STIFEL FINANCIAL CORP
Form 10-Q
November 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x

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

For the quarterly period ended September 30, 2006

OR

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

For the transition period from _ to _

Commission file number I-9305

STIFEL FINANCIAL CORP.

(Exact name of registrant as specified in its charter)

DELAWARE	43-1273600
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
501 N. Broadway, St. Louis, Missouri	63102-2188
(Address of principal executive offices)	(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 x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.(Check one):Large accelerated filer ¨ Accelerated filer x Non-accelerated filer ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of October 31, 2006, there were 11,587,444 shares of Stifel Financial Corp. common stock, par value $0.15, outstanding.

Stifel Financial Corp.

Form 10-Q Index

September 30, 2006

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

STIFEL FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(In thousands, except par values and share amounts)

	September 30, 2006 (Unaudited)	December 31, 2005 (Audited)
ASSETS		
Cash and cash equivalents	$ 48,120	$ 12,529
Cash segregated under federal and other regulations	27	6
Securities purchased under agreements to resell	160,420	65,599
Receivables from brokers and dealers:		
Securities failed to deliver	13,252	9,137
Deposits paid for securities borrowed	31,957	56,278
Clearing organizations	78,641	24,553
	123,850	89,968
Receivables from customers, net of allowance for doubtful receivables of $323 and $204, respectively	265,546	259,389
Securities owned, at fair value	113,823	105,514
Securities owned and pledged, at fair value	268,551	135,211
	382,374	240,725
Investments	45,346	46,628
Membership in exchanges	168	275
Office equipment and leasehold improvements, at cost, net of allowances for depreciation and amortization of $29,251 and $26,026, respectively	13,203	11,422
Goodwill and intangible assets	13,407	13,849
Loans and advances to investment executives and other employees, net of allowance for doubtful receivables from former employees of $604 and $767, respectively	24,960	21,105
Deferred tax asset	12,234	10,336
Other assets	44,539	70,170
Total Assets	$1,134,194	$842,001
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		

Short-term borrowings from banks	$ 245,910	$ 141,000
Drafts payable	22,652	29,697
Payables to brokers and dealers:		
Securities failed to receive	22,486	8,794
Deposits received from securities loaned	121,080	89,039
Clearing organizations	1,163	797
	144,729	98,630
Payables to customers	68,166	78,456
Securities sold, but not yet purchased, at fair value	281,412	146,914
Accrued employee compensation	39,920	35,154
Accounts payable and accrued expenses	23,267	59,875
Debenture to Stifel Financial Capital Trust I	34,500	34,500
Debenture to Stifel Financial Capital Trust II	35,000	35,000
Other	24,598	24,598
	920,154	683,824
Liabilities subordinated to claims of general creditors	3,346	3,084
Stockholders' Equity		
Preferred stock -- $1 par value; authorized 3,000,000 shares; none issued	- -	- -
Common stock -- $0.15 par value; authorized 30,000,000 shares; issued 11,904,945 and 10,296,279 shares respectively	1,786	1,161
Additional paid-in capital	131,897	75,225
Retained earnings	88,044	80,279
	221,727	156,665
Less:		
Treasury stock, at cost, 299,434 and 4,316 shares, respectively	9,626	9
Unearned employee stock ownership plan shares, at cost, 146,417 and 162,683 shares, respectively	1,407	1,563
Total Stockholders' Equity	210,694	155,093
Total Liabilities and Stockholders' Equity	$1,134,194	$842,001

See Notes to Condensed Consolidated Financial Statements (unaudited).

STIFEL FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(In thousands, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
REVENUES				
Commissions	$ 48,571	$ 26,421	$ 144,811	$ 74,313
Principal transactions	21,470	10,974	63,850	32,716
Investment banking	19,672	11,707	51,177	41,104
Asset management and service fees	14,560	11,445	42,297	31,042
Interest	9,918	4,679	25,744	12,437
Other	1,047	174	8,307	292
Total revenues	115,238	65,400	336,186	191,904
Less: Interest expense	5,422	1,542	14,169	3,887
Net revenues	109,816	63,858	322,017	188,017
NON-INTEREST EXPENSES				
Employee compensation and benefits	77,466	42,369	238,545	124,651
Occupancy and equipment rental	7,785	5,443	22,547	16,065
Communications and office supplies	6,532	2,677	19,428	8,129
Commissions and floor brokerage	1,866	946	4,971	2,784
Other operating expenses	6,926	4,274	22,529	11,670
Total non-interest expenses	100,575	55,709	308,020	163,299
Income before income taxes	9,241	8,149	13,997	24,718
Provision for income taxes	3,817	3,253	5,799	9,844
Net income	$ 5,424	$ 4,896	$ 8,198	$ 14,874
Earnings per share:				
Basic	$ 0.47	$ 0.50	$ 0.71	$ 1.52
Diluted	$ 0.39	$ 0.39	$ 0.59	$ 1.19
Weighted average common equivalent shares outstanding:				

Basic	11,582	9,768	11,514	9,774
Diluted	13,931	12,544	13,901	12,452

See Notes to Condensed Consolidated Financial Statements (unaudited).

STIFEL FINANCIAL CORP.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)(In thousands)

	Nine Months Ended	
	September 30, 2006	September 30, 2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 8,198	$I4,874
Non-cash items included in net income:		
Depreciation and amortization	L,426	3,709
Loans and advances amortization	K,950	4,865
Losses (gains) on investments	(7,332)	900
Deferred items	(1,886)	(285)
Compensation related to the private placement	9,751	- -
Stock based compensation	J4,843	N,257
	L1,950	30,320
Decrease (increase) in assets:		
Operating receivables	(40,039)	(35,841)
Cash segregated for exclusive benefit of customers	(21)	- -
Securities purchased under agreements to resell	(94,821)	- -
Securities owned, including those pledged	(141,649)	(4,807)
Loans and advances to investment executives and other employees	(7,805)	(7,477)
Excess tax benefit associated with stock based awards	(10,337)	- -
Other assets	K5,944	(1,860)
Increase (decrease) in liabilities:		
Operating payables	I,953	25,035

Securities sold, but not yet purchased	I34,498	(4,251)
Drafts payable, accrued employee compensation, and accounts payable and accrued expenses	(52,992)	(5,968)
Cash Flows From Operating Activities	(133,319)	(4,849)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale or maturity of other investments	N7,679	1,394
Payments for:		
Purchase of office equipment and leasehold improvements	(4,527)	(3,975)
Purchase of investments	(59,131)	(2,482)
Cash Flows From Investing Activities	L,021	(5,063)
CASH FLOWS FROM FINANCING ACTIVITIES		
Short-term borrowings, net	I04,910	- -
Securities loaned	K3,856	(2,459)
Issuance of debentures to Stifel Financial Capital Trust II	- -	35,000
Excess tax benefit associated with stock based awards	I0,337	- -
Reissuance of treasury stock	K86	1,001
Issuance of stock	962	- -
Proceeds from private placement	J6,306	- -
Payments for:		
Purchase of stock for treasury	(11,089)	(9,776)
Reduction of subordinated debt	(779)	(633)
Principal payments under capital lease obligation	- -	(40)
Cash Flows From Financing Activities	I64,889	23,093
Increase in cash and cash equivalents	K5,591	13,181
Cash and cash equivalents - beginning of period	I2,529	21,145

Cash and Cash Equivalents - end of period	$L8,120	$K4,326
Supplemental disclosure of cash flow information:		
Income tax payments	$I,961	$ 12,639
Interest payments	$I4,386	$ 3,963
Schedule of non-cash investing and financing activities:		
Employee stock ownership plan	$I56	$ 157
Liabilities subordinated to claims of general creditors	$I,042	$ 748
Stock units, net of forfeitures	$ 80,017	$ 7,840

See Notes to Condensed Consolidated Financial Statements (unaudited).

