

**SECURITIES AND EXCHANGE COMMISSION**  
**WASHINGTON, D.C. 20549**  
**FORM 10-Q**

(Mark One)

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

For the quarterly period ended September 30, 2001

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 1-9305

**STIFEL FINANCIAL CORP.**

(Exact name of registrant as specified in its charter)

DELAWARE

(State or other jurisdiction of incorporation  
or organization)

43-1273600

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

501 N. Broadway, St. Louis, Missouri

(Address of principal executive offices)

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

Shares of common stock outstanding at October 31, 2001: 7,330,735, par value \$0.15.

# STIFEL FINANCIAL CORP. AND SUBSIDIARIES

## Form 10-Q Index

September 30, 2001

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## PART I. FINANCIAL INFORMATION

### Item 1. Financial Statements (Unaudited)

**STIFEL FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

(In thousands, except par values and share amounts)

|  | <u>Unaudited</u><br><u>September 30, 2001</u> | <u>Audited</u><br><u>December 31, 2000</u> |
|--|---|--|
| <b>ASSETS</b>  |   |  |
| Cash and cash equivalents  | \$ 14,415                                     | \$ 14,589                                  |
| Cash segregated for the exclusive benefit of customers   | 191   | 187  |
| Receivable from brokers and dealers  | 36,777  | 30,730                                     |
| Receivable from customers, net of allowance for doubtful receivables of \$154 and \$104, respectively  | 271,677                                       | 305,478                                    |
| Securities owned, at fair value  | 14,326  | 12,212                                     |
| Securities owned and pledged, at fair value  | 17,780  | 12,548                                     |
| Investments  | 30,557  | 32,478                                     |
| Membership in exchanges, at cost   | 463   | 463  |
| Office equipment and leasehold improvements, at cost, net of allowances for depreciation and amortization of \$17,510 and \$15,085, respectively               | 10,529  | 9,689                                      |
| Goodwill, net of accumulated amortization of \$1,130 and \$984, respectively   | 3,804   | 5,261                                      |
| Notes receivable from and advances to officers and employees, net of allowance for doubtful receivables from former employees of \$459 and \$331, respectively | 22,192  | 17,420                                     |
| Deferred income tax  | 4,907   | 3,036                                      |
| Other assets   | <u>15,548</u>                                 | <u>14,221</u>                              |
| <b>Total Assets</b>  | <b><u>\$443,166</u></b>                       | <b><u>\$458,312</u></b>                    |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>  |   |  |
| <b>Liabilities</b>   |   |  |
| Short-term borrowings  | \$ 105,450                                    | \$ 88,250                                  |
| Payable to brokers and dealers   | 134,273                                       | 155,522                                    |
| Payable to customers   | 30,631  | 40,484                                     |
| Securities sold, but not yet purchased, at fair value  | 12,694  | 4,355                                      |
| Drafts payable   | 14,758  | 19,034                                     |
| Accrued employee compensation  | 12,119  | 19,500                                     |
| Obligations under capital leases   | 1,169   | 1,771                                      |
| Accounts payable and accrued expenses  | 17,602  | 20,620                                     |
| Long-term debt   | 10,000  | 10,000                                     |
| Other  | <u>24,598</u>                                 | <u>24,598</u>                              |
| <b>Total Liabilities</b>   | <b><u>363,294</u></b>                         | <b><u>384,134</u></b>                      |
| <b>Subordinated Debt</b>   |   |  |
|  | <b><u>2,629</u></b>                           | <b><u>-</u></b>                            |
| <b>Stockholders' Equity</b>  |   |  |
| Preferred stock -- \$1 par value; authorized 3,000,000 shares; none issued   | --  | --   |
| Common stock -- \$0.15 par value; authorized 30,000,000 shares; issued 7,675,781 and 7,525,971 shares, respectively  | 1,152   | 1,129                                      |
| Additional paid-in capital   | 49,008  | 45,920                                     |
| Retained earnings  | <u>32,983</u>                                 | <u>32,827</u>                              |
|  | <b><u>83,143</u></b>                          | <b><u>79,876</u></b>                       |
| Less:  |   |  |
| Treasury stock, at cost, 335,895 and 297,879 shares, respectively  | 3,395   | 2,938                                      |
| Unamortized expense of restricted stock awards   | 56  | 155  |
| Unearned employee stock ownership plan shares, at cost, 191,139 and 203,337 shares, respectively   | <u>2,449</u>                                  | <u>2,605</u>                               |
| <b>Total Stockholders' Equity</b>  | <b><u>77,243</u></b>                          | <b><u>74,178</u></b>                       |
| <b>Total Liabilities and Stockholders' Equity</b>  | <b><u>\$443,166</u></b>                       | <b><u>\$458,312</u></b>                    |

See Notes to Consolidated Financial Statements.

