ITRON INC /WA/
Form 10-Q
November 04, 2005
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2005

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 000-22418

ITRON, INC.

(Exact name of registrant as specified in its charter)

Washington	**91-1011792**
(State of Incorporation)	**(I.R.S. Employer Identification Number)**

2818 North Sullivan Road

Spokane, Washington 99216-1897

(509) 924-9900

(Address and telephone number of registrant s principal executive offices)

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 an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No ¨

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, 2005, there were outstanding 24,782,504 shares of the registrant s common stock, no par value, which is the only class of common stock of the registrant.

Table of Contents

Table of Contents

	Page
PART I: FINANCIAL INFORMATION	
Item 1: Financial Statements (Unaudited)	
Condensed Consolidated Statements of Operations	1
Condensed Consolidated Balance Sheets	2
Condensed Consolidated Statements of Cash Flows	3
Notes to Condensed Consolidated Financial Statements	4
Item 2: Management s Discussion and Analysis of Financial Condition and Results of Operations	29
Item 3: Quantitative and Qualitative Disclosures About Market Risk	42
Item 4: Controls and Procedures	43
PART II: OTHER INFORMATION	
Item 1: Legal Proceedings	44
Item 4: Submission of Matters to a Vote of Security Holders	44
Item 5: Other Information	44
Item 6: Exhibits	44
SIGNATURE	45

Table of Contents

PART I: FINANCIAL INFORMATION

Item 1: Financial Statements (Unaudited)

ITRON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
	(in thousands, except per share data)			
Revenues				
Sales	$ 128,683	$ 107,327	$ 355,696	$ 230,358
Service	12,462	15,177	37,042	37,390
Total revenues	141,145	122,504	392,738	267,748
Cost of revenues				
Sales	73,179	63,534	203,188	130,993
Service	6,936	9,485	20,783	21,140
Total cost of revenues	80,115	73,019	223,971	152,133
Gross profit	61,030	49,485	168,767	115,615
Operating expenses				
Sales and marketing	13,688	12,045	40,456	31,971
Product development	11,807	11,893	35,135	32,669
General and administrative	11,645	9,201	33,381	24,479
Amortization of intangible assets	9,712	7,217	29,143	11,271
Restructurings		1,571	390	4,005
Total operating expenses	46,852	41,927	138,505	104,395
Operating income	14,178	7,558	30,262	11,220
Other income (expense)				
Interest income	69	24	167	152
Interest expense	(4,328)	(5,147)	(15,280)	(8,162)
Other income (expense), net	(535)	261	20	(474)
Total other income (expense)	(4,794)	(4,862)	(15,093)	(8,484)
Income before income taxes	9,384	2,696	15,169	2,736
Income tax (provision) benefit	(3,382)	(1,026)	963	(986)

Net income	$ 6,002	$ 1,670	$ 16,132	$ 1,750
Earnings per share				
Basic net income per share	$ 0.25	$ 0.08	$ 0.70	$ 0.08
Diluted net income per share	$ 0.23	$ 0.08	$ 0.66	$ 0.08
Weighted average number of shares outstanding				
Basic	24,441	20,978	22,912	20,827
Diluted	25,919	22,050	24,471	22,005

The accompanying notes are an integral part of these condensed consolidated financial statements.

Table of Contents

ITRON, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	September 30, 2005	December 31, 2004
	(in thousands)	
ASSETS		
Current assets		
Cash and cash equivalents	$ 11,896	$ 11,624
Accounts receivable, net	94,983	90,097
Inventories	50,658	45,459
Deferred income taxes, net	8,018	22,733
Other	9,530	5,477
Total current assets	175,085	175,390
Property, plant and equipment, net	55,411	59,690
Intangible assets, net	132,996	162,137
Goodwill	116,079	117,471
Deferred income taxes, net	58,426	27,252
Other	11,963	15,211
Total assets	$ 549,960	$ 557,151
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities		
Accounts payable and accrued expenses	$ 38,000	$ 37,439
Wages and benefits payable	21,569	13,947
Current portion of debt	2,139	35,647
Current portion of warranty	5,323	7,243
Unearned revenue	20,256	22,991
Total current liabilities	87,287	117,267
Long-term debt	150,871	239,361
Project financing debt	2,588	3,227
Warranty	5,928	6,331
Other obligations	5,706	6,535
Total liabilities	252,380	372,721
Commitments and contingencies (Notes 7 and 10)		
Shareholders equity		
Preferred stock		
Common stock	308,841	211,920
Accumulated other comprehensive income, net	1,051	954
Accumulated deficit	(12,312)	(28,444)
Total shareholders equity	297,580	184,430

Total liabilities and shareholders equity	$ 549,960	$ 557,151

The accompanying notes are an integral part of these condensed consolidated financial statements.

2

Table of Contents

ITRON, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Nine Months Ended September 30,	
	2005	**2004**
	(in thousands)	
Operating activities		
Net income	$ 16,132	$ 1,750
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	38,785	19,260
Employee stock plan income tax benefits	14,399	1,366
Amortization of prepaid debt fees	4,330	1,165
Realized currency translation gains	(391)	(279)
Deferred income tax benefit	(16,313)	(1,278)
Other, net	2,178	1,560
Changes in operating assets and liabilities, net of acquisitions:		
Accounts receivable	(4,738)	25,711
Inventories	(5,199)	(9,013)
Accounts payable and accrued expenses	360	(860)
Wages and benefits payable	7,605	437
Unearned revenue	(3,085)	(1,130)
Warranty	(194)	(9,211)
Other long-term obligations	(436)	(808)
Other, net	(3,879)	(1,126)
Cash provided by operating activities	49,554	27,544
Investing activities		
Proceeds from the sale of property, plant and equipment	2,627	12
Acquisition of property, plant and equipment	(10,264)	(10,001)
Acquisitions, net of cash and cash equivalents		(251,829)
Payment of contingent purchase price for acquisition		(1,957)
Other, net	(847)	525
Cash used by investing activities	(8,484)	(263,250)
Financing activities		
New borrowings		309,081
Change in short-term borrowings, net		(10,000)
Payments on debt	(122,704)	(49,591)
Issuance of common stock	82,269	4,776
Prepaid debt fees	(391)	(13,470)
Other, net	28	(6)
Cash provided (used) by financing activities	(40,798)	240,790
Increase in cash and cash equivalents	272	5,084
Cash and cash equivalents at beginning of period	11,624	6,240

Cash and cash equivalents at end of period	$ 11,896	$ 11,324
Non-cash transactions:		
Taxes on contingent purchase price payable for acquisition	$	$ 113
Reclassification of prepaid debt fees		485
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Income taxes	$ 1,536	$ 431
Interest	8,986	4,396

The accompanying notes are an integral part of these condensed consolidated financial statements.

ITRON, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 2005

(Unaudited)

In this Quarterly Report on Form 10-Q, the terms we, us, our, Itron and the Company refer to Itron, Inc.

Note 1: Summary of Significant Accounting Policies

Basis of Consolidation

The condensed consolidated financial statements presented in this Quarterly Report on Form 10-Q are unaudited and reflect entries necessary for the fair presentation of the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2005 and 2004, Condensed Consolidated Balance Sheets as of September 30, 2005 and December 31, 2004 and Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 and 2004, of Itron and our wholly owned subsidiaries. All entries required for the fair presentation of the financial statements are of a normal recurring nature. Inter-company transactions and balances are eliminated upon consolidation.

We consolidate all entities in which we have a greater than 50% ownership interest. We also consolidate entities in which we have a 50% or less investment and over which we have control. We account for entities in which we have a 50% or less investment and exercise significant influence under the equity method of accounting. Entities in which we have less than a 20% investment and do not exercise significant influence are accounted for under the cost method. We consider for consolidation any variable interest entity of which we are the primary beneficiary. We are not the primary beneficiary of any variable interest entities.

Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC) regarding interim results. These condensed consolidated financial statements should be read in conjunction with the 2004 audited financial statements and notes included in our Annual Report on Form 10-K, as filed with the SEC on March 11, 2005. The results of operations for the three and nine months ended September 30, 2005 are not necessarily indicative of the results expected for the full fiscal year or for any other fiscal period.

Cash and Cash Equivalents

We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents. Cash equivalents are recorded at cost, which approximates fair value.

Accounts Receivable and Allowance for Doubtful Accounts

Accounts receivable are recorded for invoices issued to customers in accordance with our contractual arrangements. Unbilled receivables are recorded when revenues are recognized upon product shipment or service delivery and invoicing occurs at a later date. The allowance for doubtful accounts is based on our historical experience of bad debts and is increased if the estimated uncollectible amount is greater. Accounts receivable are written-off against the allowance when we believe an account, or a portion thereof, is no longer collectible.

Inventories

Inventories are stated at the lower of cost or market using the first-in, first-out method. Cost includes raw materials and labor, plus applied direct and indirect costs. Service inventories consist primarily of sub-assemblies and components necessary to support post-sale maintenance. A large portion of our low-volume manufacturing and all of our repair services for our domestic handheld meter reading units are provided by an outside vendor in which we have a 30% equity interest. Consigned inventory at the outside vendor affiliate was $2.7 million at September 30, 2005 and $1.9 million at December 31, 2004.

Table of Contents

Property, Plant and Equipment and Equipment used in Outsourcing

Property, plant and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, generally thirty years for buildings and three to five years for equipment, computers and furniture, or over the term of the applicable lease, if shorter. Project management costs incurred in connection with installation and equipment used in outsourcing contracts are depreciated using the straight-line method over the shorter of the useful life or the term of the contract. Costs related to internally developed software and software purchased for internal uses are capitalized based on Statement of Position 98-1, *Accounting for Costs of Computer Software Developed or Obtained for Internal Use*. Repair and maintenance costs are expensed as incurred. We have no major planned maintenance activities.

We review long-lived assets for impairment whenever events or circumstances indicate the carrying amount of an asset may not be recoverable. There were no significant impairments in the three and nine months ended September 30, 2005 and 2004. If there were an indication of impairment, management would prepare an estimate of future cash flows (undiscounted and without interest charges) expected to result from the use of the asset and its eventual disposition. If these cash flows were less than the carrying amount of the assets, an impairment loss would be recognized to write down the assets to their estimated fair value.

Debt Issue Costs

Debt issue costs represent direct costs incurred in connection with the issuance of long-term debt and are recorded in other noncurrent assets. These costs are amortized to interest expense over the lives of the respective debt issues using the effective interest method. When debt is repaid early, the portion of unamortized debt issue costs related to the early principal repayment is written-off and included in interest expense in the Condensed Consolidated Statements of Operations.

Acquisitions

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, *Business Combinations*, we utilize the purchase method of accounting for business combinations. Business combinations accounted for under the purchase method include the results of operations of the acquired business from the date of acquisition. Net assets of the company acquired and intangible assets that arise from contractual/legal rights, or are capable of being separated, are recorded at their fair values at the date of acquisition. The balance of the purchase price after fair value allocations represents goodwill. Amounts allocated to in-process research and development (IPR&D) are expensed in the period of acquisition.

Goodwill and Intangible Assets

Goodwill is tested for impairment each year as of October 1 or more frequently if a significant event occurs under the guidance of SFAS No. 142, *Goodwill and Other Intangible Assets*. Intangible assets with a finite life are amortized based on estimated discounted cash flows over estimated useful lives and tested for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. We use estimates in determining the value of goodwill and intangible assets, including estimates of useful lives of intangible assets, discounted future cash flows and fair values of the related operations. We forecast discounted future cash flows at the reporting unit level based on estimated future revenues and operating costs, which take into consideration factors such as existing backlog, expected future orders, supplier contracts and general market conditions.

