STIFEL NICOLAUS

ONE FINANCIAL PLAZA
501 NORTH BROADWAY
ST. LOUIS, MISSOURI 63102-2188

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
(Unaudited)

As of June 30, 2008

STIFEL, NICOLAUS & COMPANY, INCORPORATED
AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2008

ASSETS	
Cash and cash equivalents	$ 27,357,232
Cash segregated under federal and other regulations	19,137
Securities purchased under agreements to resell	25,908,423
Receivable from brokers and dealers:	
Securities failed to deliver	50,821,650
Deposits paid for securities borrowed	52,721,099
Clearing organizations	144,528,103
	248,070,852
Receivable from customers, net of allowance for doubtful receivables of $387,229	485,796,975
Securities owned, at fair value	24,341,205
Securities owned and pledged, at fair value	210,031,413
	234,372,618
Due from affiliates	8,317,117
Goodwill	77,081,550
Intangible assets, net of accumulated amortization of $6,190,257	15,926,872
Loans and advances to Financial Advisors and other employees, net of allowance for doubtful receivables from former employees of $4,036,732	74,826,719
Deferred tax assets, net	31,902,496
Other assets	67,205,219
TOTAL ASSETS	$1,296,785,210
LIABILITIES AND STOCKHOLDER'S EQUITY	
Liabilities:	
Short-term borrowings from bank	184,100,000
Securities sold under agreements to repurchase	5,199,000
Drafts payable	38,559,521
Payable to brokers and dealers:	
Securities failed to receive	35,380,030
Deposits received for securities loaned	104,243,900
Clearing organizations	20,381,246
	160,005,176
Payable to customers	179,485,551
Securities sold, but not yet purchased, at fair value	119,612,684
Due to Parent Company and affiliates	13,005,670
Accrued employee compensation	100,802,919
Accounts payable and accrued expenses	39,360,242
	840,130,763
Liabilities subordinated to claims of general creditors	39,165,092
Stockholder's equity:	
Capital Stock - par value $1, authorized 30,000 shares, outstanding 1,000 shares	1,000
Additional paid-in capital	229,695,871
Retained earnings	187,792,484
TOTAL STOCKHOLDER'S EQUITY	417,489,355
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	$1,296,785,210

See Notes to Consolidated Statement of Financial Condition.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES

NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION
June 30, 2008

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

<u>Nature of Operations</u>

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 and Mid-Atlantic regions. The Company's principal customers are individual investors, corporations, municipalities and institutions.

On February 28, 2007, Stifel Financial Corp. the ("Parent Company") acquired Ryan Beck Holdings Inc. and its subsidiaries, including its broker-dealer subsidiary, Ryan Beck & Co., Inc. ("Ryan Beck") from BankAtlantic Bancorp, Inc. Ryan Beck remained an independent broker dealer until all existing branch offices were converted to the Company's branch office system which was completed in the third quarter of 2007. On November 30, 2007, Ryan Beck was granted a withdrawal for its registration with the Securities and Exchange Commission. On December 26, 2007 Ryan Beck Holdings Inc. and Ryan Beck & Co., Inc. were merged into Ryan Beck Holdings, LLC of Missouri, a newly formed subsidiary of the Company.

<u>Basis of Presentation</u>

The Consolidated Statement of Financial Condition includes the accounts of the Company and its subsidiaries. All material intercompany accounts and transactions 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 the Parent Company.

The preparation of the Consolidated Statement of Financial Condition in conformity with U.S. generally accepted accounting principles ("GAAP") 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 Consolidated Statement of Financial Condition. Management considers its significant estimates, which are most susceptible to change and impacted significantly by judgments, assumptions and estimates, to be: the fair value of investments; the accrual for litigation; the allowance for doubtful receivables from loans and advances to financial advisors and other employees; the fair value of goodwill and intangible assets; the provision for income taxes and related tax reserves, the estimation of forfeitures associated with stock-based compensation, and interim incentive compensation accruals. Actual results could differ from those estimates.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

On May 12, 2008, the Board of Directors authorized a 50% stock dividend, which was made in the form of a three-for-two stock split to shareholders of record on May 29, 2008 and distributed on June 12, 2008. Cash was distributed in lieu of fractional shares. All share data have been adjusted to reflect the effect of the stock split. The number of shares of common stock issuable upon exercise of outstanding stock options, vesting of other stock awards, and the number of shares reserved for issuance under various employee benefit plans were proportionately increased in accordance with the terms of the respective plans.

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.

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.

Securities purchased under agreements to resell ("Resale Agreements") and securities sold under agreements to repurchase ("Repurchase Agreements") 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. Principal securities transactions are recorded on a trade date basis.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

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. Such receivables and payables with the same counterparty are not set off on the Company's Consolidated Statement 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 condensed consolidated financial statements, the Company's remaining financial instruments are generally short-term in nature and their carrying values approximate fair value.