**STIFEL FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
(UNAUDITED)

(In thousands, except per share amounts)

|  | <u>Three Months Ended</u> |                        | <u>Nine Months Ended</u> |                        |
|--|---------------------------|------------------------|--------------------------|------------------------|
|  | <u>September 30,</u>      |                        | <u>September 30,</u>     |                        |
|  | <u>2001</u>               | <u>2000</u>            | <u>2001</u>              | <u>2000</u>            |
| <b><u>REVENUES</u></b>                   |                           |                        |                          |                        |
| Commissions                              | \$ 16,441                 | \$ 20,114              | \$ 55,415                | \$ 65,489              |
| Principal transactions                   | 6,884                     | 7,033                  | 22,696                   | 22,523                 |
| Investment banking                       | 10,995                    | 4,774                  | 26,879                   | 12,409                 |
| Interest                                 | 5,158                     | 9,381                  | 17,120                   | 26,352                 |
| Other                                    | 7,079                     | 7,352                  | 20,584                   | 22,040                 |
| <b>Revenues</b>                          | <b><u>46,557</u></b>      | <b><u>48,654</u></b>   | <b><u>142,694</u></b>    | <b><u>148,813</u></b>  |
| Interest expense                         | <u>2,947</u>              | <u>5,278</u>           | <u>10,031</u>            | <u>15,312</u>          |
| <b>Net revenues</b>                      | <b><u>43,610</u></b>      | <b><u>43,376</u></b>   | <b><u>132,663</u></b>    | <b><u>133,501</u></b>  |
| <b><u>EXPENSES</u></b>                   |                           |                        |                          |                        |
| Employee compensation and benefits       | 30,077                    | 27,823                 | 89,849                   | 87,821                 |
| Occupancy and equipment rental           | 4,531                     | 3,781                  | 13,058                   | 10,803                 |
| Communications and office supplies       | 2,585                     | 2,744                  | 8,265                    | 7,984                  |
| Commissions and floor brokerage          | 994                       | 801                    | 2,778                    | 2,547                  |
| Other operating expenses                 | 7,946                     | 4,375                  | 17,326                   | 11,548                 |
| <b>Total operating expenses</b>          | <b><u>46,133</u></b>      | <b><u>39,524</u></b>   | <b><u>131,276</u></b>    | <b><u>120,703</u></b>  |
| <b>Income (loss) before income taxes</b> | <b>(2,523)</b>            | <b>3,852</b>           | <b>1,387</b>             | <b>12,798</b>          |
| Provision (benefit) for income taxes     | <u>(995)</u>              | <u>1,538</u>           | <u>547</u>               | <u>4,742</u>           |
| <b>Net income (loss)</b>                 | <b><u>\$ (1,528)</u></b>  | <b><u>\$ 2,314</u></b> | <b><u>\$ 840</u></b>     | <b><u>\$ 8,056</u></b> |
| Earnings (Loss) per share:               |                           |                        |                          |                        |
| Basic                                    | \$ (0.21)                 | \$ 0.33                | \$ 0.12                  | \$ 1.15                |
| Diluted                                  | \$ (0.21)                 | \$ 0.30                | \$ 0.10                  | \$ 1.06                |
| Dividends declared per share             | \$ 0.03                   | \$ 0.03                | \$ 0.09                  | \$ 0.09                |
| Average common equivalent                |                           |                        |                          |                        |
| Shares outstanding:                      |                           |                        |                          |                        |
| Basic                                    | 7,175                     | 7,050                  | 7,168                    | 6,999                  |
| Diluted                                  | 7,175                     | 7,718                  | 8,030                    | 7,612                  |

See Notes to Consolidated Financial Statements.

