Stifel, Nicolaus

& Company, Incorporated

STATEMENT OF FINANCIAL CONDITION

June 30, 2004
(Unaudited)

Member New York Stock Exchange, Inc.
Securities Investor Protection Corporation
Investment Services Since 1890

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A copy of our December 31, 2003, statement of financial condition filed pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 is available for examination at the Chicago regional office of the Securities and Exchange Commission or at our principal office at One Financial Plaza, 501 North Broadway, St. Louis, Missouri 63102.

Stifel, Nicolaus & Company, Incorporated and Subsidiaries

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (unaudited)

June 30, 2004

Assets

Cash and cash equivalents	$ 48,101,760
Cash segregated for the exclusive benefit of customers	6,490
Receivable from brokers and dealers:	
Securities failed to deliver	6,754,952
Deposits paid for securities borrowed	20,207,175
Clearing organizations	7,188,291
	34,150,418
Receivable from customers, net of allowance for doubtful receivables of $76,232	239,126,102
Securities owned, at fair value	16,539,613
Securities owned and pledged, at fair value	16,144,155
Memberships in exchanges	318,615
Due from affiliates	1,761,672
Loans and advances to investment executives and other employees, net of allowance for doubtful receivables from former employees of $766,047	16,038,242
Deferred tax asset	2,799,680
Other assets	20,225,301
TOTAL ASSETS	**$395,212,048**

Liabilities and Stockholder's Equity

Liabilities:	
Short-term borrowings from banks	$ 36,650,000
Payable to brokers and dealers:	
Securities failed to receive	6,219,314
Deposits received from securities loaned	100,923,200
Clearing organizations	4,089,808
	111,232,322
Payable to customers	49,368,674
Drafts payable	17,310,313
Securities sold, but not yet purchased, at fair value	6,373,385
Due to Parent Company and affiliates	13,398,993
Accrued employee compensation	18,810,264
Accounts payable and accrued expenses	18,950,074
	272,094,025
Liabilities subordinated to claims of general creditors	**3,046,871**
Stockholder's equity:	
Capital Stock — par value $1, authorized 30,000 shares, outstanding 1,000 shares	1,000
Additional paid-in capital	30,546,651
Retained earnings	89,523,501
Total Stockholder's Equity	**120,071,152**
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	**$395,212,048**

See notes to consolidated statement of financial condition.

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (unaudited)

Note A — *Summary of Significant Accounting and Reporting Policies*

Nature of Operations

Stifel, Nicolaus & Company, Incorporated and Subsidiaries (collectively referred to as the "Company") are principally engaged in retail brokerage, securities trading, investment banking, and related financial services throughout the United States. Although the Company has offices throughout the United States, its major geographic area of concentration is in the Midwest. The Company's principal customers are individual investors, with the remaining client base composed of corporations, municipalities, and institutions.

Basis of Presentation

The consolidated statement of financial condition includes the accounts of Stifel, Nicolaus & Company, Incorporated and its subsidiaries. All material intercompany accounts are eliminated in consolidation. The amounts included in the accompanying consolidated statement of financial condition related to the subsidiaries are immaterial. The Company is a wholly-owned subsidiary of Stifel Financial Corp. (the "Parent Company").

The preparation of the statement of financial condition 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 consolidated statement of financial condition. Actual results could differ from those estimates.

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

Trading and investment account securities owned, including those pledged, and trading securities sold, but not yet purchased, are carried at fair value.

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

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 statement of financial condition.

Customer security transactions are recorded on a settlement 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 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. Such receivables and payables with the same counterparty are not set off on the Company's statement of financial condition.

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 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.

Income Taxes

The Company is included in the consolidated federal and certain state income tax returns filed by the Parent Company and its subsidiaries. The Company also files on a stand-alone basis in certain other states. The Company's portion of the consolidated current income tax liability, computed on a separate return basis pursuant to an informal tax sharing agreement, and the Company's stand-alone tax liability or receivable is included in the accompanying consolidated statement of financial condition. The Company makes tax payments on behalf of the Parent Company and its subsidiaries.

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.

Fair Value

Substantially all of the Company's financial instruments are carried at fair value or amounts that approximate fair value. Securities owned, including those pledged, and securities sold, but not yet purchased, are valued using quoted market and 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. Except for the Company's subordinated liabilities (see Note H) and the Due to Parent and Affiliates (see Note K), the Company's remaining financial instruments are generally short-term in nature, and their carrying values approximate fair value.