Warranty

We offer industry standard warranties on our hardware products and large application software products. Standard warranty accruals represent the estimated cost of projected warranty claims and are based on historical and projected product performance trends, business volume assumptions, supplier information and other business and economic projections. Thorough testing of new products in the development stage helps identify and correct potential warranty issues prior to manufacturing. Continuing quality control efforts during manufacturing limit our exposure to warranty claims. If our quality control efforts fail to detect a fault in one of our products, we could experience an increase in warranty claims. We track warranty claims to identify potential warranty trends. If an unusual trend is noted, an additional warranty accrual may be assessed and recorded when a failure event is probable and the cost can be reasonably estimated. Management continually evaluates the sufficiency of the warranty provisions and makes adjustments when necessary. The warranty allowances may fluctuate due to changes in estimates for material, labor and other costs we may incur to replace projected product failures, and we may incur additional warranty and related expenses in the future with respect to new or established product. The long-term warranty balance includes estimated warranty claims beyond one year.

Table of Contents

A summary of the warranty accrual account activity is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			
Beginning balance	$ 11,264	$ 11,763	$ 13,574	$ 17,475
SEM acquisition - opening balance adjustment		5,022	(2,128)	5,022
New warranty accruals	1,570	267	3,038	1,261
Adjustments to pre-existing items	914	1,839	2,403	2,336
Claims activity	(2,497)	(5,605)	(5,636)	(12,808)
Ending balance	11,251	13,286	11,251	13,286
Less: current portion of warranty	5,323	6,950	5,323	6,950
Long-term warranty	$ 5,928	$ 6,336	$ 5,928	$ 6,336

Total warranty expense, which consists of new warranty accruals for product warranties issued and adjustments to pre-existing items, totaled approximately $2.5 million and $2.1 million for the three months ended September 30, 2005 and 2004 and approximately $5.4 million and $3.6 million for the nine months ended September 30, 2005 and 2004, respectively. Warranty expense is classified within cost of sales.

In 2003, we established a warranty accrual for the product replacement of an electric automatic meter reading (AMR) module due to the failure of a specific component from a supplier. Product replacement work was substantially completed for this specific AMR module during 2004, resulting in a decline in claims activity for the 2005 periods. The increase in new warranty accruals in 2005, compared with 2004, is primarily due to our Electricity Metering business.

Health Benefits

We are self insured for a substantial portion of the cost of employee group health insurance. We purchase insurance from a third party, which provides individual and aggregate stop loss protection for these costs. Each reporting period, we record the costs of our health insurance plan including paid claims, the change in the estimate of incurred but not reported (IBNR) claims, taxes and administrative fees (collectively the Plan Costs). Plan Costs were approximately $1.7 million and $2.4 million in the three months ended September 30, 2005 and 2004, respectively. Plan Costs were approximately $5.3 million and $6.5 million in the nine months ended September 30, 2005 and 2004, respectively. The IBNR accrual, which is included in wages and benefits payable, was $1.1 million and $1.8 million at September 30, 2005 and December 31, 2004, respectively.

Contingencies

An estimated loss for a contingency is charged to income if it is probable that an asset has been impaired or a liability has been incurred and the amount of the loss can be reasonably estimated. We evaluate, among other factors, the degree of probability of an unfavorable outcome and the ability to make a reasonable estimate of the amount of loss. Changes in these factors could materially affect our financial position, results of operations and cash flows.

Income Taxes

We account for income taxes using the asset and liability method. Under this method, deferred income taxes are recorded for the temporary differences between the financial reporting basis and tax basis of our assets and liabilities. These deferred taxes are measured using the tax rates expected to be in effect when the temporary differences reverse. We establish a valuation allowance for a portion of the deferred tax asset when we believe it is more likely than not the deferred tax asset will not be utilized.

Deferred tax liabilities have been recorded on undistributed earnings of foreign subsidiaries. The American Jobs Creation Act of 2004 introduced a special one-time dividends-received deduction on the repatriation of certain foreign earnings to a U.S. taxpayer, provided certain criteria are met. We do not expect to repatriate foreign earnings under the provision of this Act.

Foreign Exchange

Our condensed consolidated financial statements are prepared in U.S. dollars. Assets and liabilities of foreign subsidiaries are denominated in foreign currencies and are translated to U.S. dollars at the exchange rates in effect on the balance sheet date. Revenues, costs of revenues and expenses for these subsidiaries are translated using a weighted average rate for the relevant reporting period. Translation adjustments resulting from this process are included, net of tax, in other comprehensive income (loss) in shareholders equity. Gains and losses that arise from exchange rate fluctuations for balances that are not denominated in the local currency are included in results of operations unless those balances arose from intercompany transactions deemed to be long-term in nature. Currency gains and losses for this exception are included, net of tax, in other comprehensive income (loss) in shareholders equity.

Revenue Recognition

Sales consist of hardware, software license fees, custom software development, field and project management service and engineering, consulting and installation service revenues. Service revenues include post-sale maintenance support and outsourcing services. Outsourcing services encompass installation, operation and maintenance of meter reading systems to provide meter information to a customer for billing and management purposes. Outsourcing services can be provided for systems we own as well as those owned by our customers.

Revenue arrangements with multiple deliverables are divided into separate units of accounting if the delivered item(s) have value to the customer on a standalone basis, there is objective and reliable evidence of fair value of the undelivered item(s) and delivery/performance of the undelivered item(s) is probable. The total arrangement consideration is allocated among the separate units of accounting based on their relative fair values and the applicable revenue recognition criteria considered for each unit of accounting. For our standard contract arrangements that combine deliverables such as hardware, meter reading system software, installation and maintenance services, each deliverable is generally considered a single unit of accounting. The amount allocable to a delivered item is limited to the amount that we are entitled to bill and collect and is not contingent upon the delivery/performance of additional items.

Revenues are recognized when (1) persuasive evidence of an arrangement exists, (2) delivery has occurred or services have been rendered, (3) the sales price is fixed or determinable and (4) collectibility is reasonably assured. Hardware revenues are generally recognized at the time of shipment, receipt by customer, or, if applicable, upon completion of customer acceptance provisions. For software arrangements with multiple elements, the timing of revenue recognition is dependent upon vendor-specific objective evidence (VSOE) of fair value for each of the elements. The availability of VSOE affects the timing of revenue recognition, which can vary from recognizing revenue at the time of delivery of each element, to the percentage of completion method or ratably over the performance period. If the implementation services are essential to the software arrangement, revenue is recognized using the percentage of completion methodology. Hardware and software post-sale maintenance support fees are recognized ratably over the life of the related service contract. Under outsourcing arrangements, revenue is recognized as services are provided.

Unearned revenue is recorded for products or services that have not been provided but have been invoiced under contractual agreements or paid for by a customer, or when products or services have been provided but the criteria for revenue recognition have not been met.

Product and Software Development Expenses

Product and software development expenses primarily include payroll and other employee benefit costs. For software to be marketed or sold, financial accounting standards require the capitalization of development costs after technological feasibility is established. Due to the relatively short period between technological feasibility and the completion of product development, the insignificance of related costs and the immaterial nature of these costs, we do not capitalize software development costs. All product and software development costs are expensed when incurred.

Table of Contents

Earnings Per Share

Basic earnings per share (EPS) is calculated using net income divided by the weighted average common shares outstanding during the period. Diluted EPS is similar to basic EPS except that the weighted average common shares outstanding are increased to include the number of additional common shares that would have been outstanding if dilutive stock-based awards had been exercised. Diluted EPS assumes that common shares were issued upon the exercise of stock-based awards for which the market price exceeded the exercise price, less shares that could have been repurchased with the related proceeds (treasury stock method). In periods when we report a net loss, diluted net loss per share is the same as basic net loss per share. In such circumstances, we exclude all outstanding stock-based awards from the calculation of diluted net loss per common share because including such awards among the weighted average shares outstanding would be anti-dilutive.

Stock-Based Compensation

We have granted stock-based awards to purchase shares of our common stock to directors and employees at fair market value on the date of grant. SFAS No. 123, *Accounting for Stock-Based Compensation,* allows companies to either expense the estimated fair value of stock-based awards or to continue to follow the intrinsic value method set forth in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, but disclose the pro forma effects on net income (loss) had the fair value of the awards been expensed. We elected to continue to apply APB Opinion No. 25 in accounting for our stock-based compensation plans and disclose the pro forma effects of applying the fair value provisions of SFAS No. 123.

Had the compensation cost for our stock-based compensation plans been determined based on the fair value at the grant dates for awards under those plans consistent with the method prescribed in SFAS No. 123, our net income (loss) and net income (loss) per share would have been reduced to the pro forma amounts indicated below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands, except per share data)			
Net income (loss)				
As reported	$ 6,002	$ 1,670	$ 16,132	$ 1,750
Deduct: Stock-based compensation, net of tax	(1,009)	(1,803)	(4,078)	(4,038)
Pro forma net income (loss)	$ 4,993	$ (133)	$ 12,054	$ (2,288)
Basic net income (loss) per share				
As reported	$ 0.25	$ 0.08	$ 0.70	$ 0.08
Pro forma	$ 0.20	$ (0.01)	$ 0.53	$ (0.11)
Diluted net income (loss) per share				
As reported	$ 0.23	$ 0.08	$ 0.66	$ 0.08
Pro forma	$ 0.19	$ (0.01)	$ 0.50	$ (0.11)

8

Table of Contents

The weighted average fair value of awards granted was $50.29 and $22.64 during the three months ended September 30, 2005 and 2004, respectively. The weighted average fair value of awards granted was $36.59 and $21.00 during the nine months ended September 30, 2005 and 2004, respectively. The fair value of each option is estimated on the date of grant using the Black-Scholes option-pricing model using the following assumptions:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	**2004**	**2005**	**2004**
Dividend yield				
Expected volatility	58.0%	71.1%	59.0%	72.4%
Risk-free interest rate	4.1%	4.3%	3.7%	4.1%
Expected life (years)	3.4	4.5	3.4	4.5

Volatility measures the amount that a stock price has fluctuated or is expected to fluctuate during a period. The risk-free interest rate is the rate available as of the option date on zero-coupon U.S. government issues with a remaining term equal to the expected life of the option. The expected life is the weighted average expected life for the entire award based on the fixed period of time between the date the option is granted and the date the award is fully exercised. Factors to be considered in estimating the expected life are the vesting period of the award and the average period of time similar awards have remained outstanding in the past. The decreases in the expected life and volatility assumptions are the result of increased option activity in 2005.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Because of various factors affecting future costs and operations, actual results could differ from estimates.

Reclassifications

Certain amounts in 2004 have been reclassified to conform to the 2005 presentation.

New Accounting Pronouncements

In November 2004, the Financial Accounting Standards Board (FASB) issued Statement No. 151, *Inventory Costs an amendment of ARB No. 43, Chapter 4*, which clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material (spoilage). This Statement requires that those items be recognized as current-period charges regardless of whether they meet the criterion of so abnormal. In addition, this Statement requires that an allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. The provisions of this Statement are effective for inventory costs incurred on or after January 1, 2006. While we believe this Statement is not likely to have a material effect on our financial statements, the impact of adopting the new rule is

dependent on events in future periods, and as such, an estimate of the impact cannot be determined.

On December 16, 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS 123R), which requires companies to expense the fair value of equity awards over the required service period. We have not yet quantified the effects of the adoption of SFAS 123R, but the adoption of SFAS 123R will decrease gross profit, increase operating expenses, affect the tax rate and materially affect net income. The pro forma effects on net income (loss) and EPS if we had applied the fair value recognition provisions of the original SFAS No. 123 on stock compensation awards are disclosed above. Such pro forma effects of applying the original SFAS No. 123 may not be indicative of the effects of adopting SFAS 123R, since the provisions of the two statements differ.

SFAS 123R will be effective for our fiscal year beginning January 1, 2006. The Statement will be implemented on a prospective basis for new awards, awards modified, repurchased or cancelled after January 1, 2006 and unvested options previously granted.