**STIFEL FINANCIAL CORP. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(In thousands)

|   | <u>Nine Months Ended</u>  |                           |
|---|---------------------------|---------------------------|
|   | <u>September 30, 2001</u> | <u>September 30, 2000</u> |
| <b><u>CASH FLOWS FROM OPERATING ACTIVITIES</u></b>  |                           |                           |
| Net income  | \$ 840                    | \$ 8,056                  |
| <i>Noncash and nonoperating items included in earnings:</i>                                 |                           |                           |
| Depreciation and amortization   | 3,107                     | 2,411                     |
| Bonus notes amortization  | 3,961                     | 1,877                     |
| Realized & unrealized (gain)/losses   | 1,357                     | (297)                     |
| Deferred items  | 84                        | 54                        |
| Amortization of restricted stock awards, units,<br>and stock benefits                       | <u>1,329</u>              | <u>1,157</u>              |
|   | <b>10,678</b>             | <b>13,258</b>             |
| Decrease (increase) in assets:  |                           |                           |
| Operating receivables   | 27,754                    | (43,262)                  |
| Cash segregated for the exclusive benefit of customers                                      | (4)                       | (5)                       |
| Securities owned  | (7,346)                   | (1,113)                   |
| Notes receivable from officers and employees  | (8,733)                   | (8,066)                   |
| Other assets  | (1,031)                   | (2,417)                   |
| Increase (decrease) in liabilities:   |                           |                           |
| Operating payables  | (31,102)                  | 17,351                    |
| Securities sold, but not yet purchased  | 8,339                     | 1,612                     |
| Drafts payable, accrued employee compensation, and accounts<br>payable and accrued expenses | <u>(12,043)</u>           | <u>(5,301)</u>            |
| <b>Cash Flows From Operating Activities</b>   | <b><u>(13,488)</u></b>    | <b><u>(27,943)</u></b>    |
| <b><u>CASH FLOWS FROM INVESTING ACTIVITIES</u></b>  |                           |                           |
| Proceeds from:  |                           |                           |
| Cash received in acquisition of subsidiary  | -                         | 2,927                     |
| Sale of investments   | 344                       | 465                       |
| Payments for:   |                           |                           |
| Acquisition of office equipment and leasehold improvements                                  | (3,768)                   | (3,225)                   |
| Acquisition of investments  | <u>(170)</u>              | <u>(5,115)</u>            |
| <b>Cash Flows From Investing Activities</b>   | <b><u>(3,594)</u></b>     | <b><u>(4,948)</u></b>     |
| <b><u>CASH FLOWS FROM FINANCING ACTIVITIES</u></b>  |                           |                           |
| Short-term borrowings, net  | 17,200                    | 33,035                    |
| Proceeds from:  |                           |                           |
| Issuance of stock   | 1,737                     | 1,567                     |
| Payments for:   |                           |                           |
| Settlements of long-term debt   | -                         | (370)                     |
| Purchase of stock for treasury  | (743)                     | (1,475)                   |
| Repayment of notes assumed in acquisition of subsidiary                                     | -                         | (1,500)                   |
| Principal payments under capital lease obligation   | (602)                     | (429)                     |
| Cash dividends  | <u>(684)</u>              | <u>(676)</u>              |
| <b>Cash Flows From Financing Activities</b>   | <b><u>16,908</u></b>      | <b><u>30,152</u></b>      |
| Decrease in cash and cash equivalents   | (174)                     | (2,739)                   |
| Cash and cash equivalents -beginning of period  | <u>14,589</u>             | <u>16,861</u>             |
| <b>Cash and Cash Equivalents -end of period</b>   | <b><u>\$ 14,415</u></b>   | <b><u>\$ 14,122</u></b>   |
| <b><u>Supplemental disclosure of cash flow information:</u></b>                             |                           |                           |
| Income tax payments   | \$ 2,896                  | \$ 2,596                  |
| Interest payments   | \$ 10,817                 | \$ 15,109                 |
| <b><u>Schedule of noncash investing and financing activities:</u></b>                       |                           |                           |
| Employee stock ownership plan   | \$ 145                    | \$ 129                    |

|   |          |          |
|---|----------|----------|
| Acquisition of Hanifen, Imhoff Inc.                         | - -      | \$ 4,746 |
| Restricted stock awards and stock units, net of forfeitures | \$ 2,439 | \$ 4,227 |
| Deferred Compensation converted to subordinated borrowings  | \$ 2,629 | \$ - -   |

See Notes to Consolidated Financial Statements.