The Company adopted the provisions of Statement of Financial Accounting Standards ("SFAS") No. 157, F*air Value Measurements* ("SFAS No. 157"), on January 1, 2008. SFAS No. 157 applies to all financial instruments that are being measured and reported in "Securities owned and pledged", and " Securities sold, but not yet purchased" on the Consolidated Statement of Financial Condition.

SFAS No. 157 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the "exit price"). This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements.

To differentiate between the basis of fair value measurements, SFAS No. 157 uses a three level hierarchy. The hierarchy is based on observable and unobservable inputs. Financial instrument fair values are ranked based on the significance of observable and unobservable inputs, with Level 1 reflecting the highest level of observable inputs and Level 3 reflecting the unobservable inputs.

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. An active market for the asset or liability is a market in which transactions for the asset or liability occur with sufficient frequency and volume to provide pricing information on an ongoing basis.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

The Company generally includes the fair value measurements for the following financial instruments as Level 1:

- Exchange-traded equity securities listed in active markets
- Active corporate obligations
- U.S. Treasuries
- Certain government and municipal obligations, and
- Certain bank notes

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. If the asset or liability has a specified (contractual) term, a Level 2 input must be observable for substantially the full term of the asset or liability. Level 2 inputs include the following:

1. Quoted prices for similar assets or liabilities in active markets;

2. Quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers (for example, some brokered markets), or in which little information is released publicly (for example, a principal-to-principal market);

3. Inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, prepayment speeds, loss severities, credit risks, and default rates); and

4. Inputs that are derived principally from or corroborated by observable market data by correlation or other means (market-corroborated inputs).

The Company generally includes the fair value measurements for the following financial instruments as Level 2:

- Equity securities not actively traded
- Corporate obligations infrequently traded
- Certain government and municipal obligations
- Certain bank notes
- Interest rate swaps
- Certain asset-backed securities ("ABS") consisting of collateral debt obligation ("CDO") securities and collateral loan obligation ("CLO") securities, and
- Certain mortgage-backed securities ("MBS")

Level 3 fair value measurements are based on unobservable inputs for the asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date. Therefore, unobservable inputs reflect the Company's own assumptions about the inputs that market participants would use in pricing the asset or liability (including assumptions about risk).

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

The Company generally includes the fair value measurements for the following financial instruments as Level 3:

- Equity securities with unobservable inputs
- Certain ABS, consisting of CDO and CLO securities with unobservable pricing inputs
- Auction rate securities (ARS)
- Limited partnerships, and
- Ownership in a Holding Company

The Company's investments in ARS consist of ARS backed by state and municipal student loan bonds and closed-end mutual fund owned corporate stocks and bonds. These auction rate securities have been deemed to be illiquid and as a result, have been valued using unobservable inputs.

The Company has common stock ownership in a holding company with no observable inputs or data, resulting in the Company's total investment in this holding company being classified as Level 3.

Valuation Techniques

In valuing certain assets where there is little or no market activity or observable inputs, the Company uses techniques appropriate for each particular product to estimate fair value. These techniques require some degree of judgment. These techniques utilize assumptions that market participants would use in pricing the asset, including assumptions about the risk inherent in the valuation technique and the effect of a restriction on the sale or use of an asset. Valuation models may incorporate the use of discounted cash flow analysis or may utilize other techniques that take into consideration such factors as benchmarking to similar instruments, analysis of default and deferral rates, credit spreads, and implied volatilities. The Company utilizes an outside valuation firm to assist in the valuation of most of its asset-backed securities. The Company validates the inputs and other information utilized, where possible, in valuations provided by third parties.

Equity securities (corporate stocks) – All equity securities that are publicly traded stocks with observable prices in active markets receive a Level 1 rating, the highest in the hierarchy. Any equity security not actively traded is given a Level 2 rating, as these are priced based on similar assets traded in active markets. Any equity security not actively traded and valued with unobservable inputs is classified as Level 3 and priced using techniques previously described.

Corporate obligations – Corporate obligations that are actively traded on major exchanges receive a Level 1 rating. Corporate obligations that are not actively traded on major exchanges and are valued using market data for similar instruments are considered Level 2. Several preferred corporate obligations are held in the form of auction rate securities and were classified as Level 3 as a result of their illiquidity and priced using techniques previously described.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Government obligations – The fair value of government obligations are generally based on quoted prices in active markets and are classified as Level 1. There are instances where quoted prices are not available. In these instances, fair value is determined based on vendor pricing where the vendor uses observable market data; therefore, these obligations are generally classified as Level 2.