Table of Contents

Note 2: Earnings Per Share and Capital Structure

The following table sets forth the computation of basic and diluted EPS:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands, except per share data)			
Basic earnings per share:				
Net income available to common shareholders	$ 6,002	$ 1,670	$ 16,132	$ 1,750
Weighted average number of shares outstanding	24,441	20,978	22,912	20,827
Basic net income per share	$ 0.25	$ 0.08	$ 0.70	$ 0.08
Diluted earnings per share:				
Net income available to common shareholders	$ 6,002	$ 1,670	$ 16,132	$ 1,750
Weighted average number of shares outstanding	24,441	20,978	22,912	20,827
Effect of dilutive securities:				
Employee stock-based awards	1,478	1,072	1,559	1,178
Adjusted weighted average number of shares outstanding	25,919	22,050	24,471	22,005
Diluted net income per share	$ 0.23	$ 0.08	$ 0.66	$ 0.08

The dilutive effect of stock-based awards is calculated using the treasury stock method. Under this method, EPS is computed as if the awards were exercised at the beginning of the period (or at time of issuance, if later) and as if the funds obtained thereby were used to repurchase common stock at the average market price during the period. Weighted average common shares outstanding, assuming dilution, include the incremental shares that would be issued upon the assumed exercise of stock-based awards. At September 30, 2005 and 2004, we had stock-based awards outstanding of approximately 2.5 million and 4.1 million at average option exercise prices of $20.88 and $12.73, respectively. Approximately 11,000 and 1.6 million stock-based awards were excluded from the calculation of diluted EPS for the three months ended September 30, 2005 and 2004, respectively, because they were anti-dilutive. Approximately 316,000 and 1.2 million stock-based awards were excluded from the calculation of diluted EPS for the nine months ended September 30, 2005 and 2004, respectively, because they were anti-dilutive. These stock-based awards could be dilutive in future periods.

During May 2005, we sold 1.7 million shares of common stock at a price of $36.50 per share in an underwritten public offering. Proceeds to the Company totaled approximately $59.6 million after payment of the underwriting discount and approximately $200,000 in other expenses. The proceeds of the public offering were used to pay down borrowings under our senior secured term loan.

Table of Contents

Note 3: Certain Balance Sheet Components

	At September 30, 2005	At December 31, 2004
	(in thousands)	
Accounts receivable, net		
Trade (net of allowance for doubtful accounts of $627 and $1,312)	$ 88,154	$ 83,977
Unbilled revenue	6,829	6,120
Total accounts receivable, net	$ 94,983	$ 90,097
Inventories		
Materials	$ 23,168	$ 20,574
Work in process	5,303	5,150
Finished goods	20,524	17,904
Total manufacturing inventories	48,995	43,628
Service inventories	1,663	1,831
Total inventories	$ 50,658	$ 45,459
Property, plant and equipment, net		
Machinery and equipment	$ 45,994	$ 43,551
Equipment used in outsourcing	16,042	16,094
Computers and purchased software	33,201	36,529
Buildings, furniture and improvements	27,984	28,979
Land	2,255	3,460
Total cost	125,476	128,613
Accumulated depreciation	(70,065)	(68,923)
Property, plant and equipment, net	$ 55,411	$ 59,690

Depreciation expense was $3.0 million and $3.3 million during the three months ended September 30, 2005 and 2004, respectively. Depreciation expense was $9.7 million and $8.0 million during the nine months ended September 30, 2005 and 2004, respectively.

A summary of the allowance for doubtful accounts activity is as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			

Beginning balance	$ 711	$ 693	$ 1,312	$ 695
Provision (benefit) for doubtful accounts	(79)	(196)	(236)	(34)
Recoveries			30	
Accounts charged off	(5)	44	(479)	(120)
Ending balance	$ 627	$ 541	$ 627	$ 541

Table of Contents

Note 4: Business Combinations

On July 1, 2004, we completed the acquisition of our Electricity Metering business. This acquisition added electricity meter manufacturing and sales to our operations, and now represents our Hardware Solutions Electricity Metering operating segment.

During the fourth quarter of 2004, we expensed $6.4 million of IPR&D, which consisted primarily of next generation technology, valued at $5.7 million. At September 30, 2005, we estimate the research and development to be approximately 85% complete with a cost to complete the development of approximately $400,000 over the next three to six months.

In 2004, we accrued approximately $800,000 as an adjustment to goodwill for the employee severance costs associated with the relocation of our Quebec, Canada facility acquired with the acquisition of our Electricity Metering business. As of September 30, 2005, approximately $700,000 had been paid to employees, leaving a remaining accrual of approximately $100,000, which will be completely paid by the end of the second quarter of 2006.

Note 5: Identified Intangible Assets

The gross carrying amount and accumulated amortization of our intangible assets, other than goodwill, were as follows:

	At September 30, 2005			At December 31, 2004		
	Gross Assets	Accumulated Amortization	Net	Gross Assets	Accumulated Amortization	Net
	(in thousands)					
Core-developed technology	$ 154,330	$ (46,644)	$ 107,686	$ 154,330	$ (24,386)	$ 129,944
Patents	7,088	(4,598)	2,490	7,088	(4,321)	2,767
Capitalized software	5,065	(5,065)		5,065	(5,065)	
Distribution and production rights	3,935	(3,172)	763	3,935	(2,992)	943
Customer contracts	8,750	(6,193)	2,557	8,750	(3,688)	5,062
Trademarks and tradenames	25,710	(6,412)	19,298	25,710	(2,748)	22,962
Other	6,450	(6,248)	202	6,450	(5,991)	459
Total identified intangible assets	$ 211,328	$ (78,332)	$ 132,996	$ 211,328	$ (49,191)	$ 162,137

Intangible asset amortization expense was approximately $9.7 million and $7.2 million for the three months ended September 30, 2005 and 2004 and approximately $29.1 million and $11.3 million for the nine months ended September 30, 2005 and 2004, respectively. Estimated annual amortization expense is as follows:

	Estimated Annual Amortization
	(in thousands)
2005	$ 38,846
2006	29,251
2007	24,363
2008	20,904
2009	17,323
Beyond 2009	31,450

Table of Contents

Note 6: Goodwill

We test goodwill for impairment as of October 1 of each year. On July 1, 2004, we completed the acquisition of our Electricity Metering business and recorded a preliminary allocation of the purchase price based on estimated fair values of assets and liabilities at September 30, 2004. Goodwill decreased in the fourth quarter of 2004 after a more comprehensive valuation analysis was completed, resulting in a significantly higher amount allocated to identifiable intangible assets, with a significantly lower amount allocated to goodwill. We continued to make adjustments to the purchase price through June 2005 as the valuations of assets and liabilities were finalized. Goodwill decreased in 2005 primarily due to $2.1 million specifically related to changes in the estimated warranty liability at July 1, 2004. Goodwill balances can also increase or decrease, with a corresponding change in other comprehensive income (loss), as a result of changes in foreign currency exchange rates. The change in goodwill for the nine months ended September 30, 2005 and 2004 is as follows:

	Nine Months Ended September 30,	
	2005	**2004**
	(in thousands)	
Goodwill balance, January 1	$ 117,471	$ 90,385
Goodwill adjustments	(1,758)	101,148
Effect of change in exchange rates	366	179
Goodwill balance, September 30	$ 116,079	$ 191,712

The following table reflects changes in goodwill for each reporting segment during the first nine months of 2005:

	Hardware Solutions			
	Meter Data Collection	**Electricity Metering**	**Software Solutions**	**Total Company**
	(in thousands)			
Goodwill balance, January 1, 2005	$ 73,337	$ 26,236	$ 17,898	$ 117,471
Goodwill adjustments		(1,758)		(1,758)
Effect of change in exchange rates	221	91	54	366
Goodwill balance, September 30, 2005	$ 73,558	$ 24,569	$ 17,952	$ 116,079

Table of Contents

Note 7: Debt

The components of our borrowings are as follows:

	At September 30, 2005	At December 31, 2004
	(in thousands)	
Senior Secured Credit Facility		
Term Loan	$ 27,964	$ 150,075
Revolving Credit Line		
Senior Subordinated Notes	124,203	124,136
Project Financing	3,431	4,024
	155,598	278,235
Current Portion of Debt	(2,139)	(35,647)
Total Long-term Debt	$ 153,459	$ 242,588

Senior Secured Credit Facility

Our senior secured credit facility (credit facility) consists of an original $185 million seven-year senior secured term loan (term loan or term debt) and a $55 million five-year senior secured revolving credit line (revolver). The outstanding term loan balance at September 30, 2005 was $28.0 million while the revolver had no outstanding borrowings. The credit facility is guaranteed by all of our operating subsidiaries (except our foreign subsidiaries and an outsourcing project financing subsidiary), all of which are wholly owned. Debt issuance costs are amortized over the life of the credit facility using the effective interest method. Unamortized debt issuance costs were approximately $9.6 million and $13.5 million at September 30, 2005 and December 31, 2004, respectively.

In April 2005, we completed two amendments to our credit facility. The amendments included a 50 basis point reduction in the term loan interest rate and increases to our maximum consolidated leverage and senior debt ratios. In addition, we obtained the ability to increase our revolver commitment from $55 million to $75 million at a future date, as defined in the April 2005 amendment. We also increased our letter of credit limit to $55 million and added the ability to increase it to $65 million at a future date. Our required minimum quarterly principal payments are $324,000 for the next 17 quarters ($1.3 million annually) with the remaining balance to be paid in four installments over the last six quarters, maturing in 2011. Optional repayments of the term loan are permitted without penalty or premium. Additional mandatory prepayments, based on 75% of defined excess cash flows, the issuance of capital stock or the sale of assets as defined by the borrowing agreement, would all decrease the minimum payments at maturity. Interest rates on the term loan are based on the London InterBank Offering Rate (LIBOR) plus 1.75% or the Wells Fargo Bank, National Association s prime rate (Prime) plus 0.75%. We had no mandatory prepayment requirement during 2004. We made optional prepayments on the term loan of $121.0 million during the first nine months of 2005 and $34.0 million during the second half of 2004.

At September 30, 2005, $1.3 million of the $28.0 million in term debt was classified as current, based on the mandatory principal payments defined in the amended borrowing agreement. At December 31, 2004, $34.9 million of the $150.1 million outstanding balance on the term loan was classified as current and $115.2 million was classified as long-term. The classification between current and long-term debt at December 31, 2004 was based on the mandatory principal payments defined in the borrowing agreement, as well as an additional $33.0 million of optional

prepayments we expected to make during the first six months of 2005 in order to remain in compliance with our debt covenants. We were in compliance with all of our debt covenants at September 30, 2005, which require us to maintain certain consolidated leverage and coverage ratios on a quarterly basis, as well as customary covenants that place restrictions on the incurrence of debt, the payment of dividends, certain investments and mergers.

Interest rates on the revolver vary depending on our consolidated leverage ratio and are based on LIBOR plus 2.0% to 3.0%, or Prime plus 1.0% to 2.0%, payable at various intervals depending on the term of the borrowing. The annual commitment fee on the unused portion of the revolver varies from 0.375% to 0.50%. We incur annual letter of credit fees based on (a) a fronting fee of 0.125% and (b) a letter of credit fee that varies from 2.0% to 3.0%. Revolver borrowings can be made at any time through June 2009, at which time any borrowings outstanding must be repaid. At September 30, 2005 there were no borrowings outstanding under the revolver and $22.7 million was utilized by outstanding standby letters of credit resulting in $32.3 million available for additional borrowings.

In June 2005, we terminated an interest rate swap and cap that we placed in the fourth quarter of 2004 for approximately $416,000 and $48,000, respectively, compared with fair market values of approximately $224,000 and $69,000, respectively at December 31, 2004. The derivative instruments were initially designated as cash flow hedges; however, as a result of the optional prepayments on our term loan in the fourth quarter of 2004, we determined the cash flow hedges were ineffective in the same quarter as they were purchased, resulting in the recognition through interest expense of the changes in fair value. At September 30, 2005, we held no derivative instruments.