**STIFEL FINANCIAL CORP. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**NOTE A -REPORTING POLICIES**

**Basis of Presentation**

The consolidated financial statements include the accounts of Stifel Financial Corp. and its subsidiaries (collectively referred to as the "Company"). The accompanying unaudited 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 for complete financial statements. 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 and nine months ended September 30, 2001 are not necessarily indicative of the results that may be expected for the year ending December 31, 2001. For further information, refer to the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Where appropriate, prior year's financial information has been reclassified to conform to the current year presentation.

**Comprehensive Income**

The Company has no components of other comprehensive income, therefore comprehensive income equals net income.

**NOTE B - NET CAPITAL REQUIREMENT**

The Company's principal subsidiary, Stifel, Nicolaus & Company, Incorporated ("SN & Co."), is subject to the Uniform Net Capital Rule 15c3-1 under the Securities Exchange Act of 1934, as amended (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 which requires maintenance of minimum net capital equal to the greater of \$250,000 or 2 percent of aggregate debit items arising from customer transactions, as defined. The Rule also provides that equity capital may not be withdrawn and cash dividends may not be paid if resulting net capital would be less than 5 percent of aggregate debit items.

At September 30, 2001, SN & Co. had net capital of \$36,811,051, which was 11.44% of its aggregate debit items, and \$30,378,254 in excess of the minimum required net capital.

**NOTE C - FINANCIAL INSTRUMENTS**

The Company receives collateral in connection with securities borrowed transactions, customer margin loans and other 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 deliver to counterparties to cover short positions. At September 30, 2001, the fair value of securities received as collateral where the Company is permitted to sell or repledge the securities was \$364,868,000 and the fair value of the collateral that had been sold or repledged was \$278,534,000.



## NOTE D -SEGMENT REPORTING

The Company's reportable segments include private client, equity capital markets, fixed income capital markets and other. Prior years' financial information has been reclassified to conform with the current year presentation. The private client segment includes 72 branch offices and 132 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 segment), mergers and acquisitions, institutional sales, trading, research, and market making. Fixed income capital markets segment includes public finance, institutional sales, and competitive underwriting and trading. Investment advisory fees, clearing income and venture capital activities are included in other.

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.

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

|                                      | <u>Three Months Ended</u> |                  | <u>Nine Months Ended</u> |                   |
|--------------------------------------|---------------------------|------------------|--------------------------|-------------------|
|                                      | <u>September 30,</u>      |                  | <u>September 30,</u>     |                   |
|                                      | <u>2001</u>               | <u>2000</u>      | <u>2001</u>              | <u>2000</u>       |
| <b><u>Net Revenues</u></b>           |                           |                  |                          |                   |
| Private Client                       | \$ 30,829                 | \$ 32,761        | \$ 95,072                | \$ 102,959        |
| Equity Capital Markets               | 7,283                     | 4,199            | 18,371                   | 12,572            |
| Fixed Income Capital Markets         | 4,004                     | 2,760            | 14,055                   | 7,188             |
| Other                                | 1,494                     | 3,656            | 5,165                    | 10,782            |
| <b>Total Net Revenues</b>            | <b>\$ 43,610</b>          | <b>\$ 43,376</b> | <b>\$ 132,663</b>        | <b>\$ 133,501</b> |
| <b><u>Operating Contribution</u></b> |                           |                  |                          |                   |
| Private Client                       | \$ 3,336                  | \$ 6,070         | \$ 11,348                | \$ 21,008         |
| Equity Capital Markets               | 1,232                     | 144              | 2,804                    | 319               |
| Fixed Income Capital Markets         | 728                       | 247              | 4,113                    | 62                |
| Other/ unallocated overhead          | (7,819)                   | (2,609)          | (16,878)                 | (8,591)           |
| <b>Pre-Tax Income (Loss)</b>         | <b>\$ (2,523)</b>         | <b>\$ 3,852</b>  | <b>\$ 1,387</b>          | <b>\$ 12,798</b>  |

The Company has not disclosed asset information by segment, as the information is not produced internally and its preparation is impracticable.

