

STIFEL NICOLAUS

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

**CONSOLIDATED
STATEMENT
OF
FINANCIAL CONDITION
(Unaudited)**

As of June 30, 2007

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

ASSETS

Cash and cash equivalents	\$ 14,941,674
Cash segregated under federal and other regulations	18,434
Securities purchased under agreements to resell	154,949,772
<i>Receivable from brokers and dealers:</i>	
Securities failed to deliver	32,107,617
Deposits paid for securities borrowed	33,840,060
Clearing organizations	<u>84,663,559</u>
	150,611,236
Receivable from customers, net of allowance for doubtful receivables of \$340,356	340,837,105
<i>Securities owned:</i>	
Securities owned, at fair value	2,875,369
Securities owned and pledged, at fair value	<u>323,324,374</u>
	326,199,743
Memberships in exchanges	168,000
Due from affiliates	10,215,683
Loans and advances to investment executives and other employees, net of allowance for doubtful receivables from former employees of \$766,126	57,202,666
Deferred tax asset	8,954,027
Other assets	<u>68,642,413</u>
TOTAL ASSETS	<u>\$1,132,740,753</u>

LIABILITIES AND STOCKHOLDER'S EQUITY

Liabilities:

Short-term borrowings from banks	\$ 283,000,000
Drafts payable	23,651,915
<i>Payable to brokers and dealers:</i>	
Securities failed to receive	29,225,172
Deposits received for securities loaned	56,699,482
Clearing organizations	<u>6,882,007</u>
	92,806,661
Payable to customers	154,182,173
Securities sold, but not yet purchased, at fair value	207,231,866
Due to Parent Company and affiliates	30,853,300
Accrued employee compensation	54,553,568
Accounts payable and accrued expenses	<u>27,713,057</u>
	873,992,540
Liabilities subordinated to claims of general creditors	52,297,084
Stockholder's equity:	
Capital Stock - par value \$1, authorized 30,000 shares, outstanding 1,000 shares	1,000
Additional paid-in capital	54,503,661
Retained earnings	<u>151,946,468</u>
Total Stockholder's Equity	<u>206,451,329</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$1,132,740,753</u>

See notes to Consolidated Statement of Financial Condition.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

NOTE A — SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of Operations

Stifel, Nicolaus & Company, Incorporated and Subsidiaries (collectively referred to as the “Company”) are principally engaged in retail brokerage, securities trading, investment banking, and related financial services throughout the United States. Although the Company has offices throughout the United States, its major geographic area of concentration is in the Midwest and Mid-Atlantic regions. The Company’s principal customers are individual investors, corporations, municipalities, and institutions.

Basis of Presentation

The consolidated financial statement includes the accounts of Stifel, Nicolaus & Company, Incorporated (“Stifel”) and its wholly-owned subsidiaries. All material inter-company 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 Stifel Financial Corp. (the “Parent Company”).

The preparation of the consolidated financial statement in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statement. Actual results could differ from those estimates. Management considers its significant estimates, which are most susceptible to change, to be the fair value of investments, the accrual for litigation, the allowance for doubtful receivables from loans and advances to employees, and interim incentive compensation accruals. Actual results could differ from those estimates.

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.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

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

Securities purchased under agreements to resell (Resale Agreements) and securities sold under agreements to repurchase are recorded at the contractual amounts that the securities will be resold/repurchased, including accrued interest. The Company's policy is to obtain possession or control of securities purchased under Resale Agreements and to obtain additional collateral when necessary to minimize the risk associated with this activity.

Customer security transactions are recorded on a settlement date basis. Principal securities transactions are recorded on a trade date basis.

Securities Borrowing and Lending Activities

Securities borrowed and securities loaned are recorded at the amount of cash collateral advanced or received. Securities borrowed transactions require the Company to deposit cash with the lender generally in excess of the market value of securities borrowed. With respect to securities loaned, the Company receives collateral in the form of cash in an amount generally in excess of the market value of securities loaned. The Company monitors the market value of securities borrowed and loaned generally on a daily basis, with additional collateral obtained or refunded as necessary. Substantially all of these transactions are executed under master netting agreements, which give the Company right of offset in the event of counterparty default; however, such receivables and payables with the same counterparty are not set off on the Company's Consolidated Statement of Financial Condition.