Senior Subordinated Notes

On May 10, 2004, we completed a private placement of $125 million aggregate principal amount of 7.75% notes, due in 2012. The notes are discounted to a price of 99.265 to yield 7.875%, with a balance of $124.2 million at September 30, 2005. On February 17, 2005, we completed an exchange of the notes for substantially identical registered notes, except that the new notes are generally transferable and do not contain certain terms with respect to registration rights and liquidation damages. The discount on the notes will be accreted and the debt issuance costs will be amortized over the life of the notes. Fixed interest payments of approximately $4.8 million are required every six months, in May and November. The notes are subordinated to our senior secured credit facility and are guaranteed by all of our operating subsidiaries (except our foreign subsidiaries and an outsourcing project financing subsidiary), all of which are wholly owned. The notes contain covenants, which place restrictions on the incurrence of debt, the payment of dividends, certain investments and mergers. Some or all of the notes may be redeemed at our option at any time on or after May 15, 2008, at certain specified premium prices. At any time prior to May 15, 2007, we may, at our option, redeem up to 35% of the notes with the proceeds of certain sales of our common stock.

Project Financing

In conjunction with project financing for one of our outsourcing contracts, we issued a note secured by the assets of the project with monthly interest payments at an annual interest rate of 7.6%, maturing May 31, 2009. The project financing loan had an outstanding balance of $3.4 million at September 30, 2005.

Minimum Payments on Debt

The senior secured credit facility, notes and project financing agreements stipulate a minimum repayment schedule at September 30, 2005 as follows:

	Minimum Payments (in thousands)
2005	$ 528
2006	2,156
2007	2,223
2008	2,296
2009	1,736
Beyond 2009	146,659
	$ 155,598

15

Table of Contents

Note 8: Restructurings

During 2004, we implemented a new internal organizational structure, which resulted in several actions to reduce spending and eliminate certain unprofitable activities. As a result, we reduced our staffing by approximately 260 employees and incurred restructuring expenses of $7.7 million. Approximately $13,000 in severance costs remained to be paid to employees at September 30, 2005. Accrued liabilities associated with restructuring efforts were approximately $79,000 and $2.5 million at September 30, 2005 and December 31, 2004, respectively, and consisted of the following:

	Severance and Related Costs	Lease Termination and Related Costs
	(in thousands)	
Accrual balance at December 31, 2004	$ 2,317	$ 175
Addition/adjustments to accruals	390	(109)
Cash payments	(2,694)	
Accrual balance at September 30, 2005	$ 13	$ 66
Accrual balance at December 31, 2003	$ 28	$ 125
Addition/adjustments to accruals	3,977	73
Cash payments	(3,870)	(10)
Accrual balance at September 30, 2004	$ 135	$ 188

The liability for lease terminations is recorded within accrued expenses and the liability for employee severance is recorded within wages and benefits payable. Lease termination and related costs are dependent on our ability to sublease vacant space and are reported as general and administrative. Severance and lease termination costs are not allocated to the reporting segments.

Note 9: Income Taxes

We estimate our 2005 annual effective income tax rate will be approximately 34%. Our effective income tax rate differs from the federal statutory rate of 35% and can vary from period to period due to fluctuations in operating results, new or revised tax legislation, changes in the level of business performed in domestic and international jurisdictions, research credits, expirations of research credits and loss carryforwards, IPR&D charges, state income taxes and extraterritorial income exclusion tax benefits. In the second quarter of 2005, we completed a study of federal research tax credits for the years 1997 through 2004, recognizing a $5.9 million net tax benefit. The Working Families Tax Relief Act of 2004 and the American Jobs Creation Act of 2004 were signed into law in October 2004. The only provision that had a significant income tax effect on the Company was the extension of research credits through December 31, 2005. We estimate the 2005 net benefit will be approximately $1.2 million. Due primarily to these credits, we had a net tax benefit of $963,000 for the nine months ended September 30, 2005

Our effective income tax rate of 38% for the three months ended September 30, 2004 was higher than the full year 2004 effective income tax rate of 36%, as a result of changes in estimated taxes due in future periods, partially offset by tax credit adjustments in the third quarter.

Note 10: Commitments and Contingencies

Guarantees and Indemnifications

Under FASB Interpretation 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, we will record a liability for certain types of guarantees and indemnifications for agreements entered into or amended subsequent to December 31, 2002. No liabilities were required to be recorded as of September 30, 2005 and December 31, 2004.

We maintain bid and performance bonds for certain customers. Bonds in force were $8.0 million and $7.3 million at September 30, 2005 and December 31, 2004, respectively. Bid bonds guarantee that we will enter into a contract consistent with the terms of the bid. Performance bonds provide a guarantee to the customer for future performance, which usually covers the installation phase of a contract and may on occasion cover the operations and maintenance phase of outsourcing contracts.

We also have standby letters of credit to guarantee our performance under certain contracts. The outstanding amounts of standby letters of credit were $22.7 million and $23.3 million at September 30, 2005 and December 31, 2004, respectively.

We generally provide an indemnification related to the infringement of any patent, copyright, trademark or other intellectual property right on software or equipment within our sales contracts, which indemnifies the customer from and pays the resulting costs, damages and attorneys fees awarded against a customer with respect to such a claim provided that (a) the customer promptly notifies us in writing of the claim and (b) we have the sole control of the defense and all related settlement negotiations. The terms of the indemnification normally do not limit the maximum potential future payments. We also provide an indemnification for third party claims resulting from damages caused by the negligence or willful misconduct of our employees/agents in connection with the performance of certain contracts. The terms of the indemnification generally do not limit the maximum potential payments.

Legal Matters

We are subject to various legal proceedings and claims of which the outcomes are subject to significant uncertainty. Our policy is to assess the likelihood of any adverse judgments or outcomes related to legal matters, as well as ranges of probable losses. A determination of the amount of the liability required, if any, for these contingencies is made after an analysis of each known issue in accordance with SFAS No. 5, *Accounting for Contingencies*, and related pronouncements. In accordance with SFAS No. 5, a liability is recorded when we determine that a loss is probable and the amount can be reasonably estimated. Additionally, we disclose contingencies for which a material loss is reasonably possible, but not probable. At September 30, 2005, there were no contingencies requiring accrual or disclosure.

Note 11: Segment Information

We have two operating groups (Hardware Solutions and Software Solutions) and three operating segments. Software Solutions is a single segment, whereas Hardware Solutions is comprised of two segments, Meter Data Collection and Electricity Metering. For these three operating segments, management has three primary measures of segment performance: revenue, gross profit (margin) and operating income (loss). Revenues for each operating segment are reported according to product lines. There are no inter-operating segment revenues. Within Hardware Solutions, costs of sales are based on standard costs, which include materials, direct labor, warranty expense and an overhead allocation, as well as variances from standard costs. Software cost of sales include distribution and documentation costs for applications sold, along with other labor and operating costs for custom software development, project management, consulting and systems support. Hardware and software cost of services include materials, labor and overhead. Operating expenses directly associated with each operating segment may include sales, marketing, product development or administrative expenses.

Corporate operating expenses, interest revenue, interest expense, equity in the income (loss) of investees accounted for by the equity method, amortization expense and income tax expense (benefit) are not allocated to the operating segments, nor included in the measure of segment profit or loss. Assets and liabilities are not allocated to the operating segments, except for the Electricity Metering operating segment, which is individually maintained and reviewed. At September 30, 2005, Electricity Metering had total assets of $263.6 million. Approximately 60% of depreciation expense was allocated to the operating segments, with the remaining portion unallocated at September 30, 2005 and 2004.

We classify sales in the United States and Canada as domestic revenues. International revenues were $10.3 million and $5.8 million for the three months ended September 30, 2005 and 2004 and $28.2 million and $13.5 million for the nine months ended September 30, 2005 and 2004, respectively. The increase in international revenues for the third quarter of 2005 was due to higher handheld system sales.

Operating Segment Products

Operating Segment	**Major Products**
Hardware Solutions Meter Data Collection:	Residential and commercial AMR standalone and OEM (original equipment manufacturer) modules, contract manufacturing of our AMR technology for other electricity meter vendors, mobile and network AMR data collection technologies, SmartSynch meter systems, handheld computers for meter data collection or mobile workforce applications and related installation and implementation services.
Hardware Solutions Electricity Metering:	Residential solid-state and electromechanical electricity meters, AMR enabled meters, commercial and industrial solid-state electricity meters and generation, SmartSynch meter systems, transmission and distribution meters and related installation and implementation services.
Software Solutions:	Software applications for commercial, industrial and residential meter data collection and management, distribution systems design and optimization, energy and water management, asset optimization, mobile workforce solutions, forecasting and related implementation consulting services.

Operating Segment Information

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			
Revenues				
Hardware Solutions				
Meter Data Collection	$ 70,638	$ 56,798	$ 182,506	$ 178,714
Electricity Metering	58,598	54,195	173,326	54,195
Total Hardware Solutions	129,236	110,993	355,832	232,909
Software Solutions	11,909	11,511	36,906	34,839
Total Company	$ 141,145	$ 122,504	$ 392,738	$ 267,748
Gross profit				
Hardware Solutions				
Meter Data Collection	$ 32,091	$ 24,129	$ 80,418	$ 82,215
Electricity Metering	24,236	21,183	73,223	21,183
Total Hardware Solutions	56,327	45,312	153,641	103,398
Software Solutions	4,703	4,173	15,126	12,217
Total Company	$ 61,030	$ 49,485	$ 168,767	$ 115,615
Operating income (loss)				
Hardware Solutions				
Meter Data Collection	$ 26,667	$ 18,878	$ 64,607	$ 66,605
Electricity Metering	20,178	17,322	60,504	17,322

Other unallocated costs	(5,938)	(5,291)	(18,143)	(12,696)
Total Hardware Solutions	40,907	30,909	106,968	71,231
Software Solutions	(3,007)	(5,119)	(8,576)	(17,011)
Corporate unallocated	(23,722)	(18,232)	(68,130)	(43,000)
Total Company	14,178	7,558	30,262	11,220
Total other income (expense)	(4,794)	(4,862)	(15,093)	(8,484)
Income before income taxes	$ 9,384	$ 2,696	$ 15,169	$ 2,736

Table of Contents

No customer represented more than 10% of total Company revenues for the three and nine months ended September 30, 2005 and 2004. One customer accounted for approximately 13% of Electricity Metering revenues and 6% of total Company revenues for the third quarter of 2005. A different customer accounted for approximately 11% of Meter Data Collection revenues and 7% of total Company revenues for the nine months ended September 30, 2004.

Note 12: Comprehensive Income (Loss)

Comprehensive income (loss) adjustments are reflected as an increase (decrease) to shareholders equity and are not reflected in results of operations. Operating results adjusted to reflect comprehensive income (loss) items during the period, net of tax, were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
	(in thousands)			
Net income	$ 6,002	$ 1,670	$ 16,132	$ 1,750
Change in foreign currency translation adjustments, net of tax	559	558	97	230
Total comprehensive income, net	$ 6,561	$ 2,228	$ 16,229	$ 1,980

Accumulated other comprehensive income, net of tax, was approximately $1.1 million and $954,000 at September 30, 2005 and December 31, 2004, respectively, and consisted of adjustments for foreign currency translation only.

Table of Contents

Note 13: Condensed Consolidating Financial Information

The senior secured credit facility and the notes are guaranteed by all of our operating subsidiaries (except for our foreign subsidiaries and an outsourcing project financing subsidiary), all of which are wholly owned. The guarantees are joint and several, full, complete and unconditional. There are currently no restrictions on the ability of the subsidiary guarantors to transfer funds to the parent company. The following condensed consolidating financial information has been prepared and presented pursuant to SEC Regulation S-X Rule 3-10, Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered.