## NOTE E - EARNINGS PER SHARE ("EPS")

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 earnings per share calculation for the three and nine months ended September 30, are as follows (in thousands, except per share amounts):

|   | <u>Three Months Ended</u>  |                 | <u>Nine Months Ended</u> |                 |
|---|----------------------------|-----------------|--------------------------|-----------------|
|   | <u>September 30,</u>       |                 | <u>September 30,</u>     |                 |
|   | <u>2001</u>                | <u>2000</u>     | <u>2001</u>              | <u>2000</u>     |
| <b><u>Income Available to Common Stockholders</u></b> |                            |                 |                          |                 |
| <b>Net Income (Loss)</b>                              | <b>\$ (1,528)</b>          | <b>\$ 2,314</b> | <b>\$ 840</b>            | <b>\$ 8,056</b> |
| <b><u>Weighted Average Shares Outstanding</u></b>     |                            |                 |                          |                 |
| <b>Basic Weighted Average Shares Outstanding:</b>     | <b>7,175</b>               | <b>7,050</b>    | <b>7,168</b>             | <b>6,999</b>    |
| Potential Common Shares From Employee Benefit Plans   | <u>868</u>                 | <u>668</u>      | <u>862</u>               | <u>613</u>      |
| <b>Diluted Weighted Average Shares Outstanding</b>    | <b>7,175<sup>(1)</sup></b> | <b>7,718</b>    | <b>8,030</b>             | <b>7,612</b>    |
| <b>Basic Earnings (Loss) Per Share</b>                | <b>\$ (0.21)</b>           | <b>\$ 0.33</b>  | <b>\$ 0.12</b>           | <b>\$ 1.15</b>  |
| <b>Diluted Earnings (Loss) Per Share</b>              | <b>\$ (0.21)</b>           | <b>\$ 0.30</b>  | <b>\$ 0.10</b>           | <b>\$ 1.06</b>  |

(1) Potential Common Shares are anti-dilutive

## NOTE F - SUBSEQUENT EVENTS

On October 24, 2001, the Company's Board of Directors declared a regular quarterly cash dividend of \$0.03 per share, payable on November 22, 2001 to stockholders of record as of the close of business on November 8, 2001.

On November 1, 2001, the District Court of Oklahoma County in the State of Oklahoma issued a decision in the "State of Oklahoma, ex rel. Gary Piper; and Gary Piper, for himself and for all other taxpayers of the City of Oklahoma City v. Robert M. Cochran; Stifel, Nicolaus & Company, Incorporated; Dillon, Read & Co Inc.; Leo Oppenheim & Co. Inc.; A. G. Edwards & Sons, Inc.; and The City of Oklahoma City", filed by an individual taxpayer pursuant to the State of Oklahoma Qui Tam statutes, which found that the Company breached its underwriting agreement and duty owed to the city of Oklahoma City, Oklahoma in a 1993 refunding bond issue in connection with receipt of a markup on government securities sold to the City to establish the refunding escrow. Treble damages, as required by Oklahoma's statutes, were awarded the plaintiff. The Company has included in the results of operations, for the period ending September 30, 2001, a pretax charge of approximately \$3.4 million or \$0.26 per diluted share for this and related Oklahoma matters in excess of amounts previously provided (See Part II Item 1. Legal Proceedings).

## **NOTE G - RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This standard replaces SFAS No. 125 of the same name and rescinds SFAS No. 127, "Deferral of Effective Date of Certain Provisions of FASB Statement No. 125." SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The Company adopted SFAS No. 140 in the fourth quarter of 2000 for the disclosures regarding securitization transactions and collateral. The remaining provisions of SFAS No. 140 were adopted in the second quarter of 2001 for transfers and servicing of financial assets and extinguishments of liabilities and did not have a material impact on the Company's consolidated financial statements.

In July 2001, the FASB issued SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that all business combinations be accounted for under the purchase method. The statement further requires separate recognition of intangible assets that meet certain criteria. The statement applies to all business combination initiated after June 30, 2001.