Recent Accounting Pronouncements

In January 2003, Financial Accounting Standards Board ("FASB") issued Interpretation No. 46 (Revised December 2003), *Consolidation of Variable Interest Entities* ("FIN 46R"), an interpretation of Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* which requires the consolidation by a business enterprise of variable interest entities if the business enterprise is the primary beneficiary. The Company adopted FIN 46R in fiscal year 2003, and the adoption did not have an impact on the Company's statement of financial condition.

Note B — *Cash Segregated Under Federal Regulations*

At June 30, 2004, cash of $6,490 has been segregated in a special reserve bank account for the exclusive benefit of customers pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934. The Company performs a weekly reserve calculation for proprietary accounts of introducing brokers ("PAIB"). At June 30, 2004, 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 June 30, 2004, are as follows:

Securities, at fair value	Owned	Sold, but not yet purchased
U.S. Government obligations	$ 3,171,217	$ 816,103
State and municipal bonds	16,780,883	211,169
Corporate obligations	3,072,416	846,743
Corporate stocks	9,659,252	4,499,370
	32,683,768	$6,373,385
Less: Securities owned and pledged	(16,144,155)	
	$16,539,613	

The Company pledged 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” in the consolidated statement 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. The Company borrows from various banks on a demand basis with company-owned and customer securities pledged as collateral. Available ongoing credit arrangements with banks totaled $205,000,000 at June 30, 2004, of which $168,350,000 was unused. There are no compensating balance requirements under these arrangements. At June 30, 2004, the Company’s floating rate short-term bank borrowings bore interest at a weighted average rate of 1.75%. Short-term borrowings of $20,900,000 were collateralized by customer-owned securities of $61,604,903 at June 30, 2004. The value of the customer-owned securities is not reflected in the consolidated statement of financial condition. The remaining short-term borrowings of $15,750,000 were collateralized by company-owned securities valued at $16,144,355. At June 30, 2004, the Company’s stock loan balance of $100,923,200 bore interest at an average rate of 1.06%.

On June 30, 2004, the Company increased its borrowings from banks by $35,000,000 to finance underwriting transactions on July 1, 2004. All transactions were settled on July 1, 2004, and the short-term borrowings were repaid.

Note E — *Commitments and Contingencies*

In the normal course of business, the Company enters into underwriting commitments. Settlements of transactions relating to such underwriting commitments, which were open at June 30, 2004, had no material effect on the consolidated statement of financial condition.

In connection with margin deposit requirements of The Options Clearing Corporation, the Company has pledged cash and customer-owned securities valued at $30,946,474. At June 30, 2004, the amounts on deposit satisfied the minimum margin deposit requirement of $23,355,815.

In connection with margin requirements of the National Securities Clearing Corporation, the Company had pledged cash of $3,240,000. At June 30, 2004, the amounts on deposit satisfied the minimum margin deposit requirement of $2,028,464.

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.

At June 30, 2004, the future minimum rental and third-party vendor service commitments for office space and equipment with initial or remaining non-cancelable lease terms in excess of one year, some of which contain escalation clauses and renewal options are as follows:

Year Ending June 30,	Operating Leases and Service Agreements
2005	$ 9,792,831
2006	8,007,674
2007	5,501,686
2008	4,732,535
2009	3,758,683
Thereafter	8,629,711
	$ 40,423,120

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

Note F — *Net Capital Requirements*

Stifel, Nicolaus & Company, Incorporated (“Stifel”) is subject to the Uniform Net Capital Rule, Rule 15c3-1 under the Securities Exchange Act of 1934 (the “rule”), which requires the maintenance of minimum net capital, as defined. Stifel has elected to use the alternative method permitted by the rule, which currently 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 to affiliates if resulting net capital would be less than 5% of aggregate debit items.

At June 30, 2004, Stifel had net capital of $82,693,621, which was 33% of its aggregate debit items and $77,669,931 in excess of the minimum net capital requirement of $5,023,690.

Note G — *Employee Benefit Plans*

Employees of the Company participate in the Parent Company’s profit sharing 401(k) plan, Employee Stock Ownership Plan, Employee Stock Purchase Plan, option plans, and incentive stock award plan. In addition, the Company has a deferred compensation plan available to Investment Executives, a portion of which is invested in Parent Company stock units.