Municipal obligations – Municipal obligations that are valued based on quoted prices and actively traded daily are classified as Level 1. The fair values of municipal obligations not priced daily, but measured frequently, are estimated using recently executed transactions and are categorized as Level 2. Several state and municipal bonds are held in the form of auction rate securities. These obligations were given Level 3 classification due to the illiquid markets for these securities previously discussed and priced using techniques also previously discussed.

Bank notes – Bank notes generally have recurring fair value measurements using significant observable market data and are classified as either Level 1 or Level 2.

MBS securities – MBS that are actively traded on major exchanges receive a Level 1 rating. MBS that are not actively traded on major exchanges and are valued using market data for similar instruments are considered Level 2.

Asset-backed CDO and CLO securities – Where possible, the Company uses quoted prices on similar securities actively traded to price the securities and classifies these securities as Level 2. When sufficient information is not available to determine fair value under Level, 2, the Company uses model pricing techniques and classifies the securities as Level 3.

Concentration Risk

At June 30, 2008, the Company did not have any material concentrations in its securities, investments, loans, or receivables portfolios in that it does not hold, nor is it committed to hold, large positions in certain types of securities, securities of a single issuer, issuers located in a particular country or geographical area, or issuers engaged in a particular industry.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Goodwill and Intangible Assets

Goodwill represents the cost of acquired businesses in excess of the fair value of the related net assets acquired. The Company does not amortize goodwill. In accordance with SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142"), 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, which are amortized over their estimated useful lives, are tested for potential impairment whenever events or changes in circumstances suggest that the carrying value of an asset or asset group may not be fully recoverable in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Loans and Advances

The Company offers transition pay, principally in the form of upfront loans, to financial advisors and certain key revenue producers as part of the Company's overall growth strategy. These loans are generally forgiven by a charge to "Employee compensation and benefits" over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. Management monitors and compares individual financial advisor production to each loan issued to ensure future recoverability. If the individual leaves before the term of the loan expires or fails to meet certain performance standards, the individual is required to repay the balance. In determining the allowance for doubtful receivables from former employees, management considers the facts and circumstances surrounding each receivable, including the amount of the unforgiven balance, the reasons for the terminated employment relationship, and the former employees' overall financial positions. The loan balance from former employees at June 30, 2008 was $4,801,140, with associated loss allowances of $4,036,732.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Legal Loss Allowances

The Company records loss allowances related to legal proceedings resulting from lawsuits and arbitrations, which arise from its business activities. Some of these lawsuits and arbitrations claim substantial amounts, including punitive damage claims. Management has determined that it is likely that the ultimate resolution of certain of these claims will result in losses to the Company. The Company has, after consultation with outside legal counsel and consideration of facts currently known by management, recorded estimated losses to the extent they believe certain claims are probable of loss and the amount of the loss can be reasonably estimated. Factors considered by management in estimating the Company's liability are the loss and damages sought by the claimant/plaintiff, the merits of the claim, the amount of loss in the client's account, the possibility of wrongdoing on the part of the employee of the Company, the total cost of defending the litigation, the likelihood of a successful defense against the claim, and the potential for fines and penalties from regulatory agencies. Results of litigation and arbitration are inherently uncertain, and management's assessment of risk associated therewith is subject to change as the proceedings evolve. After discussion with counsel, management, based on its understanding of the facts, accrues what they consider appropriate to provide loss allowances for certain claims, which is included in the Consolidated Statements of Financial Condition under the caption "Accounts payable and accrued expenses."

Stock-Based Compensation

The Company's employees participate in the Parent Company's stock-based plans. The Company recognizes a credit to additional paid in capital, net of tax, ratably over the vesting period.

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 a tax sharing agreement, and the Company’s stand-alone tax liability or receivable is included in the accompanying Consolidated Statement of Financial Condition.

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.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

Derivative Financial Instruments

The Company accounts for derivative financial instruments and hedging activities in accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS No. 133"), as subsequently amended by SFAS No. 137, *Accounting for Derivative Instruments and Hedging Activities - Deferral of the Effective Date of FASB Statements No. 133*, SFAS No. 138, *Accounting for Certain Derivative Instruments and Certain Hedging Activities*, and SFAS No. 149, *Amendments of Statement 133 on Derivative Instruments and Hedging Activities*, which establishes accounting and reporting standards for stand-alone derivative instruments, derivatives embedded within other contracts or securities, and hedging activities. The Company principally utilizes interest rate swaps, on occasion, to economically hedge the fair value of securities in its Fixed Income Capital Markets business; however, these derivatives do not qualify for, nor receive, SFAS No. 133 hedge accounting. Accordingly, all derivatives are carried in the Company's Consolidated Statement of Financial Condition at fair value with any realized and unrealized gains or losses recorded in the Consolidated Statement of Operation for that period. Any collateral exchanged as part of the swap agreement is recorded in broker receivables and payables in the Consolidated Statement of Financial Condition.