SFAS No. 142, which is effective for fiscal periods beginning after December 15, 2001, requires that an intangible asset that is acquired shall be initially recognized and measured based on its fair value. The statement also provides that goodwill and other indefinite lived intangible assets should not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. Existing goodwill and other indefinite lived intangible assets will continue to be amortized through the remainder of fiscal 2001 at which time amortization will cease and the Company will perform a transitional impairment test. Amortization expense related to goodwill and other indefinite lived intangible assets for the three-month and nine-month periods ended September 30, 2001 were approximately \$23,000 and \$146,000, respectively. The Company is evaluating the impact of this pronouncement as it relates to the transitional and annual assessments for impairment of recorded goodwill and other indefinite lived intangibles on the Company's financial statements.

\*\*\*\*\*

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

The Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of federal securities laws. Actual results are subject to risks and uncertainties, including both those specific to the Company and those specific to the industry which could cause results to differ materially from those contemplated. The risks and uncertainties include, but are not limited to, general economic conditions, actions of competitors, regulatory actions, changes in legislation and technology changes. Undue reliance should not be placed on the forward-looking statements, which speak only as of the date of this Quarterly Report. The Company does not undertake any obligation to publicly update any forward-looking statements.

### Business Environment

The tragic events of September 11 and the subsequent four-day closure of the major markets compounded already difficult market conditions experienced industrywide. Major market indices, principally the NASDAQ composite and the Dow Jones Industrial Average ("DJIA"), key indicators of investor confidence in the market have declined significantly. The NASDAQ composite began 2001 at 2470, down 40% from the previous year start of 4069, and dropped to the current year low of 1423 on September 21, 2001 and closed September 28, 2001 at 1499, a 39% drop from the January 2001 opening. The DJIA showed a similar trend beginning the year at 10788 and falling to a low of 8236 on September 21, 2001 and closed September 28, 2001 at 8848, a 18% drop from the January 2001 opening. As a result the Company's average trading volume in listed and over the counter equity products declined 7% and 24%, respectively, in the first nine months of 2001.

### Results of Operations

The following table summarizes the changes in the major categories of revenue and expense for the three and nine months ended September 2001 as compared to September 2000

| Increase (Decrease)<br>(Dollars in thousands) | Three Months Ended |                   | Nine Months Ended |                   |
|---|--------------------|-------------------|-------------------|-------------------|
|   | <u>Amount</u>      | <u>Percentage</u> | <u>Amount</u>     | <u>Percentage</u> |
| <b><u>REVENUES:</u></b>                       |                    |                   |                   |                   |
| Commissions                                   | \$ (3,673)         | (18)%             | \$ (10,074)       | (15)%             |
| Principal transactions                        | (149)              | (2)%              | 173               | 1%                |
| Investment banking                            | 6,221              | 130%              | 14,470            | 117%              |
| Interest                                      | (4,223)            | (45)%             | (9,232)           | (35)%             |
| Other   | <u>(273)</u>       | (4)%              | <u>(1,456)</u>    | (7)%              |
| <b>Revenues</b>                               | <b>(2,097)</b>     | (4)%              | <b>(6,119)</b>    | (4)%              |
| Interest Expenses                             | <u>(2,331)</u>     | (44)%             | <u>(5,281)</u>    | (34)%             |
| <b>Net Revenues</b>                           | <b>234</b>         | 1%                | <b>(838)</b>      | (1)%              |
| <b><u>EXPENSES:</u></b>                       |                    |                   |                   |                   |
| Employee compensation and benefits            | 2,254              | 8%                | 2,028             | 2%                |
| Occupancy and equipment rental                | 750                | 20%               | 2,255             | 21%               |
| Communications and office supplies            | (159)              | (6)%              | 281               | 4%                |
| Commissions and floor brokerage               | 193                | 24%               | 231               | 9%                |
| Other operating expenses                      | <u>3,571</u>       | 82%               | <u>5,778</u>      | 50%               |
| <b>Total Operating Expenses</b>               | <b>6,609</b>       | 17%               | <b>10,573</b>     | 9%                |

### ***Nine months ended September 2001 as compared to nine months ended September 2000***

The Company recorded net earnings of \$840,000 or \$0.10 per diluted share on total revenues of \$142.7 million for the nine months ended September 30, 2001 compared to net earnings of \$8.1 million or \$1.06 per diluted share on total revenues of \$148.9 million for the same period one year earlier.

Total revenues decreased \$6.1 million (4%) resulting from decreases in commissions, interest revenues and other revenues which decreased \$10.1 million (15%), \$9.2 million (35%), and \$1.5 million (7%) respectively, offset by an increase in principal transactions and investment banking of \$173,000 (1%), and \$14.5 million (117%).