Loans and Advances

The Company offers transition pay, principally in the form of upfront loans, to investment executives and certain key revenue producers as part of the Company's overall growth strategy. These loans are generally forgiven over a five- to ten-year period if the individual satisfies certain conditions, usually based on continued employment and certain performance standards. Management monitors and compares individual investment executive 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.

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.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

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

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, and investments include securities that are marketable and securities that are not readily marketable. Marketable securities are carried at fair value based on either quoted market or dealer prices, or accreted costs. The fair value of securities, for which a quoted market or dealer price is not available, is based on management's estimates. Among the factors considered by management in determining the fair value of investments are the cost of the investment, terms and liquidity, developments since the acquisition of the investment, the sales price of recently issued securities, the financial condition and operating results of the issuer, earnings trends and consistency of operating cash flows, the long-term business potential of the issuer, the quoted market price of securities with similar quality and yield that are publicly traded, and other factors generally pertinent to the valuation of investments. The fair value of these investments is subject to a high degree of volatility and may be susceptible to significant fluctuation in the near term. The fair value of non-marketable securities at June 30, 2007 of \$4,911,498 is included in the Consolidated Statement of Financial Condition under the caption "Other assets".

Customer receivables, primarily consisting of floating-rate loans collateralized by customer-owned securities, are charged interest at rates similar to other such loans made throughout the industry. Except for the Company's subordinated liabilities (see Note H), the Company's remaining financial instruments are generally short-term in nature and their carrying values approximate fair value.

Recent Accounting Pronouncements

In June 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an Interpretation of FASB Statement No. 109* ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in a Company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Interpretation also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN 48 became effective for the Company on January 1, 2007. The adoption of FIN 48 did not have a material impact on the Company's Consolidated Statement of Financial Condition.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurement. This statement applies under other accounting pronouncements that require or permit fair value measurements and does not require any new fair value measurements. SFAS No. 157 is effective for the fiscal years beginning after November 15, 2007. The Company is currently assessing the impact that SFAS No. 157 will have on the Company's Consolidated Statement of Financial Condition.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

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

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities, including an amendment of FASB Statement No. 115* ("SFAS No.159"). SFAS No. 159 permits entities to choose, at specified election dates, to measure many financial instruments and certain other items at fair value that are not currently required to be measured at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS No. 159 is effective as of the beginning of an entity's first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007, provided the entity also elects to apply the provisions of SFAS No. 157. The choice to adopt early should be made after issuance of this Statement but within 120 days of the beginning of the fiscal year of adoption, provided the entity has not yet issued financial statements, including notes to those financial statements, for any interim period of the fiscal year of adoption. The Company is evaluating the impact that the adoption of SFAS No. 159 will have, if any, on the Company's Consolidated Statement of Financial Condition.

NOTE B — CASH SEGREGATED UNDER FEDERAL REGULATIONS

At June 30, 2007, cash of \$18,434 has been segregated in a special reserve bank account for the exclusive benefit of customers pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934. The Company performs a weekly reserve calculation for proprietary accounts of introducing brokers ("PAIB"). At June 30, 2007, no deposit was required.

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

The components of securities owned and securities sold, but not yet purchased, at June 30, 2007, are as follows:

<u>Securities, at fair value:</u>	<u>Owned</u>	<u>Sold, but not yet purchased</u>
U.S. Government obligations	\$ 187,911,732	\$ 187,823,481
State and municipal bonds	53,848,938	82,956
Corporate obligations	57,867,607	4,483,496
Corporate stocks	<u>26,571,466</u>	<u>14,841,933</u>
	\$326,199,743	\$207,231,866

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

NOTE D — SHORT-TERM FINANCING

The Company's short-term financing is generally obtained through the use of bank loans and securities lending arrangements. The Company borrows from various banks on a demand basis with company-owned and customer securities pledged as collateral. Available ongoing credit arrangements with banks totaled \$755,000,000 at June 30, 2007, of which \$472,000,000 was unused. There are no compensating balance requirements under these arrangements. At June 30, 2007, the Company had short-term bank loans of \$283,000,000 at an average rate of 5.79%. The average bank borrowing was \$200,928,693 in the first six months of 2007, at a weighted average interest rate of 5.66%. At June 30, 2007, the Company had a stock loan balance of \$54,554,385 at an average rate of 4.417%. During the first six months of 2007, the average outstanding securities lending arrangements utilized in financing activities was \$85,859,653 at an average effective interest rate of 4.59%. Customer securities were utilized in these arrangements.