STIFEL FINANCIAL CORP.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE A - REPORTING POLICIES

Basis of Presentation

The condensed consolidated financial statements include the accounts of Stifel Financial Corp. and its subsidiaries (collectively referred to as the "Company"). The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three and nine months ended September 30, 2006 are not necessarily indicative of the results that may be expected for the year ending December 31, 2006. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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

Comprehensive Income

The Company's comprehensive income for the three and nine months ended September 30, 2006 and 2005 was equal to the Company's net income.

Stock-Based Compensation

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

In the nine months of 2006, the adoption of SFAS No. 123R resulted in incremental stock-based compensation expense of $432,247, which caused net income to decrease by $215,259 and basic and diluted earnings per share to decrease by $0.02 per share. Additionally, SFAS No. 123R amends SFAS No. 95, "Statement of Cash Flows," to require the excess tax benefits to be reported as a financing cash inflow rather than a reduction of taxes paid, which is included within operating cash flows. Accordingly, cash provided by operating activities decreased and cash provided by financing activities increased by $10,337,149 related to excess tax benefits from stock-based awards.

Prior to the adoption of SFAS No. 123R, the Company applied Accounting Principles Board Opinion ("APB") No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25") to account for its stock-based awards. The following table details the effect on net income and earnings per share had compensation expense for the Employee Stock-Based Awards been recorded in the three and nine months ended September 30, 2005 based on the fair value method under SFAS No. 123:

(in thousands, except per share amounts)	Three Months Ended	Nine Months Ended
Net Income:		
As reported	$L,896	$I4,874
Add: Stock-based employee compensation expense included in reported net income, net of related tax	I,983	N,649
Deduct: Total stock-based employee compensation expense determined under SFAS 123	(2,088)	(7,169)
Pro forma	$L,791	$I4,354
Basic earnings per share		
:		
As reported	$0.50	$1.52
Pro forma	$0.49	$1.47
Diluted earnings per share		
:		
As reported	$0.39	$1.19
Pro forma	$0.38	$1.14

For the Company's pro forma computation, the fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model, with the following weighted-average assumptions used for grants in the first nine months of 2005: dividend yield of 0.00%; expected volatility of 31.2%; risk-free interest rates of 3.88%; and

expected lives of 5.73 years.

Recent Accounting Pronouncements

In March 2005, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 47, "*Accounting for Conditional Asset Retirement Obligations, an interpretation of Statement of Financial Accounting Standards* ("SFAS") *No. 143, Accounting for Asset Retirement Obligations* ("FIN 47")". FIN 47 clarifies the term conditional asset retirement obligation as used in SFAS No. 143. FIN 47 refers to a legal obligation to perform an asset retirement activity in which the timing and (or) method of settlement are conditional on a future event that may or may not be within the control of the entity. Accordingly, an entity is required to recognize a liability for the fair value of a conditional asset retirement obligation if the fair value of the liability can be reasonably estimated. The Company's adoption of FIN 47 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In June 2005, the Emerging Issues Task Force ("EITF") reached a consensus on EITF Issue No. 04-5, "*Determining Whether a General Partner, or the General Partners as a Group, Controls a Limited Partnership or Similar Entity When the Limited Partners Have Certain Rights*" ("EITF No. 04-5"). EITF No. 04-5 consensus requires a general partner in a limited partnership to consolidate the limited partnership unless the presumption of control is overcome. The general partner may overcome this presumption of control and not consolidate the entity if the limited partners have: (a) the substantive ability to dissolve or liquidate the limited partnership or otherwise remove the general partner without having to show cause; or (b) substantive participating rights in managing the partnership. This consensus is effective for general partners of all new limited partnerships formed and for existing limited partnerships for which the partnership agreements are modified subsequent to the date of the ratification of this consensus (June 29, 2005). The adoption of EITF No. 04-5 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In June 2005, the FASB issued SFAS No. 154, "*Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3*," ("SFAS No. 154"). SFAS No. 154 changes the requirements for the accounting for and reporting of a change in accounting principle. The adoption of SFAS No. 154 did not have a material impact on the Company's Condensed Consolidated Financial Statements.

In June 2006, the 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 will be effective for the Company beginning in the first quarter of 2007. The Company is in the process of evaluating the impact of adopting FIN 48 on the Company's Condensed Consolidated Financial Statements.

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 Condensed Consolidated Financial Statements.

In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108 ("SAB 108") "*Financial Statements -- Considering the Effects of Prior Year Misstatements When Quantifying Misstatements in Current Year Financial Statements*." SAB 108 provides guidance on the consideration of prior misstatements in determining whether the current year's financial statements are materially misstated. In providing this guidance, the SEC staff references both the "iron curtain" and "rollover" approaches to quantifying a current year misstatement for purposes of determining materiality. The iron curtain approach focuses on how the current year's statement of financial condition would be affected in correcting misstatement without considering the year in which the misstatement originated. The rollover approach focuses on the amount of the misstatements that originated in the current year's statement of operation. The SEC staff indicated that registrants should quantify the impact of correcting all misstatements, including both the carryover and reversing effects of prior year misstatements, on the current year financial statements. SAB 108 is effective for fiscal years ending after November 15, 2006. Registrants may either restate their financial for any material misstatements arising from the application of SAB 108 or recognize a cumulative effect of applying SAB 108 within the current year opening balance in retained earnings. The adoption of SAB 108 is not expected to have a material impact on the Company's Condensed Consolidated Financial Statements.

NOTE B - STOCK-BASED COMPENSATION PLANS

The Company has several stock-based compensation plans. All stock-based compensation plans are administered by the Compensation Committee of the Board of Directors of Stifel Financial Corp., which has the authority to interpret the plans, determine to whom awards may be granted under the plans, and determine the terms of each award.

Stock Units

A stock unit represents the right to receive a share of common stock from the Company at a designated time in the future without cash payment by the employee and is issued in lieu of cash incentive. A deferred compensation plan is provided to certain revenue producers, officers, and key administrative employees, whereby a certain percentage of their incentive compensation is deferred as defined by the plan into Company stock units with a 25% matching contribution by the Company. Participants may elect to defer up to an additional 15% of their incentive compensation with a 25% matching contribution by the Company. Units generally vest over a three- to five-year period and are distributable upon vesting or at future specified dates. Deferred compensation costs are amortized on a straight-line basis over the vesting period.

During the three month period ended September 30, 2006, the Company granted 212,602 units at an average value of $32.12 per unit and converted 27,625 units into common stock. During the nine month period ended September 30, 2006, the Company granted 2,321,078 units at an average value of $37.35 per unit and converted 853,592 units into common stock.

The summary of the status of the Company's stock units as of September 30, 2006 and changes during the three and nine-month period is presented below:

	Three Months ended		Nine Months ended	
Stock Units	Shares	Average Grant Price	Shares	Average Grant Price
Outstanding at beginning of period	4,200,532		2,943,484	
Granted	212,602	$ 32.12	2,321,078	$37.35
Converted	(27,625)		(853,592)	
Cancelled	(21,445)		(46,906)	
Outstanding at end of period	4,364,064		4,364,064	

On January 2, 2006, the Company granted 1,807,610 restricted stock units to key associates of the Legg Mason Capital Markets business ("LM Capital Markets") (See Note G). The units were granted in accordance with the Company's 2001 incentive stock award plan as amended with a grant date fair value of $37.59 per unit. The units vest ratably over a three year period, and accordingly, the Company incurred compensation expense of $5,397,467 in the third quarter of 2006 and $16,650,972 for the first nine months of 2006.