The Company elects to net-by-counterparty the fair value of interest rate swap contracts as provided for under FIN 39, *Offsetting of Amounts Related to Certain Contracts*, and amended by Financial Accounting Standards Board ("FASB") Interpretation No. 39-1, *Amendment of FASB Interpretation No. 39* ("FIN 39-1"), as long as the contracts contain a legally enforceable master netting arrangement. The fair value of those swap contracts are netted by counterparty in the Company's Consolidated Statement of Financial Condition.

At June 30, 2008, the Company did not have any open derivative positions.

Recent Accounting Pronouncements

In December 2007, the FASB issued SFAS No. 141 (Revised 2007), *Business Combinations* ("SFAS No. 141R"). SFAS No. 141R retains the fundamental requirement in SFAS No. 141 that the acquisition method of accounting be used for all business combinations and for an acquirer to be identified for each business combination. SFAS No. 141R establishes principles and requirements for how the acquirer: a) recognizes and measures in its financial statement the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R applies prospectively to business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company is evaluating the impact that the adoption of SFAS No. 141R will have on the Company's Consolidated Statement of Financial Condition.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling interests in Consolidated Financial Statements – an amendment of ARB No. 51* ("SFAS No. 160"). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 changes the way the consolidated income statement is presented, establishes a single method of accounting for changes in a parent's ownership interest in a subsidiary that do not result in deconsolidation, requires that a parent recognize a gain or loss in net income when a subsidiary is deconsolidated, and requires expanded disclosures in the consolidated financial statements that clearly identify and distinguish between the interests of the parent's owners and the interests of the noncontrolling owners of a subsidiary. SFAS No. 160 is effective for fiscal years beginning on or after December 15, 2008 and shall be applied prospectively as of the beginning of the fiscal year in which the Statement is adopted, except that the presentation and disclosure requirements shall be applied retrospectively for all periods presented. The Company is evaluating the impact that the adoption of SFAS No. 160 will have on the Company's Consolidated Statement of Financial Condition.

In February 2008, the FASB issued FASB Staff Position ("FSP") FAS No. 157-2, *Effective Date of FASB Statement No. 157* ("FSP No. 157-2"). FSP No. 157-2 defers the effective date of SFAS No. 157, Fair Value Measurements, to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The Company does not anticipate that the adoption of FSP No. 157-2 related to nonfinancial assets and nonfinancial liabilities will have a significant impact on the Company's Consolidated Statement of Financial Condition.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities – an amendment of FASB Statement No. 133* ("SFAS No. 161"). SFAS No. 161 requires enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. SFAS No. 161 is effective for financial statements issued for fiscal years beginning after November 15, 2008, with early application encouraged. The Company is evaluating the impact that the adoption of SFAS No. 161 will have on its disclosures. Since SFAS No. 161 requires only additional disclosures, the adoption of SFAS No. 161 will not have an impact on the Company's Consolidated Statement of Financial Condition.

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (continued)

In April 2008, the FASB issued FSP No. FAS 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP No. 142-3"). FSP No. 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, and requires additional disclosures to enable users of financial statements to assess the extent to which the expected future cash flows associated with the asset are affected by the entity's intent and/or ability to renew or extend the arrangement. FSP No. 142-3 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The Company is evaluating the impact that the adoption of FSP No. 142-3 will have on the Company's Consolidated Statement of Financial Condition.

NOTE B — CASH SEGREGATED UNDER FEDERAL REGULATIONS

At June 30, 2008, cash of $18,137 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") which includes accounts of an affiliated introducing broker. At June 30, 2008, no deposit was required. Cash of $1,000 has been segregated in a reserve bank account for the exclusive benefit of PAIB.

NOTE C — FAIR VALUE MEASUREMENTS

The Company's financial instruments recorded at fair value have been categorized based upon a fair value hierarchy in accordance with SFAS No. 157. See Note A for a further discussion regarding the Company's policies regarding this hierarchy.

The following tables present information about the Company's financial instruments measured at fair value on a recurring basis as of June 30, 2008:

Assets and Liabilities Measured at Fair Value on a Recurring Basis as of June 30, 2008