Condensed Consolidating Statement of Operations

Three Months Ended September 30, 2005

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Revenues					
Sales	$ 75,517	$ 56,505	$ 9,342	$ (12,681)	$ 128,683
Service	11,305	408	1,790	(1,041)	12,462
Total revenues	86,822	56,913	11,132	(13,722)	141,145
Cost of revenues					
Sales	43,502	35,413	6,823	(12,559)	73,179
Service	6,114	322	1,245	(745)	6,936
Total cost of revenues	49,616	35,735	8,068	(13,304)	80,115
Gross profit	37,206	21,178	3,064	(418)	61,030
Operating expenses					
Sales and marketing	10,770	1,354	1,559	5	13,688
Product development	9,298	2,431	517	(439)	11,807
General and administrative	10,343	825	477		11,645
Amortization of intangible assets	1,445	8,267			9,712
Restructurings					
Total operating expenses	31,856	12,877	2,553	(434)	46,852
Operating income	5,350	8,301	511	16	14,178
Other income (expense)					
Interest income	276		98	(305)	69
Interest expense	(1,054)	(3,295)	(284)	305	(4,328)
Other income (expense), net	(175)	(157)	(187)	(16)	(535)
Total other income (expense)	(953)	(3,452)	(373)	(16)	(4,794)
Income before income taxes	4,397	4,849	138		9,384
Income tax provision	(1,083)	(2,067)	(232)		(3,382)

Equity in earnings of guarantor and non-guarantor subsidiaries	2,688	29		(2,717)	
Net income (loss)	$ 6,002	$ 2,811	$ (94)	$ (2,717)	$ 6,002

Table of Contents

Condensed Consolidating Statement of Operations

Three Months Ended September 30, 2004

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Revenues					
Sales	$ 57,648	$ 48,286	$ 6,652	$ (5,259)	$ 107,327
Service	9,890	4,150	1,895	(758)	15,177
Total revenues	67,538	52,436	8,547	(6,017)	122,504
Cost of revenues					
Sales	34,033	29,563	5,324	(5,386)	63,534
Service	4,894	3,903	1,287	(599)	9,485
Total cost of revenues	38,927	33,466	6,611	(5,985)	73,019
Gross profit	28,611	18,970	1,936	(32)	49,485
Operating expenses					
Sales and marketing	8,568	2,396	704	377	12,045
Product development	9,989	1,937	481	(514)	11,893
General and administrative	7,802	1,038	256	105	9,201
Amortization of intangible assets	2,361	4,856			7,217
Restructurings	1,558		13		1,571
Total operating expenses	30,278	10,227	1,454	(32)	41,927
Operating income (loss)	(1,667)	8,743	482		7,558
Other income (expense)					
Interest income	126		3	(105)	24
Interest expense	(1,215)	(3,844)	(193)	105	(5,147)
Other income (expense), net	133	(38)	166		261
Total other income (expense)	(956)	(3,882)	(24)		(4,862)
Income (loss) before income taxes	(2,623)	4,861	458		2,696
Income tax (provision) benefit	1,143	(1,926)	(243)		(1,026)
Equity in earnings (losses) of non-guarantor subsidiaries	3,150	(24)		(3,126)	
Net income	$ 1,670	$ 2,911	$ 215	$ (3,126)	$ 1,670

Table of Contents

Condensed Consolidating Statement of Operations

Nine Months Ended September 30, 2005

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Revenues					
Sales	$ 189,728	$ 166,207	$ 29,676	$ (29,915)	$ 355,696
Service	33,517	523	5,733	(2,731)	37,042
Total revenues	223,245	166,730	35,409	(32,646)	392,738
Cost of revenues					
Sales	109,265	100,859	23,088	(30,024)	203,188
Service	18,337	433	3,194	(1,181)	20,783
Total cost of revenues	127,602	101,292	26,282	(31,205)	223,971
Gross profit	95,643	65,438	9,127	(1,441)	168,767
Operating expenses					
Sales and marketing	32,259	4,241	3,951	5	40,456
Product development	27,710	7,265	1,622	(1,462)	35,135
General and administrative	29,152	2,909	1,320		33,381
Amortization of intangible assets	4,344	24,799			29,143
Restructurings	89	108	193		390
Total operating expenses	93,554	39,322	7,086	(1,457)	138,505
Operating income	2,089	26,116	2,041	16	30,262
Other income (expense)					
Interest income	774		104	(711)	167
Interest expense	(3,242)	(11,904)	(845)	711	(15,280)
Other income (expense), net	435	(316)	(83)	(16)	20
Total other income (expense)	(2,033)	(12,220)	(824)	(16)	(15,093)
Income before income taxes	56	13,896	1,217		15,169
Income tax (provision) benefit	6,714	(5,210)	(541)		963
Equity in earnings of guarantor and non-guarantor subsidiaries	9,362	163		(9,525)	
Net income	$ 16,132	$ 8,849	$ 676	$ (9,525)	$ 16,132

Table of Contents

Condensed Consolidating Statement of Operations

Nine Months Ended September 30, 2004

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
Revenues					
Sales	$ 179,309	$ 48,286	$ 8,365	$ (5,602)	$ 230,358
Service	30,031	4,150	5,557	(2,348)	37,390
Total revenues	209,340	52,436	13,922	(7,950)	267,748
Cost of revenues					
Sales	101,156	29,563	6,003	(5,729)	130,993
Service	15,243	3,903	4,128	(2,134)	21,140
Total cost of revenues	116,399	33,466	10,131	(7,863)	152,133
Gross profit	92,941	18,970	3,791	(87)	115,615
Operating expenses					
Sales and marketing	27,088	2,396	2,110	377	31,971
Product development	30,964	1,937	337	(569)	32,669
General and administrative	22,657	1,038	679	105	24,479
Amortization of intangible assets	6,415	4,856			11,271
Restructurings	3,955		50		4,005
Total operating expenses	91,079	10,227	3,176	(87)	104,395
Operating income	1,862	8,743	615		11,220
Other income (expense)					
Interest income	461		7	(316)	152
Interest expense	(4,048)	(3,844)	(586)	316	(8,162)
Other income (expense), net	(380)	(38)	(56)		(474)
Total other income (expense)	(3,967)	(3,882)	(635)		(8,484)
Income (loss) before income taxes	(2,105)	4,861	(20)		2,736
Income tax (provision) benefit	1,649	(1,926)	(709)		(986)
Equity in earnings of non-guarantor subsidiaries	2,206	48		(2,254)	
Net income (loss)	$ 1,750	$ 2,983	$ (729)	$ (2,254)	$ 1,750

23

Table of Contents

Condensed Consolidating Balance Sheet

September 30, 2005

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
ASSETS					
Current assets					
Cash and cash equivalents	$ 7,294	$ 282	$ 4,320	$	$ 11,896
Accounts receivable, net	59,213	26,913	8,857		94,983
Intercompany accounts receivable	6,939	3,965	12,219	(23,123)	
Inventories	23,504	22,310	4,844		50,658
Deferred income taxes, net	7,088	646	284		8,018
Other	6,687	399	2,444		9,530
Intercompany other	79,637	11,425	3,500	(94,562)	
Total current assets	190,362	65,940	36,468	(117,685)	175,085
Property, plant and equipment, net	37,747	14,100	3,564		55,411
Intangible assets, net	10,277	122,659	60		132,996
Goodwill	83,754	19,552	12,773		116,079
Deferred income taxes, net	44,487	13,368	1,461	(890)	58,426
Intercompany notes receivable	17,219		5,697	(22,916)	
Other	37,043	14,324	52	(39,456)	11,963
Total assets	$ 420,889	$ 249,943	$ 60,075	$ (180,947)	$ 549,960
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued expenses	$ 23,056	$ 13,456	$ 1,488	$	$ 38,000
Intercompany accounts payable and accrued expenses	13,314	4,812	4,997	(23,123)	
Wages and benefits payable	16,749	3,682	1,138		21,569
Current portion of debt	246	1,050	843		2,139
Current portion of warranty	3,647	1,009	667		5,323
Short-term intercompany advances	8,500	82,075	3,987	(94,562)	
Unearned revenue	18,916	33	1,307		20,256
Total current liabilities	84,428	106,117	14,427	(117,685)	87,287
Long-term debt	28,665	122,206			150,871
Project financing debt			2,588		2,588
Intercompany notes payable	5,697		17,219	(22,916)	
Warranty	5,099	829			5,928
Deferred income taxes, net			890	(890)	
Other obligations	5,205	500	1		5,706
Total liabilities	129,094	229,652	35,125	(141,491)	252,380
Shareholders equity					
Preferred stock					
Common stock	308,840	14,188	22,129	(36,316)	308,841
Accumulated other comprehensive income (loss), net	(4,733)		5,684	100	1,051

Accumulated earnings (deficit)	(12,312)	6,103	(2,863)	(3,240)	(12,312)
Total shareholders equity	291,795	20,291	24,950	(39,456)	297,580
Total liabilities and shareholders' equity	$ 420,889	$ 249,943	$ 60,075	$ (180,947)	$ 549,960

Table of Contents

Condensed Consolidating Balance Sheet

December 31, 2004

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidated
			(in thousands)		
ASSETS					
Current assets					
Cash and cash equivalents	$ 5,393	$ 461	$ 5,770	$	$ 11,624
Accounts receivable, net	63,300	17,611	9,186		90,097
Intercompany accounts receivable	9,300	10,695	23,187	(43,182)	
Inventories	22,669	18,914	3,876		45,459
Deferred income taxes, net	21,786	604	343		22,733
Other	4,269	195	1,013		5,477
Intercompany other	12	9,318	1,000	(10,330)	
Total current assets	126,729	57,798	44,375	(53,512)	175,390
Property, plant and equipment, net	40,919	11,729	7,042		59,690
Intangible assets, net	14,621	147,458	58		162,137
Goodwill	83,753	21,683	12,035		117,471
Deferred income taxes, net	19,329	7,299	1,454	(830)	27,252
Intercompany notes receivable	22,089			(22,089)	
Other	29,039	17,009	63	(30,900)	15,211
Total assets	$ 336,479	$ 262,976	$ 65,027	$ (107,331)	$ 557,151
LIABILITIES AND SHAREHOLDERS' EQUITY					
Current liabilities					
Accounts payable and accrued expenses	$ 23,286	$ 11,984	$ 2,169	$	$ 37,439
Intercompany accounts payable and accrued expenses	27,817	8,797	6,568	(43,182)	
Wages and benefits payable	8,451	3,956	1,540		13,947
Current portion of debt	6,621	28,229	797		35,647
Current portion of warranty	5,141	1,293	809		7,243
Short-term intercompany advances	5,184	1,000	4,146	(10,330)	
Unearned revenue	21,647	134	1,210		22,991
Total current liabilities	98,147	55,393	17,239	(53,512)	117,267
Long-term debt	45,479	193,882			239,361
Project financing debt			3,227		3,227
Intercompany notes payable			22,089	(22,089)	
Warranty	3,734	2,597			6,331
Deferred income taxes, net			830	(830)	
Other obligations	6,521		14		6,535
Total liabilities	153,881	251,872	43,399	(76,431)	372,721
Shareholders equity					
Preferred stock					
Common stock	211,920	13,850	20,667	(34,517)	211,920
Accumulated other comprehensive income (loss), net	(878)		4,500	(2,668)	954

Accumulated deficit	(28,444)	(2,746)	(3,539)	6,285	(28,444)
Total shareholders equity	182,598	11,104	21,628	(30,900)	184,430
Total liabilities and shareholders equity	$ 336,479	$ 262,976	$ 65,027	$ (107,331)	$ 557,151