The total stock unit compensation cost recognized for the quarter ending September 30, 2006 and 2005 was $8,221,384 and $1,983,117, respectively. For the nine month period ended September 30, 2006 and 2005, the total stock unit compensation cost recognized was $24,747,504 and $6,648,512 respectively. The total tax benefit for the three month period ended September 30, 2006 and September 30, 2005 related thereto was $28,922 and $413,756, respectively. For the nine-month period ended September 30, 2006 and September 30, 2005 the total tax benefit related thereto was $8,598,429 and $1,857,083 respectively.

Stock Option/Incentive Award Plans

The Company has four incentive stock award plans. Under the Company's 1997 and 2001 Incentive Stock Plans, the Company may grant incentive stock options, stock appreciation rights, restricted stock, performance awards, and stock units up to an aggregate of 8,748,659 shares. Options under these plans are generally granted at market value at the date of the grant and expire ten years from the date of grant. The options generally vest ratably over a three- to five-year vesting period. The Company has also granted stock options to external board members under a non-qualified plan and the "Equity Incentive Plan for Non-Employee Directors." Under the Equity Incentive Plan for Non-Employee Directors, the Company may grant stock options and stock units up to 200,000 shares. The exercise price of the option is equal to market value at the date of the grant and are exercisable six months to one year from date of grant and expire ten years from date of grant. Under the Stifel, Nicolaus & Company, Incorporated Wealth Accumulation Plan ("SWAP"), a deferred compensation plan for Investment Executives, the Company may grant stock units up to 933,333 shares.

As of September 30, 2006, there was $1,289,831 of total unrecognized compensation cost related to non-vested option awards. That cost is expected to be recognized over a weighted average period of 2.05 years.

The summary of the status of the Company's stock option plans as of September 30, 2006 and changes during the three and nine-month period is presented below:

	Three Months ended		Nine Months ended	
Options	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at beginning of period	1,534,576	$ 10.21	1,665,363	$ 9.95
Granted	- -	- -	8,000	$38.25
Exercised	(17,769)	$ 8.95	(156,556)	$ 8.74
Cancelled	- -	- -	- -	- -
Outstanding at end of period	1,516,807	$ 10.22	1,516,807	$ 10.22
Options exercisable	1,202,530	$ 8.81	1,202,530	$ 8.81
Weighted-average fair value of options granted during the period	n/a		$14.58	

The total intrinsic value of options exercised during the three and nine-month periods ended September 30, 2006 was $393,812 and $4,443,987, respectively. For the three and nine-month periods ended September 30, 2005, the total intrinsic value of options exercised was $1,314,061 and $2,252,329, respectively. The total fair value of options vested during the three and nine-month period ended September 30, 2006 was $358,653 and $4,187,295, respectively.

The following table summarizes information about stock options outstanding at September 30, 2006:

	Options Outstanding			Options Exercisable	
Range of Exercise Price	Number Outstanding	Weighted-Average Remaining Contractual Life	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$4.70 - $7.41	217,294	2.39	$ 7.02	217,294	$ 7.02
O.46 -O.80	257,676	4.64	7.74	224,087	7.73
O.83 - 8.12	247,319	2.90	7.95	234,264	7.95
8.16 - 8.69	326,912	5.35	8.48	249,482	8.46
8.70 -I1.48	230,846	3.73	9.67	194,614	9.64
I3.89 -J2.23	193,552	7.82	17.50	82,789	17.92
J2.23 -K8.25	43,208	9.25	37.71	-	0.00
	1,516,807	4.58	$ 10.22	1,202,530	$ 8.81

$4.70
- $38.25

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the following assumptions: dividend yield of 0.00%; expected volatility of 32.6%; risk-free interest rates of 4.55%; and expected lives of 5.35 years.

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

The total option compensation cost recognized for the three and nine-month periods ended September 30, 2006 was $139,884 and $432,247, respectively. There was no compensation costs recognized during the same periods ending September 30, 2005. The Company received $159,075 and $1,368,530 cash from the exercise of stock options during the three and nine-month periods ended September 30, 2006, respectively. For the three and nine-month periods ended September 30, 2005, the Company received $567,026 and $1,269,517 respectively, from the exercise of stock options. The total tax benefit for the three and nine month period ended September 30, 2006 related thereto was $150,242 and $1,738,721, respectively. The total tax benefit for the three and nine-month period ended September 30, 2005 related thereto was $499,830 and $917,868 respectively.

NOTE C - NET CAPITAL REQUIREMENT

The Company's principal subsidiary, Stifel, Nicolaus & Company, Incorporated ("SN & Co.") is subject to the Uniform Net Capital Rule, Rule 15c3-1 under the Exchange Act (the "Rule"), which requires the maintenance of minimum net capital, as defined. SN & Co. has elected to use the alternative method permitted by the Rule that requires maintenance of minimum net capital equal to the greater of $250,000 or 2% of aggregate debit items arising from customer transactions, as defined. The Rule also provides that equity capital may not be withdrawn or cash dividends paid if resulting net capital would be less than 5% of aggregate debit items. Another subsidiary, Century Securities Associates, Inc. ("CSA"), is also subject to minimum capital requirements that may restrict the payment of cash dividends and advances to the Company. CSA has consistently operated in excess of their capital adequacy requirements. The only restriction with regard to the payment of cash dividends by the Company is its ability to obtain cash through dividends and advances from its subsidiaries, if needed.

At September 30, 2006, SN & Co. had net capital of $119,105,824, which was 40.30% of its aggregate debit items, and $113,194,752 in excess of the minimum required net capital. CSA had net capital of $2,559,400 which was $2,392,102 in excess of minimum required net capital.

The Company's international subsidiary, Stifel Nicolaus Limited, is subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. The FSA also has the power to set minimum capital requirements, which Stifel Nicolaus Limited has met.

NOTE D - LEGAL PROCEEDINGS

The Company is named in and subject to various proceedings and claims incidental to its securities business activities, including lawsuits, arbitration claims and regulatory matters. While the ultimate outcome of pending litigation, claims and regulatory matters cannot be predicted with certainty, based upon information currently known, management believes that resolution of all such matters will not have a material adverse effect on the condensed consolidated financial condition of the Company but could be material to its operating results in one or more future periods. It is reasonably possible that certain of these lawsuits, arbitrations, claims and regulatory matters could be resolved in the next year and management does not believe such resolutions will result in losses materially in excess of the amounts previously provided.

NOTE E - SEGMENT REPORTING

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

Intersegment net revenues and charges are eliminated between segments. The Company evaluates the performance of its segments and allocates resources to them based on various factors, including prospects for growth, return on investment, and return on revenues.

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

(in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
Net Revenues	2006	2005	2006	2005
Private Client Group	$M6,461	$M1,260	$I67,461	$I46,680
Equity Capital Markets	36,692	8,284	105,801	26,252
Fixed Income Capital Markets	13,829	2,990	35,934	11,679
Other	2,834	1,324	12,821	3,406
Total Net Revenues	$ 109,816	$N3,858	$ 322,017	$I88,017
Operating Contribution				
Private Client Group	$I2,750	$ 12,724	$K6,875	$ 35,483
Equity Capital Markets	8,123	2,344	23,557	8,396
Fixed Income Capital Markets	3,127	(36)	5,875	1,391
Other/ Unallocated Overhead	(14,759)	(6,883)	(52,310)	(20,552)
Income before income taxes	$ 9,241	$ 8,149	$ 13,997	$ J4,718

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

The Company has an ongoing authorization, as amended, from the Board of Directors to repurchase its common stock in the open market or in negotiated transactions in order to meet obligations under the Company's employee benefit plans and for general corporate purposes. In May 2005, the Company's Board of Directors authorized the repurchase of an additional 2,000,000 shares, for a total authorization to repurchase up to 3,000,000 shares. During the first nine months of 2006, the Company repurchased 343,382 shares of its common stock, at an average price of $32.29 per share. The Company reissued 48,264 shares of common stock and issued 1,608,666 new shares for its employee benefit plans in the first nine months of 2006.