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Balance as of June 30, 2008
Assets				
Securities owned:				
U.S. government and agency securities	$ 14,970,142	$ 22,981,742	$ - -	$ 37,951,884
State and municipal bonds	- -	39,844,349	8,254,722	48,099,071
Corporate obligations	- -	72,101,459	- -	72,101,459
Corporate stocks	11,017,148	368,086	7,850,041	19,235,275
Other securities	55,659,681	1,325,248	- -	56,984,929
Total securities owned	81,646,971	136,620,884	16,104,763	234,372,618
Investments				
Marketable equity securities	909,365	1,083,111	- -	1,992,476
Other investments	189,584	27,000	2,749,693	2,966,277
Total investments	1,098,949	1,110,111	2,749,693	4,958,753
Total assets measured at fair value on a recurring basis	$ 82,745,920	$ 137,730,995	$ 18,854,456	$ 239,331,371
Liabilities				
Securities sold, but not yet purchased:				
U.S. government and agency securities	$ 20,661,771	$ 5,038,307	$ - -	$ 25,700,078
State and municipal bonds	- -	79,699	- -	79,699
Corporate obligations	- -	85,005,141	- -	85,005,141
Corporate stocks	3,682,566	5,145,200	- -	8,827,766
Total securities sold, but not yet purchased	24,344,337	95,268,347	- -	119,612,684
Total liabilities measured at fair value on a recurring basis	$ 24,344,337	$ 95,268,347	$ - -	$ 119,612,684

NOTE C — FAIR VALUE MEASUREMENTS (continued)

Assets Measured at Fair Value on a Recurring Basis Using Significant Unobservable Inputs (Level 3)

	Securities Owned	Investments	Total
Beginning balance at January 1, 2008	$ - -	$ 2,909,790	$ 2,909,790
Unrealized gains (losses)	- -	- -	- -
Included in changes in net assets	- -	(262,934)	(262,934)
Included in other comprehensive income	(2,989,500)	- -	(2,989,500)
Realized gains (losses)	- -	- -	- -
Purchases, issuances, and settlements	3,728,567	102,837	3,831,404
Transfers in and/or out of Level 3	15,365,696	- -	15,365,696
Ending balance at June 30, 2008	$ 16,104,763	$ 2,749,693	$ 18,854,456

The results included in the table above are only a component of the overall trading strategies of the Company. The table above does not present Level 1 or Level 2 valued assets or liabilities. The Company did not have any Level 3 liabilities at June 30, 2008 or January 1, 2008. The changes to the Company's Level 3 classified instruments were principally a result of transfers of preferred and municipal auction rate securities from Level 2 into Level 3 during the quarter.

NOTE D — SECURITIES OWNED AND SECURITIES SOLD, BUT NOT YET PURCHASED

The components of securities owned and securities sold, but not yet purchased at June 30, 2008, are as follows:

	June 30, 2008	
Securities, at fair value	**Owned**	**Sold, But Not Yet Purchased**
U.S. Government obligations	$ 37,951,882	$ 25,700,078
State and municipal bonds	48,099,071	79,699
Corporate obligations	72,101,459	85,005,141
Corporate stocks	76,220,206	8,827,766
	$ 234,372,618	$ 119,612,684

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 Statement of Financial Condition.

NOTE E – GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill and intangible assets is presented in the following table:

	Total
Goodwill	
Balance at December 31, 2007	$75,099,499
Acquisitions/purchase price adjustments	1,982,051
Impairment losses	- -
Balance at June 30, 2008	77,081,550
Intangible Assets	
Balance at March 31, 2008	16,942,643
Net additions	350,000
Amortization of intangible assets	(1,365,771)
Impairment losses	- -
Balance at June 30, 2008	15,926,872
Total goodwill and intangible assets	$93,008,422

Intangible assets consist of acquired customer lists and non-compete agreements that are amortized to expense over their contractual or determined useful lives as well as backlog, which is amortized against revenue as specific transactions are closed.

	June 30, 2008		
	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets			
Customer lists	$ 19,533,394	$ 4,373,295	$15,160,099
Backlog	347,616	338,857	8,759
Non-compete agreements	2,236,119	1,478,105	758,014
Total amortized intangible assets	$ 22,117,129	$ 6,190,257	$15,926,872

NOTE F — 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. The value of the customer-owned securities is not reflected in the Consolidated Statement of Financial Condition. Available ongoing credit arrangements with banks totaled $755,000,000 at June 30, 2008, of which $570,900,000 was unused. There are no compensating balance requirements under these arrangements. At June 30, 2008, short-term borrowings from banks were $184,100,000 at an average rate of 3.20%, which were collateralized by company-owned and customer owned securities valued at $302,660,629. The average short-term bank borrowings were $148,160,989 for the six months ended June 30, 2008, at a weighted average daily interest rate of 2.26%. At June 30, 2008 the Company had a stock loan balance of $104,243,900, at a weighted average daily interest rate of 2.24%. The average outstanding securities lending arrangements utilized in financing activities were $144,850,865 for the six months ended June 30, 2008, at a weighted average daily effective interest rate of 2.78%. Customer owned securities were utilized in these arrangements.

NOTE G — 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, 2008, had no material effect on the Consolidated Statement of Financial Condition.