Note H — *Liabilities Subordinated to Claims of General Creditors*

The Company has a deferred compensation plan available to Investment Executives 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 Parent Company 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 Investment Executives for that portion of compensation not deferred in Parent Company stock units. Beginning with deferrals made in plan year 1997, the Company issued cash subordination agreements to participants in the plan pursuant to provisions of Appendix D of Securities and Exchange Act ("SEA") Rule 15c3-1 and included in its computation of net capital the following:

Plan Year	Distribution January 31,	Amount
1999	2005	$ 633,594
2000	2006	779,459
2001	2007	720,107
2002	2008	913,711
		$ 3,046,871

At June 30, 2004, the fair value of the liabilities subordinated to claims of general creditors using an interest rate commensurate with borrowing of similar terms, was $2,422,170.

Note I — *Legal Proceedings*

The Company is a defendant in several lawsuits and arbitrations, which arose from its usual business activities. Some of these lawsuits and arbitrations claim substantial amounts, including punitive damage claims. Although the ultimate outcome of these actions cannot be ascertained at this time, and the results of legal proceedings cannot be predicted with certainty, management, based on its understanding of the facts and after consultation with outside counsel, and after consideration of amounts provided for in the accompanying statement of financial condition with respect to these matters, does not believe the ultimate resolution of these matters will have a materially adverse effect on the Company's consolidated financial condition. It is reasonably possible that certain of these lawsuits and arbitrations 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 J —*Financial Instruments With Off-Balance Sheet Credit Risk*

As a carrying broker-dealer, the Company clears and executes transactions for two introducing broker-dealers. Pursuant to the clearing agreements, the introducing broker-dealers guarantee the performance of their customers to the Company. To the extent the introducing broker-dealers are unable to satisfy their obligations under the terms of the respective clearing agreements, the Company would be secondarily liable. However, the potential requirement for the Company to fulfill these obligations under these arrangements 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, customer securities transactions are recorded on settlement date, generally 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, as well as relends securities in a normal course of business, utilizing both firm proprietary positions and 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' position, 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.

At June 30, 2004, securities, primarily from customer margin and securities borrowing transactions of approximately $333,532,000, 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 bank loans ($104,035,764), stock loans ($91,121,511), OCC margin requirements ($30,946,474), and customer short sales ($7,773,549).

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 K — *Related Party Transactions*

Under an agreement, the Company provides all funding for the Parent Company's cash requirements, and accordingly, all expenditures of the Parent Company are recorded through an inter-company account. The Company leases certain furniture and equipment from the Parent Company and funds its equity incentive deferred compensation programs (see Note G) with Parent Company Stock and records these transactions through the inter-company account. In addition, the Company recorded the net proceeds from the Parent Company of the Parent Company's $34,500,000, 9% Cumulative Trust Preferred Securities, callable no earlier than June 30, 2007, but no later than June 30, 2032, through the inter-company account. The Company records interest on the balance of the inter-company account at 9%. On June 30, 2004, the board of directors of the Parent Company authorized the contribution of capital of $12,218,283 to Stifel. The contribution represents the balance of the proceeds, after the extinguishment of its long-term debt and inter-company liabilities to Stifel, from the $34.5 million Trust Preferred Securities issued in April 2002. Previously the proceeds have been loaned to Stifel through an inter-company agreement.

At June 30, 2004, the net payable resulting from the inter-company transactions described above was $12,386,969 and is included in the statement of financial condition under the caption "Due to Parent Company and affiliates." As the Company expects to repay the Parent Company on terms equivalent to the Parent Company's long-term debt, the fair value of the net amount due to Parent Company is the Company's proportionate share of the entire long-term debt arrangement, or approximately $13,031,091.

The Company serves as a carrying broker-dealer and clears the securities transactions, on a fully disclosed basis, of an affiliated company, Century Securities Associates, Inc. Under the arrangement, the Company has a PAIB agreement with the affiliated company. At June 30, 2004, the due to affiliated broker-dealer of $13,215 consisted of commissions payable net of brokerage and clearing expense, payroll, independent contractor fees, and taxes that were paid on behalf of the affiliated Company and is included in the consolidated statement of financial condition under the caption "Due to Parent Company and affiliates."

Two directors of the Parent Company are associated with companies which provide services to the Company.

Note L — *Income Taxes*

The Company's net deferred tax asset consists of the following temporary differences at June 30, 2004:

Accruals not currently deductible	$ 1,612,924
Deferred compensation	1,186,756
Deferred tax asset	**$2,799,680**

Stifel, Nicolaus
& Company, Incorporated

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Investment Services Since 1890