On January 23, 2006, the Company completed its private placement of 1,052,220 shares of its common stock at $25.00 per share. The shares were purchased by key associates of the LM Capital Markets business. The Company is required to charge to compensation the difference of $25.00 per share and the grant date fair value, as determined in accordance with SFAS No. 123R, of $34.27 per share. As a result, the Company incurred a compensation charge of $9,750,818 in January 2006.

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

The components of the basic and diluted EPS calculations for the three and nine months ended September 30 are as follows:

	Three Months Ended		Nine Months Ended	
	September 30,		**September 30,**	
(in thousands, except per share amounts)	2006	2005	2006	2005
Income Available to Common Stockholders				
Net Income	$ 5,424	$ 4,896	$ 8,198	$ 14,874
Weighted Average Shares Outstanding				
Basic Weighted Average Shares Outstanding	11,582	9,768	11,514	9,774
Effect of dilutive securities from employee benefit plans	2,349	2,776	2,387	2,678
Diluted Weighted Average Shares Outstanding	13,931	12,544	13,901	12,452
Basic Earnings per share	$ 0.47	$ 0.50	$ 0.71	$ 1.52
Diluted Earnings per share	$ 0.39	$ 0.39	$ 0.59	$ 1.19

NOTE G - ACQUISITION

On December 1, 2005, the Company closed on the acquisition of the LM Capital Markets, from Citigroup Inc. The LM Capital Markets business was part of Legg Mason Wood Walker, Inc. ("LMWW"), which Citigroup Inc. acquired from Legg Mason, Inc. in a substantially simultaneous closing. The LM Capital Markets business acquired by the Company includes the Investment Banking, Equity and Fixed Income Research, Equity Sales and Trading, and Taxable Fixed Income Sales and Trading Departments of LMWW and employed 429 professional and support staff who became employees of the Company on December 1, 2005. The acquisition was made to grow the Company's business and in particular the Company's Capital Markets business leveraging the skill set of the Legg Mason Capital Markets associates. Under the terms of the agreement, the Company paid Citigroup Inc. an amount equal to the net book value of assets being acquired of $12,178,198 plus a premium of $7,000,000 paid in cash at closing with the balance of up to an additional $30,000,000 in potential earn-out payment by the Company to Citigroup Inc., based on the performance of the combined capital markets business of both the Company's pre-closing Fixed Income and Equity Capital Markets business and LM Capital Markets for calendar years 2006, 2007, and 2008. Such payments, if any, will be accounted for as additional purchase price.

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

	Three Months Ended	Nine Months Ended
	September 30, 2005	September 30, 2005

Total revenues	$111,712,728	$355,430,677
Net income	$ 3,026,987	$ 11,485,756
Diluted earnings per share	$0.22	$0.84
Diluted weighted average shares outstanding	13,746,529	13,655,083

The above pro forma data excludes reductions of certain administrative allocations by LMWW which as a result of synergies of the combined operations, management believes, will be significantly reduced. These results do not purport to be indicative of the results which actually would have occurred.

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

Cash	$324,930
Investments	I2,275,536
Furniture & fixtures	I,542,267
Accounts receivables	K5,122,667
Prepaid expenses	N23,326
Goodwill	O,565,943
Intangible assets	J,255,000
Total assets acquired	M9,709,669
Accounts payables	J,642,748
Accrued expenses	K5,025,441
Total liabilities assumed	K7,668,189
Net assets acquired	$22,041,480

The goodwill and intangible assets of $9,820,943 were assigned to the Equity Capital Markets and Fixed Income Capital Markets in the amounts of $7,856,754 and $1,964,189, respectively. The total amount of goodwill and intangible assets of $9,820,943 is expected to be deductible for tax purposes.

NOTE H - GOODWILL AND INTANGIBLE ASSETS

The carrying amount of goodwill and intangible assets attributable to each of the Company's reportable segments is presented in the following table:

	Private Client Group	Equity Capital Markets	Fixed Income Capital Markets	
Goodwill				
Balance at December 31, 2005	$454,508	$1,675,899	$1,179,834	$3,310,241
Acquisitions/Purchase price adjustments	- -	K09,883	77,472	K87,355
Transfers	- -	M,742,871	I,435,718	O,178,589
Goodwill written off related to sale	- -	(496,065)	- -	(496,065)
Impairment losses	- -	- -	- -	- -
Balance at September 30, 2006	L54,508	7,232,588	J,693,024	I0,380,120
Intangible Assets				

Balance at December 31, 2005	M66,384	8,085,384	I,887,383	I0,539,151
Net Additions	I49,000	I16,667	- -	265,667
Transfers	- -	(5,742,871)	(1,435,718)	(7,178,589)
Amortization of intangible assets	(145,019)	(429,733)	(25,000)	(599,752)
Impairment losses	- -	- -	- -	- -
Balance at September 30, 2006	M70,365	J,029,447	L26,665	K,026,477
Total Goodwill and intangible assets	$1,024,873	$9,262,035	$3,119,689	$13,406,597

The changes in goodwill during the three and nine month periods ended September 30, 2006 are due to the finalization of the allocation of purchase price related to the LM Capital Markets acquisition.

At September 30, 2006, intangible assets consisted of $2,700,639 for customer list and $325,838 for non-compete notes.

NOTE I - IMPACT OF THE NYSE/ARCHIPELAGO MERGER

On March 7, 2006, the New York Stock Exchange ("NYSE") and Archipelago Holdings Inc. ("Archipelago") completed the combination of their businesses through a series of mergers into a new holding company, NYSE Group, Inc. ("NYSE Group"). Shares of NYSE Group common stock were listed on the NYSE under the ticker symbol "NYX" and commenced trading on March 8, 2006. As a result of the merger, the Company received $370,640 in cash, and 80,177 shares of NYSE Group common stock for its NYSE seat membership. The shares are subject to certain transfer restrictions that expire ratably over a three-year period, unless the NYSE Group board of directors elects to remove or reduce the restrictions. The Company recorded a net gain of $5,011,729 which is included in Other revenues in the Condensed Consolidated Statement of Operations for the nine months ended September 30, 2006. The gain was impacted by a valuation adjustment for the transfer restrictions on the shares received. Subsequent gains and losses will be recorded as the share price of NYSE Group stock fluctuates and the transfer restrictions lapse.

On May 5, 2006, the Company sold 51,900 shares of NYSE Group through a secondary public offering. The Company received cash proceeds of $3,127,763 or $60.27 per share which represented the fixed offering price.

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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. Words such as "anticipates," "estimates," "believes," "expects" and similar expressions or words are intended to identify forward-looking statements made on behalf of the Company. Actual results are subject to risks and uncertainties, including both those specific to the Company, and in particular any potential benefit to Stifel from acquiring the Legg Mason Capital Markets ("LM Capital Markets") business, including its ability to capitalize on the relationships that benefited the LM Capital Markets business, as well as statements relating to Stifel's ability to integrate the personnel and operations, 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 and other risks and uncertainties set forth in reports and other documents filed with the United States Securities and Exchange Commission ("SEC") from time to time. 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.

Critical Accounting Policies and Estimates

For a description of critical accounting policies and estimates, including those that involve varying degrees of judgment, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in the Company's Annual Report on Form 10-K for the year ended December 31, 2005. In addition, see Note A of Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005 for a more comprehensive listing of significant accounting policies.