The Company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from its securities business activities, including lawsuits, arbitration claims, class actions and regulatory matters. (See Note J)

In connection with margin deposit requirements of The Options Clearing Corporation, the Company had pledged customer-owned securities valued at $64,121,168 at June 30, 2008. The amounts on deposit satisfied the minimum margin deposit requirement of $56,875,888.

In connection with margin deposit requirements of the National Securities Clearing Corporation, the Company had deposited $20,800,000 in cash at June 30, 2008, which satisfied the minimum margin deposit requirements of $12,242,712.

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 arrangements.

NOTE G — COMMITMENTS AND CONTINGENCIES (continued)

The Company has potential contingent earn-out payments related to the acquisition of Ryan Beck. Based upon the provisions of the agreement for the contingent earn-out, the Company estimates that approximately $23,000,000 could be payable under these contingent earn-out payment arrangements. The Company has not recorded a liability for these remaining potential contingent earn-out arrangements, as it is not able to estimate the liability beyond a reasonable doubt. Any contingent payments will be reflected as additional purchase consideration and reflected in goodwill.

At June 30, 2008, the future minimum rental 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:

Period Ending June 30,	**Operating Leases**
2009	$ 32,653,549
2010	25,801,228
2011	21,265,511
2012	16,145,804
2013	12,072,719
Thereafter	36,279,125
	$144,217,936

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

NOTE H — EMPLOYEE BENEFIT PLANS

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

NOTE I — LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

The Company has a deferred compensation plan available to financial advisors 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 the Parent Company stock units and the balance into optional investment choices. The Company purchases mutual funds to hedge its liability to financial advisors who choose to base the performance of their return on the index mutual fund options. The Company obtained approval from the New York Stock Exchange ("NYSE") to subordinate the liability for future payments to financial advisors for that portion of compensation not deferred in the 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.

The Parent Company entered into a $35,000,000 subordinated loan agreement with the Company, as approved by the NYSE on September 27, 2005, pursuant to provisions of Appendix D of SEA Rule 15c3-1. The loan is callable September 30, 2010 and bears interest at 6.38% per annum.

The Company has included in its computation of net capital the following cash subordination agreements:

Lender	Due	Amount
Various Financial Advisors	January 31, 2009	$ 1,300,019
Various Financial Advisors	January 31, 2010	1,391,281
Stifel Financial Corp.	September 30, 2010	35,000,000
Various Financial Advisors	January 31, 2011	1,473,792
		$ 39,165,092

At June 30, 2008, the fair value of the liabilities subordinated to claims of general creditors using interest rates commensurate with borrowings of similar terms was $35,160,851.

NOTE J — LEGAL PROCEEDINGS

The Company and its subsidiaries are named in and subject to various proceedings and claims arising primarily from its securities business activities, including lawsuits, arbitration claims, class actions and regulatory matters. Some of these claims seek substantial compensatory, punitive or indeterminate damages. The Company is also involved in other reviews, investigations and proceedings by governmental and self-regulatory agencies regarding the Company's business, certain of which may result in adverse judgments, settlements, fines, penalties, injunctions or other relief. Because litigation is inherently unpredictable, particularly in cases where claimants seek substantial or indeterminate damages or when investigations and proceedings are in the early stages, the Company cannot predict with certainty the losses or range of losses related to such matters, how such matters will be resolved, when they will ultimately be resolved, or what the eventual settlement, fine, penalty or other relief might be. Consequently, the Company cannot estimate losses or ranges of losses for matters where there is only a reasonable possibility that a loss may have been incurred. Although the ultimate outcome of these matters cannot be ascertained at this time, it is the opinion of management, after consultation with counsel, that the resolution of the foregoing matters will not have a material adverse effect on the Consolidated Statement of Financial Condition of the Company, taken as a whole; such resolution may, however, have a material effect on the operating results in any future periods, and, depending on the outcome and timing of any particular matter, may be material to the operating results for any period depending on the operating results for that period.

Additionally, the Company has provided loss allowances for matters for which losses are probable in accordance with SFAS No. 5, *Accounting for Contingencies*. The ultimate resolution may differ materially from the amounts accrued.

NOTE K — NET CAPITAL REQUIREMENTS

As a registered broker-dealer, Stifel Nicolaus is subject to the Uniform Net Capital Rule, Rule 15c3-1 under the Exchange Act (the "Rule"), which requires the maintenance of minimum net capital, as defined. Stifel Nicolaus has elected to use the alternative method permitted by the Rule that requires maintenance of minimum net capital equal to the greater of $1,000,000 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. 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 June 30, 2008, Stifel Nicolaus had net capital of $180,755,845, which was 32.8% of aggregate debit items and $169,730,488 in excess of minimum required net capital.