25

Table of Contents

Condensed Consolidating Statement of Cash Flows

Nine Months Ended September 30, 2005

	Parent Company	Combined Guarantor Subsidiaries	Combined Non-guarantor Subsidiaries	Eliminations	Consolidat
	(in thousands)				
erating activities					
t income	$ 16,132	$ 8,849	$ 676	$ (9,525)	$ 16,13
justments to oncile net ome to net cash ovided by erating activities:					
preciation and ortization	10,895	27,288	602		38,78
ployee stock n income tax nefits	14,399				14,39
nortization of paid debt fees	1,125	3,205			4,33
uity in earnings sses) of arantor and n-guarantor osidiaries	(9,362)	(163)		9,525	
erest expense as esult of shdown of debt	(11,904)	11,904			
alized currency nslation gains	(210)		(181)		(39
ferred income provision nefit)	(10,461)	(6,111)	259		(16,31
ner, net	2,151	38	(11)		2,17
anges in erating assets l liabilities, net acquisitions:					
counts eivable	4,087	(9,050)	225		(4,73
entories	(835)	(3,396)	(968)		(5,19
counts payable l accrued benses	1,475	(433)	(682)		36
ges and benefits vable	8,299	(355)	(339)		7,60
earned revenue	(3,111)	(101)	127		(3,08
rranty	(128)	76	(142)		(19
ner long-term igations	(936)	500			(43
ercompany nsactions, net	(7,754)	2,745	5,009		

her, net	787	(3,194)	(1,472)		(3,87
sh provided by erating activities	14,649	31,802	3,103		49,55
vesting activities					
oceeds from the e of property, nt and uipment	7		2,620		2,62
quisition/transfer property, plant d equipment	(5,121)	(5,006)	(137)		(10,26
sh transferred payments eived from rent, net		(3,316)		3,316	
sh transferred payments eived from arantor bsidiaries, net	27,012		(2,500)	(24,512)	
sh transferred payments eived from n-guarantor bsidiaries, net	(1,055)	1,209		(154)	
ercompany tes, net	4,870			(4,870)	
her, net	(1,759)	(141)	(361)	1,414	(84
sh provided ed) by investing ivities	23,954	(7,254)	(378)	(24,806)	(8,48
nancing activities					
yments on debt	(122,111)		(593)		(122,70
uance of mmon stock	82,269		1,414	(1,414)	82,26
epaid debt fees	(176)				

The allowance for loan losses (ALL) is discussed on pages 24 and 25. Also, please see Table 4 for a five-year analysis of the ALL. The adequacy of the ALL is reviewed quarterly, considering such items as historical loss trends including a migration analysis, a review of individual loans, current economic conditions, loan growth and characteristics, industry or segment concentration and other factors. A primary indicator of credit quality and risk management is the level of nonperforming loans. Nonperforming loans include both nonaccrual loans and restructured loans. The Company s nonperforming loans increased $1.1 million at December 31, 2006, compared to a decrease of $4.6 million a year earlier. The Company s nonperforming loans have not exceeded 0.50% of total loans in any of the last five years. While the Company plans to increase its loan portfolio, management does not intend to compromise the Company s high credit standards as it grows its loan portfolio. The impact of future loan growth on the allowance for loan losses is uncertain as it is dependent on many factors including asset quality and changes in the overall economy.

The Company had $0.3 million in other real estate owned as of December 31, 2006. There was no other real estate owned at December 31, 2005. Loans past due more than 90 days totaled $4.0 million at December 31, 2006, compared to $4.8 million at December 31, 2005.

A loan is generally placed on nonaccrual status when payments are past due 90 days or more and/or when management has considerable doubt about the borrower s ability to repay on the terms originally contracted. The accrual of interest is discontinued and recorded thereafter only when actually received in cash.

Certain loans are restructured to provide a reduction or deferral of interest or principal due to deterioration in the financial condition of the respective borrowers. The Company had $24,000 of restructured loans at December 31, 2006, and none at December 31, 2005.

Table of Contents

Table 17

LOAN QUALITY (in thousands)

	December 31				
	2006	**2005**	**2004**	**2003**	**2002**
Nonaccrual loans	$ 6,539	$ 5,439	$ 9,752	$ 12,431	$ 9,723
Restructured loans	24		298	365	989
Total nonperforming loans	6,563	5,439	10,050	12,796	10,712
Other real estate owned	317			78	4,989
Total nonperforming assets	$ 6,880	$ 5,439	$ 10,050	$ 12,874	$ 15,701
Loans past due 90 days or more	$ 4,034	$ 4,829	$ 3,028	$ 3,131	$ 7,672
Reserve for Loans Losses	44,926	40,825	42,723	47,494	37,328
Ratios					
Nonperforming loans as a % of loans	0.17%	0.16%	0.35%	0.47%	0.40%
Nonperforming assets as a % of loans plus other real estate owned	0.18	0.16	0.35	0.47	0.59
Nonperforming assets as a % of total assets	0.08	0.07	0.13	0.17	0.20
Loans past due 90 days or more as a % of loans	0.11	0.14	0.11	0.12	0.29
Allowance for Loan Losses as a % of loans	1.20	1.20	1.49	1.60	1.40
Allowance for Loan Losses as a multiple of nonperforming loans	6.85x	7.51x	4.38x	3.40x	3.48x

Liquidity Risk

Liquidity represents the Company s ability to meet financial commitments through the maturity and sale of existing assets or availability of additional funds. The Company believes that the most important factor in the preservation of liquidity is maintaining public confidence that facilitates the retention and growth of a large, stable supply of core deposits and wholesale funds. Ultimately, public confidence is generated through profitable operations, sound credit quality and a strong capital position. The primary source of liquidity for the Company is regularly scheduled payments on and maturity of assets, which include $3.2 billion of high-quality securities available for sale. The liquidity of the Company and its affiliate banks is also enhanced by its activity in the federal funds market and by its core deposits.

Another factor affecting liquidity is the amount of deposits and customer repurchase agreements that have pledging requirements. All customer repurchase agreements require collateral in the form of a security. Public entities and other significant depositors require the Company to pledge securities if their deposit balances are greater than the FDIC-insured deposit limitations. These pledging requirements affect liquidity risk in that the related security cannot otherwise be disposed due to the pledging restriction. At December 31, 2006, approximately 79.3 percent of the securities available-for-sale were pledged or used as collateral; as compared to 81.0 percent at December 31, 2005.

Neither the Company nor its subsidiaries are active in the debt market. The traditional funding source for the Company s subsidiary banks has been core deposits. The Company has not issued any debt since 1993 when $15 million of medium-term notes were issued to fund bank acquisitions. Prior to being paid off in February 2003, these notes were rated A3 by Moody s Investor Service and A- by Standard and Poor s. Based upon regular contact with investment banking firms, management is confident in its ability to raise debt or equity capital on favorable terms, should the need arise.

The Company also has other commercial commitments that may impact liquidity. These commitments include unused commitments to extend credit, standby letters of credit, and commercial letters of credit. The total amount of these commercial commitments at December 31, 2006, was $2.6 billion. The Company believes that since many of these commitments expire without being drawn upon, the total amount of these commercial commitments does not necessarily represent the future cash requirements of the Company.

Table of Contents

The Company s cash requirements consist primarily of dividends to shareholders, debt service and treasury stock purchases. Management fees and dividends received from subsidiary banks traditionally have been sufficient to satisfy these requirements and are expected to be sufficient in the future. The Company s subsidiary banks are subject to various rules regarding payment of dividends to the Company. For the most part, all banks can pay dividends at least equal to their current year s earnings without seeking prior regulatory approval. From time to time, approvals have been requested to allow a subsidiary bank to pay a dividend in excess of its current earnings. All such requests have been approved.

Operational Risk

The Company is exposed to numerous types of operational risk. Operational risk generally refers to the risk of loss resulting from the Company s operations, including, but not limited to: the risk of fraud by employees or persons outside the Company; the execution of unauthorized transactions by employees or others, errors relating to transaction processing and systems, and breaches of the internal control system and compliance requirements. This risk of loss also includes the potential legal or regulatory actions that could arise as a result of an operational deficiency, or as a result of noncompliance with applicable regulatory standards. Included in the legal and regulatory issues with which the Company must comply are a number of recently imposed rules resulting from the enactment of the Sarbanes-Oxley Act of 2002.

The Company operates in many markets and places reliance on the ability of its employees and systems to properly process a high number of transactions. In the event of a breakdown in the internal control systems, improper operation of systems or improper employee actions, the Company could suffer financial loss, face regulatory action and suffer damage to its reputation. In order to address this risk, management maintains a system of internal controls with the objective of providing proper transaction authorization and execution, safeguarding of assets from misuse or theft, and ensuring the reliability of financial and other data.

The Company maintains systems of controls that provide management with timely and accurate information about the Company s operations. These systems have been designed to manage operational risk at appropriate levels given the Company s financial strength, the environment in which it operates, and considering factors such as competition and regulation. The Company has also established procedures that are designed to ensure that policies relating to conduct, ethics and business practices are followed on a uniform basis. In certain cases, the Company has experienced losses from operational risk. Such losses have included the effects of operational errors that the Company has discovered and included as expense in the statement of income. While there can be no assurance that the Company will not suffer such losses in the future, management continually monitors and works to improve its internal controls, systems and corporate-wide processes and procedures.

Table of Contents

ITEM 8. ***CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of UMB Financial Corporation & Subsidiaries:

We have audited the accompanying consolidated balance sheets of UMB Financial Corporation and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of UMB Financial Corporation and Subsidiaries as of December 31, 2006 and 2005, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the Consolidated Financial Statements, in 2006 the Company changed its method of accounting for stock-based compensation.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company s internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2007 expressed an unqualified opinion on management s assessment of the effectiveness of the Company s internal control over financial reporting and an unqualified opinion on the effectiveness of the Company s internal control over financial reporting.

/s/ Deloitte & Touche LLP

Kansas City, MO

February 28, 2007

Table of Contents

CONSOLIDATED BALANCE SHEETS

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

(in thousands, except share data)

	December 31	
	2006	**2005**
ASSETS		
Loans	$ 3,753,445	$ 3,373,944
Allowance for loan losses	(44,926)	(40,825)
Net loans	3,708,519	3,333,119
Loans held for sale	14,120	19,460
Investment securities:		
Available for sale	3,238,648	3,323,198
Held to maturity (market value of $44,819 and $67,365 respectively)	44,781	67,037
Federal Reserve Bank stock and other	15,490	15,094
Trading securities	64,534	58,488
Total investment securities	3,363,453	3,463,817
Federal funds sold and securities purchased under agreements to resell	848,922	426,578
Cash and due from banks	531,188	599,580
Bank premises and equipment, net	243,216	236,038
Accrued income	57,313	51,848
Goodwill on purchased affiliates	93,723	59,727
Other intangibles	19,309	4,078
Other assets	38,002	53,544
Total assets	$ 8,917,765	$ 8,247,789
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 2,293,096	$ 2,051,922
Interest-bearing demand and savings	2,644,125	2,654,637
Time deposits under $100,000	799,003	713,249
Time deposits of $100,000 or more	572,740	501,014
Total deposits	6,308,964	5,920,822
Federal funds purchased and repurchase agreements	1,620,945	1,360,942
Short-term debt	17,881	35,091
Long-term debt	38,020	38,471
Accrued expenses and taxes	52,381	39,247
Other liabilities	30,699	19,753
Total liabilities	8,068,890	7,414,326
SHAREHOLDERS EQUITY		

Common stock, $1.00 par value; authorized, 80,000,000 and 66,000,000 shares, respectively; 55,056,730 issued and 42,266,041 and 42,981,122 outstanding, respectively	55,057	27,528
Capital surplus	699,794	728,108
Unearned compensation		(1,904)
Retained earnings	380,464	342,675
Accumulated other comprehensive loss	(17,259)	(21,550)
Treasury stock, 12,790,689 and 12,075,608 shares, at cost, respectively	(269,181)	(241,394)
Total shareholders equity	848,875	833,463
Total liabilities and shareholders equity	$ 8,917,765	$ 8,247,789

See Notes to Consolidated Financial Statements.