In addition to those estimates referred to above, the Company's employee compensation and benefit expense for interim periods is impacted by estimates and assumptions. A substantial portion of the Company's employee compensation and benefits expense represents discretionary bonuses, generally determined and paid at year-end. The Company estimates the interim periods' discretionary bonus expenses based upon individual departmental profitability and total Company pre-tax profits and accrues accordingly.

Business & Economic Environment

The Federal Reserve Board increased the federal funds rate by 100 basis points since December 31, 2005, and 150 basis points since September 30, 2005 to 5.25%.

The key indicators of the markets' performances, the Dow Jones Industrial Average ("DJIA"), the Standard and Poor's 500 Index ("S&P 500") and the NASDAQ composite improved from the same period last year. At September 30, 2006, the DJIA, the NASDAQ and the S&P 500 increased 11%, 5%, and 9% respectively, over their September 30, 2005 closing prices. The DJIA, the NASDAQ and S&P 500 increased 9%, 2% and 7% respectively from their December 31, 2005 closing prices and increased 5%, 4% and 5% respectively from their June 30, 2006 closing prices.

While the major market indices have signaled increased investor confidence in the markets, concerns over inflation, energy costs and geopolitical issues remain and the recent results of the first nine months may not be indicative of future results.

Results of Operations for the Company

Year to date comparisons were impacted by the LM Capital Markets acquisition on December 1, 2005. As a result of the acquisition of the LM Capital Markets business, the Company added 429 employees and 22 offices on December 1, 2005. Except as noted in the following discussion of year-to-date and quarterly variances for the total Company and the ensuing segment results, the underlying reasons for the increase in revenue and expense categories can be attributed principally to the acquisition.

Nine months ended September 2006 as compared to nine months ended September 2005

	September-06			September-05	
(In thousands)	$ Amount	% of Net Revenues	% Incr. / (Decr.)	$ Amount	% of Net Revenues
Revenues:					
Commissions and principal transactions	$ 208,661	64.8%	95%	$ 107,029	56.9%
Investment banking	51,177	15.9%	25%	41,104	21.9%
Asset management and service fees	42,297	13.1%	36%	31,042	16.5%
Interest	25,744	8.0%	107%	12,437	6.6%
Other	8,307	2.6%	2,745%	292	0.2%
Total Revenues	336,186	104.4%	75%	191,904	102.1%
Less: Interest expense	14,169	4.4%	265%	3,887	2.1%
Net Revenues	322,017	100.0%	71%	188,017	100.0%
Non-interest expenses:					
Employee compensation and benefits	238,545	74.1%	91%	124,651	66.3%
Occupancy and equipment rental	22,547	7.0%	40%	16,065	8.6%
Communications and office supplies	19,428	6.0%	139%	8,129	4.3%
Commissions and floor brokerage	4,971	1.6%	79%	2,784	1.5%
Other operating expenses	22,529	7.0%	93%	11,670	6.2%
Total Non-interest expenses	308,020	95.7%	89%	163,299	86.9%
Income before income taxes	13,997	4.3%	-43%	24,718	13.1%
Provision for Income Taxes	5,799	1.8%	-41%	9,844	5.2%
Net Income	$8,198	2.5%	-45%	$ 14,874	7.9%

The Company recorded net income of $8.2 million, or $0.59 per diluted share on net revenues of $322.0 million for the nine months ended September 30, 2006 compared to net income of $14.9 million, or $1.19 per diluted share, on net revenues of $188.0 million for the same period one year earlier.

Investment banking revenues increased 25% to $51.2 million due principally to an increase of $23.4 million in corporate finance advisory fees offset by a decrease in corporate finance underwriting fee revenue resulting from a decreased banking calendar for lead or co-managed offerings (See Results of Operations for Equity Capital Markets).

Asset management and service fees increased 36% to $42.3 million primarily as a result of the increase in value of assets under management and increased number of accounts (See Results of Operations for Private Client Group).

Other revenues increased $8.0 million principally as a result of an increase in net gains on investments, primarily from the gain recorded on the NYSE seat membership (See Note I of Notes to Condensed Consolidated Financial Statements).

Interest revenue increased 107% to $25.7 million as a result of increased revenue on fixed income inventory held for sale to clients, increased revenue from stock borrow activities and increased revenue on customer margin accounts which resulted from a 26% increase in the weighted average rates charged to those customers. Interest expense increased 265% as a result of increased costs to carry higher levels of firm inventory, interest on Stifel Financial Capital Trust II issued in August 2005, and increased rates charged for bank borrowings and stock loans to finance customer borrowings. Weighted average effective external rates increased 39% to 4.16% from 3.00% in the prior year.

Employee compensation and benefits, which represent 74% of the Company's net revenues, increased 91% to $238.5 million. Employee compensation and benefits was impacted by acquisition related charges of $32.3 million, principally stock based compensation. The remaining increase was attributed to the increase in variable compensation commensurate with the increase in revenues.

Three months ended September 2006 as compared to three months ended September 2005

	September-06			September-05	
(In thousands)	$ Amount	% of Net Revenues	% Incr. / (Decr.)	$ Amount	% of Net Revenues
Revenues:					
Commissions and principal transactions	$ 70,041	63.8%	87%	$ 37,395	58.6%
Investment banking	19,672	17.9%	68%	11,707	18.3%
Asset management and service fees	14,560	13.2%	27%	11,445	17.9%
Interest	9,918	9.0%	112%	4,679	7.3%
Other	1,047	1.0%	502%	174	0.3%
Total Revenues	115,238	104.9%	76%	65,400	102.4%
Less: Interest expense	5,422	4.9%	252%	1,542	2.4%
Net Revenues	109,816	100.0%	72%	63,858	100.0%
Non-interest expenses:					
Employee compensation and benefits	77,466	70.5%	83%	42,369	66.3%
Occupancy and equipment rental	7,785	7.1%	43%	5,443	8.5%
Communications and office supplies	6,532	6.0%	144%	2,677	4.2%
Commissions and floor brokerage	1,866	1.7%	97%	946	1.5%
Other operating expenses	6,926	6.3%	62%	4,274	6.7%
Total Non-interest expenses	100,575	91.6%	81%	55,709	87.2%
Income before income taxes	9,241	8.4%	13%	8,149	12.8%
Provision for Income Taxes	3,817	3.5%	17%	3,253	5.1%
Net Income	$ 5,424	4.9%	11%	$ 4,896	7.7%

Except as noted in the following discussion of variances for the total Company and the ensuing segment results, the underlying reasons for the three month variances to the prior period are substantially the same as the comparative nine month discussion and the statements contained in that discussion also apply for the three month discussion.

The Company recorded net income of $5.4 million, or $0.39 per diluted share on record net revenues of $109.8 million for the three months ended September 30, 2006 compared to net income of $4.9 million, or $0.39 per diluted share, on net revenues of $63.9 million for the same period one year earlier.

Employee compensation and benefits, which represent 71% of the Company's net revenues, increased 83% to $77.5 million. Employee compensation and benefits was impacted by acquisition related charges of $7.1 million, principally stock based compensation. The remaining increase was attributed to the increase in variable compensation commensurate with the increase in revenues.

Core Earnings for the three and nine months ended September 2006

Net income for the three and nine months ended September 30, 2006 was impacted by acquisition related costs, primarily stock based compensation, of $7.3 million or $0.30 per diluted share and $33.4 million or $1.40 per diluted share respectively, associated with the acquisition of the LM Capital Markets business from Citigroup Inc.

