21.25	43,208	9.75	37.71	-	0.00
	1,589,194	5.06	\$ 10.15	1,250,267	\$ 8.78
\$4.70 - \$38.25					

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the assumptions noted in the following table:

Risk-free interest rate	4.55 %
Expected option life	5.35 Years
Expected stock price volatility	32.6 %
Dividend yield	0 %

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

The total compensation cost recognized for the three-month periods ended March 31, 2006 and March 31, 2005 was \$162,081 and \$0, respectively. The total tax benefit related thereto was \$941,714 and \$209,979, respectively. The Company received \$747,743 and \$357,810 cash from the exercise of stock options during the three-month periods ended March 31, 2006 and March 31, 2005, respectively.

NOTE C - NET CAPITAL REQUIREMENT

The Company's principal subsidiary, Stifel, Nicolaus & Company, Incorporated ("SN & Co.") 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. SN & Co. has elected to use the alternative method permitted by the Rule that requires maintenance of minimum net capital equal to the greater of \$250,000 or 2% of aggregate debit items arising from customer transactions, as defined. The Rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. Another subsidiary, 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 March 31, 2006, SN & Co. had net capital of \$88,301,989, which was 28.71% of its aggregate debit items, and \$82,151,698 in excess of the minimum required net capital. CSA had net capital of \$2,431,807 which was \$2,182,956 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 D - 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 condensed 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 E - SEGMENT REPORTING

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

Intersegment net 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.

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q/A

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

	<u>Three Months Ended</u>	
(in thousands)	<u>March 31,</u>	
<u>Net Revenues</u>	<u>2006</u>	<u>2005</u>
Private Client Group	\$M5,684	\$L7,158
Equity Capital Markets	33,798	8,614
Fixed Income Capital Markets	11,875	4,095
Other	8,174	321
Total Net Revenues	<u>\$ 109,531</u>	<u>\$N0,188</u>
<u>Operating Contribution</u>		
Private Client Group	\$I2,914	\$ 11,188
Equity Capital Markets	7,100	2,730
Fixed Income Capital Markets	1,675	542
Other/ Unallocated Overhead	<u>(20,906)</u>	<u>(7,196)</u>
Income before income taxes	<u>\$ 783</u>	<u>\$ O,264</u>

NOTE F - STOCKHOLDERS' EQUITY AND EARNINGS PER SHARE ("EPS")

The Company has an ongoing authorization, as amended, from the Board of Directors to repurchase its common stock in the open market or in negotiated transactions in order to meet obligations under the Company's employee benefit plans and for general corporate purposes. In May 2005, the Company's Board of Directors authorized the repurchase of an additional 2,000,000 shares, for a total authorization to repurchase up to 3,000,000 shares. During the first three months of 2006, the Company repurchased 134 shares of its common stock, at an average price of \$37.76 per share. The Company reissued 3,259 shares of common stock and issued 1,563,551 new shares for its employee benefit plans in the first three months of 2006.

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 \$9,750,818 in January 2006.

Basic EPS is calculated by dividing net income by the weighted-average number of common shares outstanding. Diluted EPS is similar to basic EPS but adjusts for the effect of potential common shares.

The components of the basic and diluted EPS calculations for the three months ended March 31 are as follows:

	<u>Three Months Ended</u>	
(in thousands, except per share amounts)	<u>March 31,</u>	
<u>Income Available to Common Stockholders</u>	<u>2006</u>	<u>2005</u>

Net Income	\$ 476	\$ 4,358
<u>Weighted Average Shares</u> <u>Outstanding</u>		
Basic Weighted Average Shares Outstanding	11,254	9,830
Effect of dilutive securities from employee benefit plans	<u>2,168</u>	<u>2,585</u>
Diluted Weighted Average Shares Outstanding	<u>13,422</u>	<u>12,415</u>
Basic Earnings per share	\$ 0.04	\$ 0.44
Diluted Earnings per share	\$ 0.04	\$ 0.35

NOTE G - ACQUISITION (restated)

On December 1, 2005, the Company closed on the acquisition of the LM Capital Markets, from Citigroup Inc. The LM Capital Markets business was part of Legg Mason Wood Walker, Inc. ("LMWW"), which Citigroup Inc. acquired from Legg Mason, Inc. in a substantially simultaneous closing. The LM Capital Markets business acquired by the Company includes the Investment Banking, Equity and Fixed Income Research, Equity Sales and Trading, and Taxable Fixed Income Sales and Trading Departments of LMWW and employed 429 professional and support staff who became employees of the Company on December 1, 2005. The acquisition was made to grow the Company's business and in particular the Company's Capital Markets business leveraging the skill set of the 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 \$12,178,198 plus a premium of \$7,000,000 paid in cash at closing with the balance of up to an additional \$30,000,000 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.

The following is unaudited pro forma financial data for the combined operations, assuming the transaction had taken place on January 1, 2005.

Quarter Ended	March 31, 2005
Total revenues	\$129,831,884
Net income	\$4,371,885
Diluted earnings per share	\$0.32
Diluted weighted average shares outstanding	13,618,449

The above pro forma net income and diluted earnings per share for the quarter ended March 31, 2005 has been revised from the originally filed Form 10-Q in order to correct an error. The pro forma net income and diluted earnings per share in the originally filed Form 10-Q were \$6,892,955 and \$0.63, 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, the Company included compensation expense of \$5,520,865 and \$9,750,818 associated with the issuance of restricted stock units and the discounted offering price on its private placement respectively to key associates of the LM Capital Markets. These results do not purport to be indicative of the results which actually would have occurred.