Revenues from commissions on sales of over-the-counter, insurance and mutual funds decreased principally due to declining markets conditions referred to above.

Interest revenues declined principally as a result of decreased average borrowings by customers.

Other revenues decreased \$1.5 million principally due to current year write downs of the Company's investment portfolio of approximately \$1.6 million, decreases in investment advisory fees of \$360,000 resulting from decreased customer portfolio valuations, and a decrease of other income of \$530,000 resulting primarily from life insurance proceeds of \$220,000 and litigation proceeds of \$250,000 received in the first nine months of 2000. These decreases were offset by an approximate \$1.3 million increase in money market account fees.

Investment banking revenues increased principally due to an increase in corporate finance revenue of \$7.8 million (115%) and an increase in municipal finance revenue of \$5.6 million (137%). The Company lead managed fourteen equity offerings, principally for financial institutions, and completed two private placements during the first nine months of 2001 combined with increased advisory fee income. Municipal Finance revenue increased as a result of improved bond market activity concurrent with the addition of a new public finance office opened in Brookfield, Wisconsin, in mid-year 2000.

Despite the poor market conditions mentioned above, the Company continued its expansion of its Private Client Group which contributed to the increases in all operating expense categories except interest. Total expenses increased \$5.3 million (4%) for the first nine months of 2001 compared to the same period one year earlier. Since September 30, 2000, the Company opened 10 Private Client branch offices, and recruited 127 investment executives and 23 independent contractors resulting in a 8% net increase in Private Client branch offices, and a 9% net increase in investment executives and independent contractors compared to the same period one year earlier.

Employee compensation and benefits, a significant portion of the Company's total expense, increased \$2.0 million (2%) resulting from increases in fixed salaries, employee benefits and incentive based compensation. Fixed salaries and employee benefits increased \$2.3 million (11%), and \$573,000 (24%), respectively, as a result of the company's expansion efforts and an increase in the cost of health care coverage. Investment executive compensation, a major variable component of employee compensation decreased \$1.2 million (2%) resulting from a decrease in compensation for production of \$3.8 million (9%) due to poor market conditions referred to above offset by an increase in transition amounts paid of \$2.2 million (55%) in connection with the company's expansion.

Interest expense decreased \$5.3 million (34%) due to decreased borrowings by the Company to finance customer margin.

Other operating expenses increased \$5.8 million (50%) over the prior year first nine months due to the Company's expansion activities and approximately \$1.3 million in legal related expenses incurred in the second

quarter of 2001 and \$3.4 million in the third quarter of 2001 (see Note F) primarily in connection with historical litigation arising out of the Company's former Oklahoma operations.

### ***Three months ended September 2001 as compared to three months ended September 2000***

The Company recorded a net loss of \$1.5 million or \$0.21 per share on total revenues of \$46.6 million for the third quarter ended September 30, 2001 compared to net earnings of \$2.3 million or \$0.30 per diluted share on total revenues of \$48.7 million for the same period one year earlier.

The explanation of revenue and expense fluctuations for all the categories presented for the nine month period are generally applicable to the three month operations.

### **Liquidity and Capital Resources**

The majority of the Company's assets are highly liquid, consisting mainly of cash or assets readily convertible into cash. These assets are financed primarily by the Company's equity capital, customer credit balances, short-term bank loans, proceeds from securities lending, long term notes payable, and other payables. Changes in securities market volumes, related customer borrowing demands, underwriting activity, and levels of securities inventory affect the amount of the Company's financing requirements.

During the first nine months of 2001, the Company repurchased 66,732 shares, using existing board authorizations, at an average price of \$11.07 per share, to meet obligations under the Company's employee benefit plans.

Management believes the funds from operations, available informal short-term credit arrangements, and long-term borrowings, at September 30, 2001, will provide sufficient resources to meet the present and anticipated financing needs.

Stifel, Nicolaus & Company, Incorporated, the Company's principal broker-dealer subsidiary, is subject to certain requirements of the Securities and Exchange Commission with regard to liquidity and capital requirements. At September 30, 2001, Stifel, Nicolaus had net capital of approximately \$36.8 million which exceeded the minimum net capital requirements by approximately \$30.4 million.