As a result of the acquisition, the Company reports Core Earnings; a non-Generally Accepted Accounting Principle ("GAAP") financial measure. Core Earnings represents GAAP net income before acquisition related charges, principally compensation expense recorded for stock based awards offered to key associates of LM Capital Markets and accounted for under Statement of Accounting Standards No. 123 (Revised 2004) "Share-Based Payment"("SFAS No. 123R"). Management believes the supplemental disclosure of Core Earnings helps investors, rating agencies, and financial analysts better understand the performance of their business and enhances the comparison of their performance from period to period. Management uses Core Earnings to evaluate the performance of their business. Core Earnings should not be considered an alternative to any measure of performance as promulgated under GAAP (such as net income), nor should this data be considered an indicator of our overall financial performance or liquidity. Also, the calculation of Core Earnings used by the Company may not be comparable to similarly titled measures reported by other companies.

A reconciliation of Core Earnings to Net Income, and Core Earnings per Basic and Diluted Share to Net Income per Basic and Diluted Share, the most directly comparable measure under GAAP, is included in the table below.

	Three Months Ended		Nine Months Ended	
	09/30/2006	09/30/2005	09/30/2006	09/30/2005
GAAP Net Income	$ 5,424	$ 4,896	$ 8,198	$ 14,874
Acquisition related revenues, net of tax	1		89	- -
Acquisition related charges, net of tax				
Private placement compensation	- -	- -	5,676	- -
Acquisition related compensation	4,074	- -	13,139	- -
Other non-compensation charges	122	- -	621	- -
Core Earnings [1]	$ 9,621	$ 4,896	$ 27,723	$ 14,874
Earnings per Share:				
GAAP Earnings Per Basic Share	$ 0.47	$ 0.50	$ 0.71	$ 1.52
Acquisition related charges	0.36	- -	1.70	- -
Core Earnings Per Basic Share	$ 0.83	$ 0.50	$ 2.41	$ 1.52
GAAP Earnings Per Diluted Share	$ 0.39	$ 0.39	$ 0.59	$ 1.19

Acquisition related charges	0.30	- -	1.40	- -
Core Earnings Per Diluted Share	$ 0.69	$ 0.39	$ 1.99	$ 1.19

(1)

Core Earnings for the three and nine months ended September 30, 2006 were $9.6 million or $0.69 per diluted share and $27.7 million or $1.99 per diluted share, respectively. Included in the nine month, Core Earnings is $0.15 per diluted share for the unrealized gain resulting from the subsequent market adjustment to the shares of the NYSE Group resulting from the merger of the New York Stock Exchange and Archipelago Holdings Inc.

Segments Analysis

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

Results of Operations for Private Client Group - Nine Months

The following table presents consolidated information for the Private Client Group segment for the respective periods indicated.

	September-06			September-05	
(In thousands)	$ Amount	% of Net Revenues	% Incr. / (Decr.)	$ Amount	% of Net Revenues
Revenues:					
Commissions and principal transactions	$ 112,067	66.9%	13%	$ 98,991	67.5%
Investment banking	6,677	4.0%	-38%	10,773	7.3%
Asset management and service fees	42,250	25.2%	36%	31,021	21.1%
Interest	15,131	9.1%	49%	10,137	6.9%
Other	506	0.3%	198%	170	0.2%
Total Revenues	176,631	105.5%	17%	151,092	103.0%
Less: Interest expense	9,170	5.5%	108%	4,412	3.0%
Net Revenues	167,461	100.0%	14%	146,680	100.0%
Non-interest expenses:					
Employee compensation and benefits	104,625	62.5%	18%	88,894	60.6%
Occupancy and equipment rental	10,102	6.0%	9%	9,241	6.3%
Communications and office supplies	5,544	3.3%	16%	4,795	3.3%
Commissions and floor brokerage	2,552	1.5%	31%	1,945	1.3%

Other operating expenses	7,763	4.7%	23%	6,322	4.3%
Total Non-interest expenses	130,586	78.0%	17%	111,197	75.8%
Income before income taxes	$ 36,875	22.0%	4%	$ 35,483	24.2%

	September 30, 2006	September 30, 2005
Branch Offices	100	90
Investment Executives	500	458
Independent Contractors	180	182

PCG net revenues increased 14% to $167.5 million, principally due to increased commissions and principal transactions and increased asset management and service fees offset by a decrease in investment banking. Commissions and principal transactions increased due to the increase in the number of branch offices and investment executives. Investment banking decreased due to decreased selling concession for lead or co-managed transactions (See Results of Operations for Equity Capital Markets). Asset management and service fees increased principally due to increased wrap fees, resulting from of an increase in the number and value of managed accounts which increased 37% and 52% respectively.

Assets Under Management	September 30, 2006	June 30, 2006	September 30, 2005	June 30, 2005
Value	$3,485,424,000	$3,322,806,000	$2,298,612,000	$1,597,656,000
Number of accounts	12,480	11,627	9,142	8,153

Interest revenues for the PCG increased as a result of increased rates charged to customers for margin borrowings to finance trading activity. Interest expense increased as a result of increased rates from banks to finance those customer borrowings. (See net interest discussion in Results of Operations for the Company)

Non-interest expenses increased 17% to $130.6 million. Employee compensation and benefits increased 18% as a result of increased variable compensation which increased in conjunction with increased revenue production, and increased fixed compensation which increased due to the firm's continued expansion of the PCG. Employee compensation and benefits includes transition pay of $8.4 million and $6.9 million from 2006 and 2005, respectively, principally upfront notes and accelerated payouts in connection with the Company's expansion efforts.

Occupancy and equipment rental increased 9% principally as a result of increased occupancy cost due to an increase in the number of branch offices.

Communication and office supplies increased 16% due to the increase in the number of branch offices.

Commission and floor brokerage increased 31% due to increased transactions and commission revenue.

Other operating expenses increased 23% to $7.8 million principally as a result of increased advertising and travel and promotion costs associated with the increase in branch offices.

As a result of the 14% increase in net revenues, income before income taxes for the Private Client Group increased 4% to $36.9 million.

Results of Operations for Private Client Group - Three Months

The following table presents consolidated information for the Private Client Group segment for the respective periods indicated.

	September-06			September-05	
(In thousands)	$ Amount	% of Net Revenues	% Incr. / (Decr.)	$ Amount	% of Net Revenues
Revenues:					
Commissions and principal transactions	$ 36,554	64.7%	5%	$ 34,721	67.7%
Investment banking	2,652	4.7%	-8%	2,880	5.6%
Asset management and service fees	14,553	25.8%	27%	11,438	22.3%
Interest	5,320	9.4%	37%	3,870	7.5%
Other	198	0.4%	78%	111	0.3%
Total Revenues	59,277	105.0%	12%	53,020	103.4%
Less: Interest expense	2,816	5.0%	60%	1,760	3.4%
Net Revenues	56,461	100.0%	10%	51,260	100.0%
Non-interest expenses:					
Employee compensation and benefits	34,704	61.5%	12%	30,941	60.4%
Occupancy and equipment rental	3,562	6.3%	15%	3,108	6.1%
Communications and office supplies	1,901	3.4%	23%	1,545	3.0%
Commissions and floor brokerage	1,124	2.0%	67%	674	1.3%
Other operating expenses	2,420	4.2%	7%	2,268	4.4%
Total Non-interest expenses	43,711	77.4%	13%	38,536	75.2%
Income before income taxes	$ 12,750	22.6%	0%	$ 12,724	24.8%

PCG net revenues increased 10% to $56.5 million, principally due to increased commissions and principal transactions and increased asset management and service fees offset by a decrease in investment banking.