NOTE E — COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Company enters into underwriting commitments. Settlements of transactions relating to such underwriting commitments, which were open at June 30, 2007, had no material effect on the Consolidated Statement of Financial Condition.

In connection with margin deposit requirements of The Options Clearing Corporation ("OCC"), the Company has pledged cash and customer-owned securities valued at \$43,143,425. At June 30, 2007, the amounts on deposit satisfied the minimum margin deposit requirement of \$39,647,846.

In connection with margin requirements of the National Securities Clearing Corporation, the Company had pledged \$8,850,000 in cash. At June 30, 2007, the amounts on deposit satisfied the minimum margin deposit requirement of \$5,335,450.

The Company also provides guarantees to securities clearing houses and exchanges under their standard membership agreement, which requires members to guarantee the performance of other members. Under the agreement, if another member becomes unable to satisfy its obligations to the clearing house, other members would be required to meet shortfalls. The Company's liability under these agreements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these arrangements is remote. Accordingly, no liability has been recognized for these transactions.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

NOTE E — COMMITMENTS AND CONTINGENCIES (continued)

At June 30, 2007, 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:

Year Ending June 30,	<u>Operating Leases</u>
2008	\$ 28,452,426
2009	24,756,968
2010	19,529,020
2011	16,069,680
2012	11,221,774
Thereafter	<u>39,917,617</u>
	<u>\$139,947,485</u>

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

NOTE F — NET CAPITAL REQUIREMENTS

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

At June 30, 2007, SN & Co. had net capital of \$113,799,049, which was 28.86% of its aggregate debit items, and \$105,913,582 in excess of the minimum required net capital.

NOTE G — EMPLOYEE BENEFIT PLANS

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

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

NOTE H — LIABILITIES SUBORDINATED TO CLAIMS OF GENERAL CREDITORS

The Company has a deferred compensation plan available to I.E.'s 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 I.E.s who choose to base the performance of their return on the indexed mutual fund option. The Company obtained approval from the New York Stock Exchange ("NYSE") to subordinate the liability for future payments to I.E.'s 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.

In addition, the Parent Company entered into a 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, in the amount of \$12,218,282 which had previously been considered contributed capital. The loan is callable June 30, 2007 and bears interest at 9% per annum.

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

<u>Lender</u>	<u>Due</u>	<u>Amount</u>
Stifel Financial Corp.	June 30, 2007	12,218,282
Various Investment Executives	January 31, 2008	913,709
Various Investment Executives	January 31, 2009	1,300,019
Various Investment Executives	January 31, 2010	1,391,281
Stifel Financial Corp.	September 30, 2010	35,000,000
Various Investment Executives	January 31, 2011	1,473,793
		<u>\$ 52,297,084</u>

At June 30, 2007, the fair value of the liabilities subordinated to claims of general creditors using interest rates commensurate with borrowings of similar terms was \$43,423,988.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

NOTE I — LEGAL PROCEEDINGS

The Company is 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 Statements 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 period, 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. The Company has provided reserves for such matters in accordance with SFAS No. 5, *Accounting for Contingencies*. The ultimate resolution may differ materially from the amounts reserved.

NOTE J — FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK

As a carrying broker-dealer, the Company clears and executes transactions for three 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.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

**NOTE J — FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK
(CONTINUED)**

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.

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, 2007, the fair value of securities accepted as collateral where the Company is permitted to sell or repledge the securities was approximately \$571,861,000, and the fair value of the collateral that had been sold or repledged was approximately \$283,832,000.