50

Table of Contents

CONSOLIDATED STATEMENTS OF INCOME

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

(in thousands, except share and per share data)

	Year Ended December 31		
	2006	**2005**	**2004**
INTEREST INCOME			
Loans	$ 238,356	$ 176,842	$ 136,285
Securities:			
Available for sale taxable interest	85,575	64,784	57,684
Available for sale tax exempt interest	21,213	14,622	8,798
Held to maturity taxable interest	10	23	62
Held to maturity tax exempt interest	2,235	5,374	10,125
Total securities income	109,033	84,803	76,669
Federal funds and resell agreements	19,112	7,980	4,389
Trading securities and other	2,582	2,286	2,111
Total interest income	369,083	271,911	219,454
INTEREST EXPENSE			
Deposits	96,889	52,099	27,059
Federal funds and repurchase agreements	52,832	29,371	12,163
Short-term debt	619	418	185
Long-term debt	1,519	1,733	943
Total interest expense	151,859	83,621	40,350
Net interest income	217,224	188,290	179,104
Provision for loan losses	8,734	5,775	5,370
Net interest income after provision for loan losses	208,490	182,515	173,734
NONINTEREST INCOME			
Trust and securities processing	98,250	82,430	75,742
Trading and investment banking	18,192	17,787	17,389
Service charges on deposit accounts	73,598	79,420	73,533
Insurance fees and commissions	3,956	3,326	3,487
Brokerage fees	6,228	5,933	7,731
Bankcard fees	38,759	33,362	31,435
Gain on sale of assets and deposits, net	793	9,237	2,185
Gain on sale of employee benefit accounts		3,600	1,240
Gains (losses) on sales of securities available for sale, net	117	(225)	141
Other	15,052	17,003	15,220

Total noninterest income	254,945	251,873	228,103
NONINTEREST EXPENSE			
Salaries and employee benefits	193,980	190,197	189,876
Occupancy, net	27,776	26,468	26,131
Equipment	48,968	44,031	43,422
Supplies and services	22,805	21,808	22,268
Marketing and business development	14,835	13,309	15,306
Processing fees	28,292	23,594	21,372
Legal and consulting	8,175	8,577	8,825
Bankcard	13,831	11,608	9,116
Amortization of intangibles	1,600	740	742
Other	21,155	17,737	13,044
Total noninterest expense	381,417	358,069	350,102
Income before income taxes	82,018	76,319	51,735
Income tax expense	22,251	20,001	8,896
Net income	$ 59,767	$ 56,318	$ 42,839
PER SHARE DATA			
Net income basic	$ 1.40	$ 1.31	$ .99
Net income diluted	1.40	1.30	.99
Weighted average shares outstanding	42,592,960	43,109,536	43,337,497

See Notes to Consolidated Financial Statements.

51

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

(in thousands)

	Year Ended December 31		
	2006	**2005**	**2004**
OPERATING ACTIVITIES			
Net income	$ 59,767	$ 56,318	$ 42,839
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	8,734	5,775	5,370
Depreciation and amortization	34,931	30,956	31,577
Deferred income taxes	(569)	3,259	6,362
Net (increase) decrease in trading securities and other earning assets	(6,046)	1,432	600
(Gains) losses on sales of securities available for sale	(117)	225	(141)
Gains on sales of assets and deposits, net	(793)	(9,237)	(2,185)
Amortization of securities premiums, net of discount accretion	(1,210)	14,900	28,104
Net decrease (increase) in loans held for sale	5,340	4,568	(3,636)
Issuance of stock awards	150		
Stock based compensation	1,669	422	
Changes in:			
Accrued income	(3,901)	(15,264)	3,844
Accrued expenses and taxes	(2,012)	17,717	(3,289)
Other assets and liabilities, net	32,894	(5,799)	(574)
Net cash provided by operating activities	128,837	105,272	108,871
INVESTING ACTIVITIES			
Proceeds from maturities of securities held to maturity	68,184	106,582	140,335
Proceeds from sales of securities available for sale	3,895	15,964	11,612
Proceeds from maturities of securities available for sale	8,337,478	9,738,612	9,842,020
Purchases of securities held to maturity	(45,992)	(12,382)	(1,780)
Purchases of securities available for sale	(8,167,194)	(9,520,729)	(10,084,035)
Net increase in loans	(205,359)	(536,829)	(149,437)
Net increase in fed funds and resell agreements	(422,344)	(132,979)	(16,884)
Net change in unsettled securities transactions	(96)		
Purchases of bank premises and equipment	(41,889)	(45,429)	(41,623)
Net cash paid for acquisitions and branch sales	(43,308)	(101,487)	(1,687)
Proceeds from sales of bank premises and equipment	2,117	8,232	6,198

Net cash used in investing activities	(514,508)	(480,445)	(295,281)
FINANCING ACTIVITIES			
Net increase (decrease) in demand and savings deposits	28,475	348,803	(118,603)
Net increase (decrease) in time deposits	106,963	291,410	(129,284)
Net increase (decrease) in fed funds/repurchase agreements	249,822	(145,058)	332,073
Net change in short-term debt	(17,210)	(4,335)	(31,178)
Proceeds from long-term debt	1,780	20,110	8,980
Repayment of long-term debt	(2,231)	(2,690)	(4,209)
Cash dividends paid	(21,833)	(19,015)	(18,203)
Proceeds from exercise of stock options and sales of treasury shares	1,111	1,295	1,042
Purchases of treasury stock	(29,598)	(13,194)	(4,411)
Net cash provided by financing activities	317,279	477,326	36,207
(Decrease) increase in cash and due from banks	(68,392)	102,153	(150,203)
Cash and due from banks at beginning of year	599,580	497,427	647,630
Cash and due from banks at end of year	$ 531,188	$ 599,580	$ 497,427
Supplemental disclosures:			
Income taxes paid	$ 22,688	$ 10,950	$ 11,346
Total interest paid	148,596	76,339	40,839

See Notes to Consolidated Financial Statements.

52

Table of Contents

STATEMENTS OF CHANGES IN CONSOLIDATED SHAREHOLDERS EQUITY

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

(dollars in thousands)

	Common Stock	Capital Surplus	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance January 1, 2004	$ 27,528	$ 726,405	$	$ 281,556	$ 3,183	$ (226,749)	$ 811,923
Comprehensive income/(loss):							
Net income				42,839			42,839
Change in unrealized losses on securities					(13,802)		(13,802)
Total comprehensive income							29,037
Cash Dividends ($0.43 per share)				(18,409)			(18,409)
Purchase of treasury stock						(4,411)	(4,411)
Sale of treasury stock		30				45	75
Exercise of stock options		160				807	967
Balance December 31, 2004	27,528	726,595		305,986	(10,619)	(230,308)	819,182
Comprehensive income/(loss):							
Net income				56,318			56,318
Change in unrealized losses on securities					(10,931)		(10,931)
Total comprehensive income							45,387
Cash dividends ($0.46 per share)				(19,629)			(19,629)
Issuance of stock awards		1,140	(2,326)			1,186	
Recognition of stock based compensation			422				422
Purchase of treasury stock						(13,194)	(13,194)
Sale of treasury stock		185				168	353
Exercise of stock options		188				754	942
Balance December 31, 2005	27,528	728,108	(1,904)	342,675	(21,550)	(241,394)	833,463

Comprehensive income/(loss):							
Net income				59,767			59,767
Change in unrealized losses on securities					4,291		4,291
Total comprehensive income							64,058
Cash dividends ($0.52 per share)				(21,978)			(21,978)
Stock split 2 for 1	27,529	(27,529)					
Purchase of treasury stock						(29,598)	(29,598)
Issuance of stock awards		(938)				1,088	150
Adoption of SFAS 123(R)		(1,904)	1,904				
Recognition of stock based compensation		1,669					1,669
Sale of treasury stock		280				194	474
Exercise of stock options		108				529	637
Balance December 31, 2006	$ 55,057	$ 699,794	$	$ 380,464	$ (17,259)	$ (269,181)	$ 848,875

See Notes to Consolidated Financial Statements

53

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. *SUMMARY OF ACCOUNTING POLICIES*

UMB Financial Corporation (the Company) is a multi-bank holding company, which offers a wide range of banking and other financial services to its customers through its branches and offices in the states of Missouri, Kansas, Colorado, Illinois, Oklahoma, Arizona, Nebraska, Wisconsin and Pennsylvania. The preparation of 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. These estimates and assumptions also impact reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Following is a summary of the more significant accounting policies to assist the reader in understanding the financial presentation.

Consolidation

The Company and its subsidiaries are included in the consolidated financial statements (references hereinafter to the Company in these Notes to Consolidated Financial Statements include wholly-owned subsidiaries). Intercompany accounts and transactions have been eliminated.

Revenue Recognition

Interest on loans and securities is recognized based on rate times the principal amount outstanding. Interest accrual is discontinued when, in the opinion of management, the likelihood of collection becomes doubtful. Other noninterest income is recognized as services are performed or revenue-generating transactions are executed.

Cash and Due From Banks

Cash on hand, cash items in the process of collection, and amounts due from correspondent banks and the Federal Reserve Bank are included in cash and due from banks.

Loans and Loans Held for Sale

A loan is considered to be impaired when management believes it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan. If a loan is impaired, the Company records a loss valuation allowance equal to the carrying amount of the loan in excess of the present value of the estimated future cash flows discounted at the loan s effective rate, based on the loan s observable market price or the fair value of the collateral if the loan is collateral dependent. Consumer loans are collectively evaluated for impairment. Commercial loans are generally evaluated for impairment on a loan-by-loan basis.

The adequacy for the allowance for loan losses is based on management s continuing evaluation of the pertinent factors underlying the quality of the loan portfolio, including actual loan loss experience, current economic conditions, detailed analysis of individual loans for which full collectibility may not be assured, determination of the existence and realizable value of the collateral and guarantees securing such loans. The actual losses, notwithstanding such considerations, however, could differ from the amounts estimated by management.

Loans held for sale are carried at the lower of aggregate cost or market value. Loan fees (net of certain direct loan origination costs) on loans held for sale are deferred until the related loans are sold or repaid. Gains or losses on loan sales are recognized at the time of sale and determined using the specific identification method.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Securities

Debt securities available for sale principally include U.S. Treasury and agency securities and mortgage-backed securities. Securities classified as available for sale are measured at fair value. Unrealized holding gains and losses are excluded from earnings and reported in accumulated other comprehensive income/(loss) until realized. Realized gains and losses on sales are computed by the specific identification method at the time of disposition and are shown separately as a component of noninterest income.

Securities held to maturity are carried at amortized historical cost based on management s intention, and the Company s ability, to hold them to maturity. The Company classifies certain securities of state and political subdivisions as held to maturity. Certain significant unforeseeable changes in circumstances may cause a change in the intent to hold these securities to maturity. For example, such changes may include deterioration in the issuer s credit-worthiness that is expected to continue or a change in tax law that eliminates the tax-exempt status of interest on the security.

Trading securities, generally acquired for subsequent sale to customers, are carried at market value. Market adjustments, fees and gains or losses on the sale of trading securities are considered to be a normal part of operations and are included in trading and investment banking income.

On the Consolidated Statements of Shareholders Equity, Accumulated Other Comprehensive Income/(Loss) consists only of unrealized gain (loss) on securities.

Goodwill and Other Intangibles

Goodwill on purchased affiliates represents the cost in excess of net tangible assets acquired. The Company has elected November 30 as its annual measurement date for testing impairment and as a result of the impairment tests of goodwill performed on that date in 2006, 2005 and 2004, no impairment charge was recorded. Other intangible assets are amortized over a period of up to seventeen years.

Bank Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation, which is computed primarily on the straight line method. Bank premises are depreciated over 20 to 40 year lives, while equipment is depreciated over lives of 3 to 20 years. Gains and losses from the sale of bank premises and equipment are included in gains on sales of assets and deposits, net.

Impairment of Long-Lived Assets

Long-lived assets, including premises and equipment, are reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset or group of assets may not be recoverable. The impairment review includes a comparison of future cash flows expected to be generated by the asset or group of assets to their current carrying value. If the carrying value of the asset or group of assets exceeds expected cash flows (undiscounted and without interest charges), an impairment loss is recognized to the extent the carrying value exceeds fair value.

Taxes

The Company recognizes certain income and expenses in different time periods for financial reporting and income tax purposes. The provision for deferred income taxes is based on the liability method and represents the change in the deferred income tax accounts during the year excluding the tax effect of the change in net unrealized gain/(loss) on securities available for sale.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Per Share Data

Basic income per share is computed based on the weighted average number of shares of common stock outstanding during each period. Diluted year-to-date income per share includes the dilutive effect of 220,602; 203,198; and 150,490 shares issueable upon the exercise of stock options granted by the Company at December 31, 2006, 2005, and 2004, respectively.