Non-interest expenses increased 13% to $43.7 million. Employee compensation and benefits increased 12% as a result of increased variable compensation which increased in conjunction with increased revenue production and increased fixed compensation which increased due to the firm's continued expansion of the Private Client Group. Employee compensation and benefits includes transition pay of $3.1 million and $2.6 million from 2006 and 2005, respectively, principally upfront notes and accelerated payouts in connection with the Company's expansion efforts.

Results of Operations for Equity Capital Markets - Nine Months

The following table presents consolidated information for the Equity Capital Markets segment for the respective periods indicated.

	September-06			September-05	
(In thousands)	$ Amount	% of Net Revenues	% Incr. / (Decr.)	$ Amount	% of Net Revenues
Revenues:					
Commissions and principal transactions	$ 66,429	62.8%	1,082%	$ 5,619	21.4%
Investment banking	38,390	36.3%	86%	20,676	78.8%
Other	1,147	1.1%	326%	269	1.0%
Total Revenues	105,966	100.2%	299%	26,564	101.2%
Less: Interest expense	165	0.2%	-47%	312	1.2%
Net Revenues	105,801	100.0%	303%	26,252	100.0%
Non-interest expenses:					
Employee compensation and benefits	59,862	56.6%	342%	13,531	51.5%
Occupancy and equipment rental	3,657	3.5%	365%	786	3.0%
Communications and office supplies	8,913	8.4%	583%	1,304	5.0%
Commissions and floor brokerage	2,049	1.9%	176%	743	2.8%
Other operating expenses	7,763	7.3%	420%	1,492	5.7%
Total Non-interest expenses	82,244	77.7%	361%	17,856	68.0%
Income before income taxes	$ 23,557	22.3%	181%	$ 8,396	32.0%

ECM net revenues increased 303% to $105.8 million, principally due to increased commissions and principal transactions and increased investment banking.

Investment banking revenue increased 86% to $38.4 million due principally to increased advisory fees of $23.2 million offset by decreased underwriting fee revenue of $5.5 million resulting from decreased banking calendars for lead or co-managed offerings. As a result of the 303% increase in net revenues and the leverage in increased production, income before income taxes increased 181% to $23.6 million.

Results of Operations for Equity Capital Markets - Three Months

The following table presents consolidated information for the Equity Capital Markets segment for the respective periods indicated.

	September-06			September-05	
(In thousands)	$ Amount	% of Net Revenues	% Incr. / (Decr.)	$ Amount	% of Net Revenues
Revenues:					
Commissions and principal transactions	$ 22,074	60.2%	1,255%	$ 1,629	19.7%
Investment banking	14,313	39.0 %	114%	6,684	80.7%
Other	340	0.9%	750%	40	0.4%
Total Revenues	36,727	100.1%	340%	8,353	100.8%
Less: Interest expense	35	0.1%	-49%	69	0.8%
Net Revenues	36,692	100.0%	343%	8,284	100.0%
Non-interest expenses:					
Employee compensation and benefits	20,898	57.0%	362%	4,528	54.7%
Occupancy and equipment rental	1,285	3.5%	357%	281	3.4%
Communications and office supplies	3,219	8.8%	638%	436	5.3%
Commissions and floor brokerage	662	1.8%	164%	251	3.0%
Other operating expenses	2,505	6.8%	464%	444	5.3%
Total Non-interest expenses	28,569	77.9%	381%	5,940	71.7%
Income before income taxes	$ 8,123	22.1%	247%	$ 2,344	28.3%

ECM net revenues increased 343% to $36.7 million, principally due to increased commissions and principal transactions and increased investment banking. Investment banking revenue increased principally due to increased advisory fees of $7.4 million.

As a result of the 343% increase in net revenues and the leverage in increased production, income before income taxes increased 247% to $8.1 million.

Results of Operations for Fixed Income Capital Markets - Nine Months

The following table presents consolidated information for the Fixed Income Capital Markets segment for the respective periods indicated.

	September-06			September-05	
(In thousands)	$ Amount	% of Net Revenues	% Incr. / (Decr.)	$ Amount	% of Net Revenues
Revenues:					
Commissions and principal transactions	$ 30,164	83.9%	465%	$ 5,335	45.7%
Investment banking	6,110	17.0%	-9%	6,715	57.5%
Interest	12,910	36.0%	2,264%	546	4.7%
Other	3	0%	-82%	17	0.1%
Total Revenues	49,187	136.9%	290%	12,613	108.0%
Less: Interest expense	13,253	36.9%	1,319%	934	8.0%
Net Revenues	35,934	100.0%	208%	11,679	100.0%
Non-interest expenses:					
Employee compensation and benefits	22,525	62.7%	205%	7,389	63.3%
Occupancy and equipment rental	1,734	4.8%	207%	565	4.8%
Communications and office supplies	2,534	7.1%	300%	634	5.4%
Commissions and floor brokerage	370	1.0%	285%	96	0.8%
Other operating expenses	2,896	8.0%	81%	1,604	13.8%
Total Non-interest expenses	30,059	83.6%	192%	10,288	88.1%
Income before income taxes	$ 5,875	16.4%	322%	$ 1,391	11.9%

Net revenues for the first nine months of 2006 increased 208% to $35.9 million from the same time period last year principally due to an increase in commissions and principal transactions offset by a decrease in investment banking. Investment banking revenues decreased as a result of decreased municipal refinancings resulting from increased interest rates.

As a result of the 208% increase in net revenue and the leverage in increased production, income before income taxes increased 322% to $5.9 million.

Results of Operations for Fixed Income Capital Markets - Three Months

The following table presents consolidated information for the Fixed Income Capital Markets segment for the respective periods indicated.

	September-06			September-05	
(In thousands)	$ Amount	% of Net Revenues	% Incr. / (Decr.)	$ Amount	% of Net Revenues
Revenues:					
Commissions and principal transactions	$ 11,412	82.5%	851%	$1,200	40.1%
Investment banking	2,707	19.6%	37%	1,977	66.2%
Interest	5,860	42.4%	2,787%	203	6.8%
Other	1	0.0%	-86%	7	0.2%
Total Revenues	19,980	144.5%	490%	3,387	113.3%
Less: Interest expense	6,151	44.5%	1,449%	397	13.3%
Net Revenues	13,829	100.0%	363%	2,990	100.0%
Non-interest expenses:					
Employee compensation and benefits	8,320	60.2%	302%	2,069	69.2%
Occupancy and equipment rental	600	4.3%	257%	168	5.6%
Communications and office supplies	870	6.3%	252%	247	8.3%
Commissions and floor brokerage	79	0.6%	295%	20	0.7%
Other operating expenses	833	6.0%	60%	522	17.4%
Total Non-interest expenses	10,702	77.4%	254%	3,026	101.2%
Income before income taxes	$ 3,127	22.6%	n/a	$ (36)	-1.2%

Net revenues for the third quarter of 2006 increased 363% to $13.8 million from the same time period last year principally due to an increase in commissions and principal transactions and investment banking. Investment banking revenues increased due to increased underwriting fees of $918,000 offset by a decrease in advisory fees of $129,000.

Results of Operations for Other Segment - Nine Months

The following table presents consolidated information for the Other segment for the respective periods indicated.

	September-06		September-05
(In thousands)	$ Amount	% Incr. / (Decr.)	$ Amount
Net Revenues	$ 12,821	276%	$ 3,406
Non-interest expenses:			
Employee compensation and benefits	51,534	247%	14,838
Other operating expenses	13,597	49%	9,120
Total Non-interest expenses	65,131	172%	23,958
Losses before income tax	$ (52,310)	n/a	$ (20,552)

Net revenues for the Other segment increased to $12.8 million principally as a result of an increase in gains on investments, primarily from the previously discussed $5.0 million gain on the NYSE membership seat. (See Note I of Notes to Condensed Consolidated Financial Statements).