Concentrations of Credit Risk

The Company maintains margin and cash security accounts for its customers located throughout the United States. The majority of the Company's customer receivables are serviced by branch locations primarily in the Midwest.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

NOTE K — RELATED PARTY TRANSACTIONS

Under an agreement, the Company provides all funding for the Parent Company's cash requirements and accordingly all expenditures of the Parent Company are recorded through the inter-company account. The Company leases certain furniture and equipment from the Parent Company and funds its incentive stock award plans (See Note G) with Parent Company stock and records these transactions through the inter-company account. In addition, the Company records the Parent Company's cash receipts through the inter-company account. In addition, the Company records the Parent Company's cash receipts through the inter-company account. During the year, the Parent Company's Board of Directors authorized and the Parent Company contributed \$4,500,000 capital. At June 30, 2007, the Due to Parent Company and affiliates was \$30,853,300. The Company records interest expense on its inter-company debt and subordinated debt to the Parent Company through the inter-company account.

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, 2007, the due to CSA of \$290,018 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, 2007, the due to Stifel Limited of \$574,567 is included in the Consolidated Statement of Financial Condition under the caption "Due to Parent Company and affiliates".

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, 2007, the receivable from the affiliated companies of \$1,349,245 for such services is included in the Consolidated Statement of Financial Condition under the caption "Due from affiliates".

The Company has related party transactions with an affiliated company and its wholly-owned subsidiaries, Ryan Beck Holdings, Inc. At June 30, 2007, the due from Ryan Beck Holdings, Inc. was \$6,679,305 and is included in the Consolidated Statement of Financial Condition under the caption "Due from affiliates".

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

NOTE L — INCOME TAXES

The Company's net deferred tax asset consists of the following temporary differences, at June 30, 2007:

Deferred compensation	\$ 9,282,085
Accruals not currently deductible	787,942
Prepaid expenses	<u>(1,116,000)</u>
Deferred tax asset	<u>\$ 8,954,027</u>

At June 30, 2007, no valuation allowance has been established against deferred tax assets, since it is more likely than not that the deferred tax asset will be realized.

NOTE M – PARENT COMPANY'S ACQUISITION

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 Stifel, with AcquisitionCo surviving the Merger. The total consideration paid by Stifel in the Merger for all of the outstanding shares of First Service was \$37,895,448 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 Stifel, First Service, AcquisitionCo, UMB Bank, N.A., as escrow agent, and the shareholders' committee specified in the escrow agreement. Upon consummation of the Merger, Stifel 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."

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. Ryan Beck will continue to operate as a separate broker-dealer until after all existing branches of Ryan Beck are converted to Stifel Nicolaus. Under the terms of the agreement, the Parent Company paid initial consideration of \$2,652,589 in cash and issued 2,467,600 shares of Parent Company common stock valued at \$41.55 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 will issue five-year immediately exercisable warrants to purchase up to 500,000 shares of Parent Company common stock at an exercise price of \$36.00 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.

STIFEL, NICOLAUS & COMPANY, INCORPORATED AND SUBSIDIARIES
NOTES TO CONSOLIDATED STATEMENT OF FINANCIAL CONDITION (Unaudited)
June 30, 2007

NOTE M – PARENT COMPANY'S ACQUISITION (continued)

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. 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 over \$25,000,000 for each of the next two years. Each of the contingent earn-out payments is payable, at the Parent Company's election, in cash or common stock. The Parent Company obtained the approval of shareholders on June 22, 2007 for the issuance of up to 1,000,000 additional shares of Parent Company common stock for the payment of contingent earn-out consideration.

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 394,179 Parent Company restricted stock units ("Units") valued at \$23,493,000 using a share price of \$59.60, the price on the date of closing; and ii) issued 280,248 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, 2006 the Parent Company obtained shareholder approval for the Stifel Financial 2007 Incentive Stock Plan from which the above units were issued.

NOTE N - SUBSEQUENT EVENTS

On July 13, 2007, the Parent Company called its \$34,500,000, 9% Cumulative Trust Preferred Securities issued on April 25, 2002 through Stifel Financial Capital Trust I. As a result, the Company repaid the subordinated loan amount of \$12,218,282 on July 13, 2007 (See Note H).

A copy of our June 30, 2007 statement of financial condition filed pursuant to Rule 17a-5 of the Securities Exchange Act of 1934 is available for examination at the Chicago regional office of the Securities and Exchange Commission or at our principal office at One Financial Plaza, 501 North Broadway, St. Louis, Missouri 63102.