A summary of the fair values of the net assets acquired as of December 1, 2005, based upon the current valuation estimate, is as follows:

Cash	\$324,930
Investments	12,275,536
Furniture & fixtures	1,542,267
Accounts receivables	5,122,667
Prepaid expenses	23,326
Goodwill	625,325
Intangible assets	1,255,000
	9,769,051
Total assets acquired	
Accounts payables	1,642,748

Edgar Filing: STIFEL FINANCIAL CORP - Form 10-Q/A

Accrued expenses	K5,025,441
Total liabilities assumed	K7,668,189
Net assets acquired	\$22,100,862

The goodwill and intangible assets of \$9,880,325 were assigned to the Equity Capital Markets and Fixed Income Capital Markets in the amounts of \$7,904,260 and \$1,976,065, respectively. The total amount of goodwill and intangible assets of \$9,880,325 is expected to be deductible for tax purposes.

NOTE H - 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, 2005	\$454,508	\$1,675,899	\$1,179,834	\$3,310,241
Additions	--	--	--	--
Transfers	--	N,100,260	I,525,065	O,625,325
Impairment losses	--	--	--	--
Balance at March 31, 2006	L54,508	7,776,159	J,704,899	I0,935,566
<u>Intangible Assets</u>				
Balance at December 31, 2005	M66,384	8,085,384	I,887,383	I0,539,151
Additions	I49,000	L74,054	89,349	O12,403
Transfers	--	(6,100,260)	(1,525,065)	(7,625,325)
Amortization of intangible assets	(45,029)	(149,911)	(10,000)	(204,940)
Impairment losses	--	--	--	--
Balance at March 31, 2006	N70,355	J,309,267	L41,667	K,421,289
Total Goodwill and intangible assets	\$1,124,863	\$10,085,426	\$3,146,566	\$14,356,855

NOTE I - IMPACT OF THE NYSE/ARCHIPELAGO MERGER

On March 7, 2006, the New York Stock Exchange ("NYSE") and Archipelago Holdings Inc. ("Archipelago") completed the combination of their businesses through a series of mergers into a new holding company, NYSE Group, Inc. ("NYSE Group"). 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, the Company received \$370,640 in cash, and 80,177 shares of NYSE Group common stock for its NYSE seat membership. The shares are subject to certain transfer restrictions that expire ratably over a three-year period, unless the NYSE Group board of directors elects to remove or reduce the restrictions. As a result of the closing, the Company recorded a gain of \$5,071,000 which is included in Other revenues in the Condensed Consolidated Statement of Operations. The gain was impacted by a valuation adjustment for the transfer restrictions on the shares received. Subsequent gains and losses will be recorded as the share price of NYSE Group stock fluctuates and the transfer restrictions lapse.

In May 2006, the Company is selling 45,094 shares of NYSE Group through a secondary public offering. The Company expects to receive cash proceeds of \$2,717,815 or \$60.27 per share which represents the fixed offering price.

Page 14

Item 4. Controls and Procedures

As specified in the SEC's rules and forms, the Company's management, including Mr. Ronald J. Kruszewski as Chief Executive Officer and Mr. James M. Zemlyak as Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Under rules promulgated by the SEC, disclosure controls and procedures are defined as those "controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms." Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of March 31, 2006.

On January 26, 2007, the company amended its March 31, 2006 Quarterly Report on Form 10-Q/A, originally filed with the United States Securities and Exchange Commission on May 10, 2006, to restate certain of the unaudited pro-forma financial data contained in Note G of the Notes to Condensed Consolidated Financial Statements. Management believes the restatement is immaterial for the following reasons:

- ◆ The restatement corrects an error in the footnote disclosure of 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 Condensed Consolidated Statements of Financial Condition as of March 31, 2006 and December 31, 2005, or its Condensed Consolidated Statements of Operations, Stockholders Equity, and Cash Flows for the three months ended March 31, 2006 and March 31, 2005, and
- ◆ It is not probable that the judgment of a reasonable person relying upon the Quarterly Report on Form 10-Q would have been changed by the correction of certain of the unaudited pro-forma financial data in the footnote.

Further, as required by the SEC's rules and forms, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the quarter ended March 31, 2006 that have materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there have been no such changes during the quarter ended March 31, 2006.

PART II. OTHER INFORMATION

Item 6. Exhibits

(a) Exhibits

:

- 11 Statement re computation of per share earnings (set forth in "Note F - Stockholders Equity and Earnings Per Share ("EPS)") of the Notes to Condensed Consolidated Financial Statements (Unaudited))
- 31.1 Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. This exhibit is furnished to the SEC.

Page 16

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

STIFEL FINANCIAL CORP

·
(Registrant)

Date: January 26, 2007

By: /s/ Ronald J. Kruszewski

Ronald J. Kruszewski
(President and Chief Executive Officer)

Date: January 26, 2007

By: /s/ James M. Zemlyak

James M. Zemlyak
(Principal Financial and Accounting Officer)

Page 17

EXHIBIT INDEX

Exhibit No.	Description
31.1	Certification by the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. <i>This exhibit is furnished to the SEC.</i>