Total Non-interest expenses increased due to the previously discussed acquisition charges, primarily stock-based compensation, of $33.4 million related to the acquisition charges of the LM Capital Markets business. (See Note G of Notes to Condensed Consolidated Financial Statements).

Results of Operations for Other Segment - Three Months

The following table presents consolidated information for the Other segment for the respective periods indicated.

	September-06		September-05
(In thousands)	$ Amount	% Incr. / (Decr.)	$ Amount
Net Revenues	$ 2,834	114%	$ 1,324
Non-interest expenses:			
Employee compensation and benefits	13,545	180%	4,831
Other operating expenses	4,048	20%	3,376
Total Non-interest expenses	17,593	114%	8,207
Losses before income tax	$ (14,759)	n/a	$ (6,883)

Net revenues for the Other segment increased 114% to $2.8 million.

Total Non-interest expenses increased due to the previously discussed acquisition charges, primarily stock-based compensation, of $7.3 million related to the acquisition charges of the LM Capital Markets business. (See Note G of Notes to Condensed Consolidated Financial Statements).

Liquidity and Capital Resources

The Company's assets are principally highly liquid, consisting mainly of cash or assets readily convertible into cash. These assets are financed primarily by the Company's equity capital, debenture to Stifel Financial Capital Trust I, debenture to Stifel Financial Capital Trust II, short-term bank loans, reverse repurchase agreements, proceeds from securities lending, 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.

On January 2, 2006, the Company granted 1,807,610 restricted stock units to key associates of the LM Capital Markets. The units were granted in accordance with the Company's 2001 incentive stock award plan as amended with a grant date fair value of $37.59 per unit. The units vest ratably over a three year period, and accordingly, the Company incurred compensation expense of $16.7 million for the nine months ended September 30, 2006.

On January 23, 2006, the Company completed its private placement of 1,052,220 shares of its common stock at $25.00 per share. The shares were purchased by key associates of the LM Capital Markets business. The Company is required to charge to compensation the difference of $25.00 per share and the grant date fair value, as determined in accordance with SFAS No. 123R, of $34.27 per share. As a result, the Company incurred a compensation charge of $9.8 million in January 2006.

In the first nine months of 2006, the Company purchased $5.1 million in fixed assets, consisting primarily of information technology equipment, leasehold improvements and furniture and fixtures.

The Company has an ongoing authorization, as amended, from the Board of Directors to repurchase its common stock in the open market or in negotiated transactions in order to meet obligations under the Company's employee benefit plans and for general corporate purposes**.** In May 2005, the Company's Board of Directors authorized the repurchase of an additional 2,000,000 shares, for a total authorization to repurchase up to 3,000,000 shares. During the first nine months of 2006, the Company repurchased 343,382 shares of its common stock, at an average price of $32.29 per share**.** The Company reissued 48,264 shares of common stock and issued 1,608,666 new shares for its employee benefit plans in the first nine months of 2006.

On October 30, 2006, the Company announced it had entered into a letter of intent to acquire the private client business of Miller Johnson Steichen Kinnard, Inc (MJSK). The Company will acquire certain assets related to the private client business of MJSK for cash. The transaction is expected to close in the fourth quarter of this year.

Stifel, Nicolaus & Company, Incorporated ("SN & Co."), the Company's principal broker-dealer subsidiary, and Century Securities Associates, Inc. ("CSA") are subject to certain requirements of the SEC with regard to liquidity and capital requirements. At September 30, 2006, SN & Co. had net capital of $119.1 million, which was 40.30% of its aggregate debit items, and $113.2 million in excess of the minimum required net capital and CSA had net capital of $2.6 million, which was $2.4 million in excess of minimum required net capital. SN & Co. and CSA may not be able to pay cash dividends from its equity capital without prior regulatory approval if doing so would jeopardize their ability to satisfy minimum net capital requirements.

The Company's international subsidiary, Stifel Nicolaus Limited, is subject to the regulatory supervision and requirements of the Financial Services Authority ("FSA") in the United Kingdom. The FSA also has the power to set minimum capital requirements, which Stifel Nicolaus Limited has met.

The Company receives a tax benefit for the conversion of stock based awards utilized to reduce the Company's income tax liability. The benefit is derived from the difference in the market value on the date the awards are converted and the share value on the date the awards were granted. For the first nine months of 2006, the Company recorded $10.3 million in income tax benefits.

Management believes the funds from operations, available informal short-term credit arrangements, and its ability to raise additional capital will provide sufficient resources to meet the present and anticipated financing needs for continued growth.

Recent Accounting Pronouncements

See the Recent Accounting Pronouncements section of Note A. Reporting Policies of the Condensed Consolidated Financial Statements of this filing for discussion of recent accounting pronouncements.

Contractual Obligations

The Company's contractual obligations are detailed in the Company's Annual Report on Form 10-K for the year-end December 31, 2005. As of September 30, 2006, the Company's contractual obligations have not materially changed from December 31, 2005.

Item 3. Quantitative and Qualitative Disclosure about Market Risk

There have been no material changes from the information provided under "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

Item 4. Controls and Procedures

As specified in the SEC's rules and forms, the Company's management, including Mr. Ronald J. Kruszewski as Chief Executive Officer and Mr. James M. Zemlyak as Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of the end of the period covered by this quarterly report. Under rules promulgated by the SEC, disclosure controls and procedures are defined as those "controls and other procedures of an issuer that are designed to ensure that information required to be disclosed by the issuer in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms." Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of September 30, 2006.

Further, as required by the SEC's rules and forms, the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the Company's internal control over financial reporting to determine whether any changes occurred during the quarter ended September 30, 2006 that have materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there have been no such changes during the quarter ended September 30, 2006.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

The Company is named in and subject to various proceedings and claims incidental to its securities business activities, including lawsuits, arbitration claims and regulatory matters. While the ultimate outcome of pending litigation, claims and regulatory matters cannot be predicted with certainty, based upon information currently known, management believes that resolution of all such matters will not have a material adverse effect on the condensed consolidated financial condition of the Company but could be material to its operating results in one or more future periods. It is reasonably possible that certain of these lawsuits, arbitrations, claims and regulatory matters could be resolved in the next year and management does not believe such resolutions will result in losses materially in excess of the amounts previously provided.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Issuer Purchases of Equity Securities

The following table summarizes the Company's repurchase activity of its common stock during the third quarter ended September 30, 2006:

(Periods)	Total Number of Shares Purchased [1]	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Number of Shares that May Yet Be Purchased Under the Plans
July 1, 2006 - July 31, 2006	60,400	$ 32.88	60,400	1,945,077
August 1, 2006 - August 31, 2006	136,970	$ 31.38	136,970	1,808,107
September 1, 2006 - September 30, 2006	72,378	$ 31.99	70,600	1,737,507
Total	269,748	$ 31.88	267,970	

(1)

The total number of shares purchased includes 1,778 shares/units acquired through the surrender of shares/units by unit holders to pay for the employees' tax withholdings on conversions.

The Company has an ongoing authorization, as amended, from the Board of Directors to repurchase its common stock in the open market or in negotiated transactions. In May 2005, the Company's Board of Directors authorized the repurchase of an additional 2,000,000 shares, for a total authorization to repurchase up to 3,000,000 shares.

Item 6. Exhibits

(a) Exhibits

:

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

SIGNATURES

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

STIFEL FINANCIAL CORP

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(Registrant)

Date: November 14, 2006

By: /s/ Ronald J. Kruszewski

Ronald J. Kruszewski
(President and Chief Executive Officer)

Date: November 14, 2006

By: /s/ James M. Zemlyak

James M. Zemlyak
(Principal Financial and Accounting Officer)

EXHIBIT INDEX

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