NOTE L — 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 relend securities in the 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 Security and Exchange Commission ("SEC") rules. Should the counterparty fail to return customer securities pledged, the Company is subject to the risk of acquiring the securities at prevailing market prices in order to satisfy its customer obligations. The Company controls its exposure to credit risk by continually monitoring its counterparties' positions, and where deemed necessary, the Company may require a deposit of additional collateral and/or a reduction or diversification of positions. The Company sells securities it does not currently own (short sales), and is obligated to subsequently purchase such securities at prevailing market prices. The Company is exposed to risk of loss if securities prices increase prior to closing the transactions. The Company controls its exposure to price risk for short sales through daily review and setting position and trading limits.

The Company manages its risks associated with the aforementioned transactions through position and credit limits, and the continuous monitoring of collateral. Additional collateral is required from customers and other counterparties when appropriate.

NOTE L — FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK (continued)

The Company has accepted collateral in connection with resale agreements, securities borrowed transactions, and customer margin loans. Under many agreements, the Company is permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions. At June 30, 2008, the fair value of securities accepted as collateral where the Company is permitted to sell or repledge the securities was approximately $699,673,838, and the fair value of the collateral that had been sold or repledged was approximately $214,679,019.

NOTE M — 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 the inter-company account. The Company leases certain furniture and equipment from the Parent Company. In addition, the Company records the Parent Company's cash receipts through the inter-company account. During the first six months, the Parent Company's board of directors authorized $3,500,000 in contributed capital. At June 30, 2008 the amount due to Parent Company of $10,245,556 is included in "Due to Parent Company and affiliates" on the Consolidated Statement of Financial Condition. In addition, the Company provides funding for affiliated companies. At June 30, 2008 the "Due from affiliates" was $8,317,117.

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. ("CSA") Under the arrangement, the Company has a PAIB agreement with CSA. At June 30, 2008, the amount payable to CSA of $459,105 is included in the Consolidated Statement of Financial Condition under the caption "Due to Parent Company and affiliates". The Company also serves as a carrying broker-dealer and clears the securities transactions on a fully disclosed basis of Stifel Nicolaus Limited ("Stifel Limited"), an affiliated company. At June 30, 2008, the amount payable to Stifel Limited of $867,427 is included in the Consolidated Statement of Financial Condition under the caption "Due to Parent Company and affiliates".

The Company records interest expense on its inter-company debt and subordinated debt to the Parent through the inter-company account.

The Company provides management services for two affiliated companies, Stifel Capco I, LLC and Stifel Capco II, LLC, and receives a fee for such services. At June 30, 2008, the receivable from these affiliated companies of $1,616,220 for such services is included in the Consolidated Statement of Financial Condition under the caption "Due from affiliates".

NOTE N — PARENT COMPANY'S ACQUISITIONS

On February 28, 2007, the Parent Company closed on the acquisition of Ryan Beck Holdings, Inc. and its wholly-owned broker-dealer subsidiary Ryan Beck & Company, Inc. ("Ryan Beck") from BankAtlantic Bancorp, Inc. This acquisition extends the Company's geographic reach in the East and Southeast regions and leverages the capabilities of the Company's capital markets business, strong research platforms, and technology and operations infrastructure.

Under the terms of the agreement, the Parent Company paid initial consideration of $2,652,589 in cash and issued 3,701,400 shares of Parent Company common stock valued at $27.70 per share which was the five day average closing price of Parent Company common stock for the two days prior to, the day of, and two days subsequent to January 9, 2007, the date the negotiations regarding the principal financial terms were substantially completed, for a total initial consideration of $105,181,369. The cash portion of the purchase price was funded from cash generated from operations. In addition, the Parent Company issued, upon obtaining shareholder approval, five-year immediately exercisable warrants to purchase up to 750,000 shares of Parent Company common stock at an exercise price of $24.00 per share. Shareholders approved the issuance of the warrants on June 22, 2007. The estimated fair values of the warrants on date of closing and issuance were $16,440,000 and $16,895,000, respectively.

In addition, a contingent earn-out payment is payable based on defined revenues attributable to specified individuals in Ryan Beck's existing private client division over the two-year period following closing. This earn-out is capped at $40,000,000. Based upon actual-to-date revenue production and current projections, the Parent Company has estimated a potential contingent earn-out payment of approximately $23,000,000. There is no liability for this contingent earn-out recorded at June 30, 2008 as the liability is not determinable beyond a reasonable doubt. A second contingent payment is payable based on defined revenues attributable to specified individuals in Ryan Beck's existing investment banking division. The investment banking earn-out is equal to 25% of the amount of investment banking fees, as defined, over $25,000,000 for each successive year in the two year period following closing. Each of the contingent earn-out payments is payable, at the Company's election, in cash or common stock. Any contingent payments will be reflected as additional purchase consideration and reflected in goodwill. The Company obtained the approval of shareholders on June 22, 2007 for the issuance of up to 1,500,000 additional shares of Parent Company common stock for the payment of contingent earn-out consideration. The Parent Company paid the contingent payment of $1,789,541 related to the first year investment banking earn-out in 57,059 shares of Parent Company common stock valued at $31.35 in the second quarter, with partial shares paid in cash. Based upon current trends and projections, the Company does not anticipate that a payment will be due for the second year investment banking contingent earn-out.