### **Recent Accounting Pronouncements**

In September 2000, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 140, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities." This standard replaces SFAS No. 125 of the same name and rescinds SFAS No. 127, "Deferral of Effective Date of Certain Provisions of FASB Statement No. 125." SFAS No. 140 provides accounting and reporting standards for transfers and servicing of financial assets and extinguishments of liabilities. The Company adopted SFAS No. 140 in the fourth quarter of 2000 for the disclosures regarding securitization transactions and collateral. The remaining provisions of SFAS No. 140 were adopted in the second quarter of 2001 for transfers and servicing of financial assets and extinguishments of liabilities and did not have a material impact on the Company's consolidated financial statements.

In July 2001, the FASB issued SFAS No. 141, Business Combinations and SFAS No. 142, Goodwill and Other Intangible Assets. SFAS No. 141 requires that all business combinations be accounted for under the purchase method. The statement further requires separate recognition of intangible assets that meet certain criteria. The statement applies to all business combination initiated after June 30, 2001.

SFAS No. 142, which is effective for fiscal periods beginning after December 15, 2001, requires that an intangible asset that is acquired shall be initially recognized and measured based on its fair value. The statement also provides that goodwill and other indefinite lived intangible assets should not be amortized, but shall be tested for impairment annually, or more frequently if circumstances indicate potential impairment, through a comparison of fair value to its carrying amount. Existing goodwill and other indefinite lived intangible assets will continue to be amortized through the remainder of fiscal 2001 at which time amortization will cease and the Company will perform a transitional impairment test. Amortization expense related to goodwill and other indefinite lived intangible assets for the three-month and nine-month periods ended September 30, 2001 were approximately \$23,000 and \$146,000, respectively. The Company is evaluating the impact of this pronouncement as it relates to the transitional and annual assessments for impairment of recorded goodwill and other indefinite lived intangibles on the Company's financial statements.

### **Item 3. Quantitative and Qualitative Disclosure about Market Risk**

There have been no material changes from the information provided in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

On November 1, 2001, the District Court of Oklahoma County in the State of Oklahoma issued a decision in the "State of Oklahoma, ex rel. Gary Piper; and Gary Piper, for himself and for all other taxpayers of the City of Oklahoma City v. Robert M. Cochran; Stifel, Nicolaus & Company, Incorporated; Dillon, Read & Co Inc.; Leo Oppenheim & Co. Inc.; A. G. Edwards & Sons, Inc.; and The City of Oklahoma City", filed by an individual taxpayer pursuant to the State of Oklahoma Qui Tam statutes, which found that the Company breached its underwriting agreement and duty owed to the city of Oklahoma City, Oklahoma in a 1993 refunding bond issue in connection with receipt of a markup on government securities sold to the City to establish the refunding escrow. Treble damages, as required by Oklahoma's statutes, were awarded the plaintiff.

A similar case is pending in the District Court of Oklahoma County in the State of Oklahoma, "State of Oklahoma, ex rel. Gary Piper; and Gary Piper, for himself and for all other taxpayers of Oklahoma City v. Stifel, Nicolaus & Company, Incorporated; Robert M. Cochran; Chris Cochran; Bayerische Landesbank Girozentrale, a foreign banking institution; Boatmen's First National Bank of Oklahoma; and Oklahoma Water Resources Board, an agency of the State of Oklahoma." No trial date has been set.

The Company has included in the results of operations, for the period ending September 30, 2001, a pretax charge of approximately \$3.4 million or \$0.26 per diluted share for these Oklahoma matters in excess of amounts previously provided.

There have been no other material changes in the legal proceedings previously reported in the Company's Annual Report on Form 10-K for the year ended December 31, 2000. Such information is hereby incorporated by reference.

### **Item 6. Exhibit(s) and Report(s) on Form 8-K**

- (a) Exhibits: None.
- (b) Report(s) on Form 8-K

There were no reports on Form 8-K filed during the quarter ended September 30, 2001.

**SIGNATURES**

Pursuant to the requirement of 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: November 14, 2001

By     /s/ Ronald J. Kruszewski      
Ronald J. Kruszewski  
(President and Chief Executive Officer)

Date: November 14, 2001

By     /s/ James M. Zemlyak      
James M. Zemlyak  
(Principal Financial and Accounting Officer)