NOTE N — PARENT COMPANY'S ACQUISITION (continued)

In addition to the transaction consideration described above, the Parent Company i) established a retention program for certain associates of Ryan Beck valued at approximately $47,916,000, consisting of $24,423,000 employee loans paid in cash and 591,269 Parent Company restricted stock units ("Units") valued at $23,493,000 using a share price of $39.73, the price on the date of closing; and ii) issued 420,372 Units valued at approximately $16,703,000 using the price on the date of closing, in exchange for Ryan Beck Appreciation Units related to the Ryan Beck deferred compensation plan. On June 22, 2007 the Parent Company obtained shareholder approval for the Stifel Financial 2007 Incentive Stock Plan from which the above units were issued. Additionally as a result of the amendment to the Ryan Beck deferred compensation plans in June 2007, the Parent Company recorded a $20,568,000 compensation charge related to employee compensation and benefits.

The goodwill and intangible assets of $65,128,054 is not deductible for tax purposes.

On April 2, 2007, the Parent Company completed its acquisition of First Service Financial Company ("First Service"), a Missouri corporation, and its wholly-owned subsidiary First Service Bank, a Missouri bank, by means of the merger (the "Merger") of First Service with and into FSFC Acquisition Co. ("AcquisitionCo"), a Missouri corporation and wholly-owned subsidiary of the Parent Company, with AcquisitionCo surviving the Merger. The acquisition was completed to serve the Company more effectively and to position the Parent Company for growth by leveraging our large private client network. The total consideration paid by the Parent Company in the Merger for all of the outstanding shares of First Service was $37,896,448 in cash; of this amount, approximately $990,000 has been deposited into escrow pending satisfaction of certain contingencies provided for in an escrow agreement among the Parent Company, First Service, AcquisitionCo, UMB Bank, N.A., as escrow agent, and the shareholders' committee specified in the escrow agreement. The acquisition was funded by the net proceeds to the Parent Company from the sale of the Junior Subordinated Debentures to Stifel Financial Capital Trust III. Upon consummation of the Merger, the Parent Company became a bank holding company and a financial holding company, subject to the supervision and regulation of The Board of Governors of the Federal Reserve System. Also, First Service Bank has converted its charter from a Missouri bank to a Missouri trust company and changed its name to Stifel Bank & Trust.

The goodwill and intangible assets of $18,842,057 recorded in this transaction is not deductible for tax purposes.

NOTE O — INCOME TAXES

FIN 48 clarifies the accounting for uncertainty in income taxes recognized under SFAS 109. FIN 48 prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest and penalties and disclosure. The Company adopted the provisions of FIN 48 effective January 1, 2007.

At December 31, 2007, the Company's liability for gross unrecognized tax benefits was $1,975,544. Included in the balance at December 31, 2007 is $1,640,152 of tax positions excluding interest and penalties that, if recognized, would affect the effective tax rate. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. The Company had accrued interest related to unrecognized tax benefits of $335,392 at December 31, 2007. The amount of interest and penalties recognized in the condensed consolidated statements of operations for the six months ended June 30, 2008 was not material. The Company's gross unrecognized tax benefits were reduced by $629,505 during the second quarter of 2008 due to the finalization of the Internal Revenue Service examination of the Company's income tax returns for calendar year 2005. The Company does not expect gross unrecognized tax benefits to change significantly during the next twelve month period.

The Company files U.S., state, and foreign income tax returns in jurisdictions with varying statutes of limitation. For the U.S. and most state and foreign jurisdictions, the years 2004 through 2007 remain subject to examination by their respective authorities. The Company is subject to examination by state tax jurisdictions. It is possible that these examinations will be resolved in the next twelve months. The Company does not anticipate that payments made during the next twelve month period for these examinations will be material, nor does the Company expect that the reduction to unrecognized tax benefits as a result of a lapse of applicable statute of limitations will be significant.

NOTE P – VARIABLE INTEREST ENTITIES ("VIE")

Stifel Nicolaus has organized several non-registered private investment funds as limited liability companies for the purpose of allowing members to invest in portfolios, which may not otherwise be available to them due to high minimum initial investments required. Stifel Nicolaus is the manager of the funds and earns management fees but has no investments or other financial interests in the funds.

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A current copy of the copy of the consolidated 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 noted above or at our principal office at One Financial Plaza, 501 North Broadway, St. Louis, Missouri 63102.