Options issued under employee benefit plans to purchase 380,661; 153,438; and 194,972 shares of common stock were outstanding at December 31, 2006, 2005, and 2004, respectively, but were not included in the computation of diluted earnings per share because the options were anti-dilutive.

On May 30, 2006, the Company s common stock was split 2-for-1 in the form of a stock dividend. Stockholders received one additional share for every share owned. The Board of Directors declared the stock split April 25, 2006 and the record date was May 16, 2006. All share and per share amounts (including stock options and restricted stock) in the Consolidated Financial Statements and accompanying notes were restated to reflect the split.

Accounting for Stock-Based Compensation

Effective with the first quarter of 2006, the Company has adopted Statement of Financial Accounting Standards (SFAS) No. 123 (R) Share Based Payment . SFAS No. 123 (R) establishes accounting standards for all transactions in which the Company exchanges its equity instruments for goods and services. SFAS No. 123 (R) focuses primarily on accounting for transactions with employees, and carries forward, without change, prior guidance for share-based payments for transactions with non-employees.

SFAS No. 123 (R) eliminates the intrinsic value measurement objective in Accounting Principles Board (APB) Opinion No. 25 and generally requires the Company to measure the cost of employee services received in exchange for an award of equity instruments based on the fair value of the award on the date of the grant. The standard requires the grant date fair value to be estimated using either an option-pricing model which is consistent with the terms of the award or a market observed price, if such a price exists. Such cost is generally recognized over the vesting period during which an employee is required to provide service in exchange for the award. The standard also requires the Company to estimate the number of

instruments that will ultimately be issued, rather than accounting for forfeitures as they occur.

The Company uses the Black-Scholes pricing model to determine the fair value of its options. The assumptions for stock-based awards in the past three years utilized in the model are shown in the table below.

	2006	2005	2004
Black-Scholes pricing model:			
Weighted average fair value of the granted options	$ 8.60	8.03	8.28
Weighted average risk-free interest rate	4.72%	4.32%	4.20%
Expected option life in years	6.50	7.97	8.75
Expected volatility	16.13%	18.62%	19.35%
Expected dividend yield	1.50%	1.53%	1.47%

The expected option life is derived from historical exercise patterns and represents the amount of time that options granted are expected to be outstanding. The expected volatility is based on a combination of historical and implied volatilities of the Company s stock. The interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The modified prospective method of adoption was chosen by the Company. This method requires the provisions of SFAS No. 123 (R) to be generally applied to share based awards granted or modified after the adoption of the new standard. In addition, compensation expense must be recognized for any unvested awards outstanding as of the date of adoption on a straight-line basis over the remaining vesting period. The financial statements for periods prior to the adoption of SFAS No. 123 (R) are not changed under this method.

As noted above, prior to adoption of SFAS No. 123 (R), forfeitures were recognized as they actually occurred. Under the new standard an estimate of forfeitures is made for all share based compensation outstanding and applied to compensation expense starting at the initial grant date. Forfeiture adjustments are required over the term of each grant s service period to account for changes in the Company s actual forfeitures of share based instruments. The Company recognized a transition adjustment of $0.2 million in 2006 upon adoption of SFAS No. 123 (R).

The Company recognized $0.7 million in expense related to outstanding stock options and $1.0 million in expense related to outstanding restricted stock grants for the year ended December 31, 2006. The Company has $3.4 million of unrecognized compensation expense related to the outstanding options and $3.6 million of unrecognized compensation expense related to outstanding restricted stock grants at December 31, 2006.

The following table illustrates the effect on net income and earnings per share, if the Company had applied the fair value recognition provisions of SFAS No. 123 (R) to stock-based employee compensation in 2005 and 2004 (in thousands):

	Year Ended December 31	
	2005	**2004**
Net income, as reported	$ 56,318	$ 42,839
Add: Stock based compensation expense included in reported net income, net of tax	268	
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	1,095	511
Pro forma net income	$ 55,491	$ 42,328

Earnings per share:		
Basic-as reported	1.31	0.99
Basic-pro forma	1.29	0.98
Diluted-as reported	1.30	0.99
Diluted-pro forma	1.28	0.98

2. *NEW ACCOUNTING PRONOUNCEMENTS*

Accounting Changes and Error Correction a replacement of APB Opinion No. 20 and Financial Accounting Standards Board (FASB) Statement No. 3 In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Correction a replacement of APB Opinion No. 20 and FASB Statement No. 3 . This statement replaces APB Opinion No. 20 and SFAS No. 3 and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principles. It also applies to changes required by an accounting pronouncement in the unusual instance where the pronouncement does not include specific transition provisions. This Statement carries forward the guidance from APB No. 20 for the reporting of an error correction in previously issued financial statements and for a change in accounting estimate. Guidance is also carried forward requiring the justification of a change in accounting principle on the basis of preferability. The adoption of the Statement on January 1, 2007 did not have a material effect on the Company s consolidated financial statements.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 . FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or to be taken on a tax return. This interpretation also provides additional guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. The Company is adopting FIN 48 as of January 1, 2007 and does not anticipate a material adjustment related to the implementation of this interpretation on its consolidated financial statements.

Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 In February 2006, the FASB issued SFAS No. 155, Accounting for Certain Hybrid Financial Instruments an amendment of FASB Statements No. 133 and 140 . The Statement permits fair value measurement for certain hybrid financial instruments containing embedded derivatives, and clarifies the derivative accounting requirements for interest and principal-only strip securities and interests in securitized financial assets. It also clarifies that concentrations of credit risk in the form of subordination are not embedded derivatives and eliminates a previous prohibition on qualifying special-purpose entities from holding certain derivative financial instruments. For calendar year companies, the Statement is effective for all financial instruments acquired or issued after January 1, 2007. The Company is adopting SFAS No. 155 as of January 1, 2007 and does not expect that the adoption of this Statement will have a material effect on its consolidated financial statements.

Fair Value Measurement In September, 2006 the FASB issued SFAS No. 157, Fair Value Measurement . The Statement establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosure about fair value measurements. This Statement is applicable under other accounting pronouncements that require fair value recognition. It does not create new fair value measurements, however, provides increased consistency in the application of various fair value measurements. This Statement is effective for all financial instruments acquired or issued after January 1, 2008. The Company does not expect that adoption of the Statement will have a material effect on its consolidated financial statements.

Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) In September 2006 the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) . This statement requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. This statement also requires an

employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. For calendar year companies with publicly traded stock the funded status must be initially recognized at December 31, 2006, while the measurement requirement is effective in 2008. The Company does not expect that adoption of the Statement will have a material effect on its consolidated financial statements.

The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115 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 . This Statement permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. For calendar year companies, the Statement is effective for all financial instruments acquired or issued after January 1, 2008. The Company is currently evaluating the potential impact of this Statement on its consolidated financial statements.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Staff Accounting Bulletin (SAB) 108, Financial Statements Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. This SAB issued in September, 2006 provides guidance on the consideration of prior year 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 balance sheet would be affected in correcting misstatements 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 income statement. The SEC staff indicates 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. This SAB is effective for fiscal years ending after November 15, 2006. Registrants may either restate their financials for any material misstatements arising from the application of this SAB or recognize a cumulative effect of applying SAB 108 within the current year opening balance in retained earnings. The adoption of this SAB did not have a material impact on the Company.

3. *LOANS AND ALLOWANCE FOR LOAN LOSSES*

This table provides a summary of the major categories of loans as of December 31, 2006 and 2005 (dollars in thousands):

	Year Ended December 31,	
	2006	**2005**
Commercial, financial, and agricultural	$ 1,564,793	$ 1,497,496
Real estate construction	84,141	47,403
Consumer	982,325	987,770
Real Estate	1,116,405	835,207
Leases	5,781	6,068
Total loans	3,753,445	3,373,944
Loans Held for Sale	14,120	19,460

Total loans and loans held for sale	$ 3,767,565	$ 3,393,404

Maturities and Sensitivities to Changes in Interest Rates

This table details loan maturities by variable and fixed rates as of December 31, 2006 (in thousands):

	Due in one year or less	Due after one year through five years	Due after five years	Total
Variable Rate				
Commercial, financial and agricultural	$ 652,645	$ 192,257	$ 17,585	$ 862,487
Real estate construction	35,999	2,505	975	39,479
All other loans	220,484	69,136	88,193	377,813
Total variable rate loans	909,128	263,898	106,753	1,279,779
Fixed Rate				
Commercial, financial and agricultural	375,123	297,048	30,135	702,306
Real estate construction	38,600	5,629	433	44,662
All other loans	283,810	1,274,695	182,313	1,740,818
Total fixed rate loans	697,533	1,577,372	212,881	2,487,786
Total loans and loans held for sale	$ 1,606,661	$ 1,841,270	$ 319,634	$ 3,767,565

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

This table details loan maturities by variable and fixed rates as of December 31, 2005 (in thousands):

	Due in one year or less	Due after one year through five years	Due after five years	Total
Variable Rate				
Commercial, financial and agricultural	$ 394,162	$ 241,697	$ 239,133	$ 874,992
Real estate construction	19,898	1,043	549	21,490
All other loans	55,104	226,656	252,399	534,159
Total variable rate loans	469,164	469,396	492,081	1,430,641
Fixed Rate				
Commercial, financial and agricultural	347,098	232,358	49,116	628,572
Real estate construction	22,757	2,742	414	25,913
All other loans	72,354	1,045,854	190,070	1,308,278
Total fixed rate loans	442,209	1,280,954	239,600	1,962,763
Total loans and loans held for sale	$ 911,373	$ 1,750,350	$ 731,681	$ 3,393,404

Allowance for Loan Losses

This table provides a rollforward of the allowance for loan losses for the three years ended December 31, 2006, 2005 and 2004 (in thousands):

	Year Ended December 31		
	2006	2005	2004
Allowance beginning of year	$ 40,825	$ 42,723	$ 43,494
Additions (deductions):			
Charge-offs	(12,937)	(10,107)	(9,745)
Recoveries	5,945	2,434	3,604

Net charge-offs	(6,992)	(7,673)	(6,141)
Provision charged to expense	8,734	5,775	5,370
Allowance for banks and loans acquired	2,359		
Allowance end of year	$ 44,926	$ 40,825	$ 42,723

Impaired Loans under SFAS 114

This table provides an analysis of impaired loans for the three years ended December 31, 2006, 2005, and 2004 (in thousands):

	Year Ended December 31		
	2006	2005	2004
Total impaired loans as of December 31	$ 5,485	$ 6,650	$ 10,007
Amount of impaired loans which have a related allowance	1,117	1,134	2,603
Amount of related allowance	318	502	2,330
Remaining impaired loans with no allowance	4,368	5,516	7,404
Average recorded investment in impaired loans during year	6,522	7,690	10,169

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The amount of interest income not recorded on impaired loans was $1,467,000 for 2006, $1,262,000 for 2005, and $1,741,000 for 2004.

4. *SECURITIES*

Securities Available for Sale

This table provides detailed information about securities available for sale at December 31, 2006 and 2005 (in thousands):

2006	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
U.S. Treasury	$ 493,632	$ 1,712	$ (1,982)	$ 493,362
U.S. Agencies	1,154,296	295	(3,522)	1,151,069
Mortgage-backed	942,339	505	(19,720)	923,124
State and political subdivisions	675,493	969	(5,369)	671,093
Total	$ 3,265,760	$ 3,481	$ (30,593)	$ 3,238,648
2005				
U.S. Treasury	$ 537,399	$	$ (5,601)	$ 531,798
U.S. Agencies	1,260,924	21	(4,718)	1,256,227
Mortgage-backed	938,539	25	(17,896)	920,668
State and political subdivisions	620,193	485	(6,173)	614,505
Total	$ 3,357,055	$ 531	$ (34,388)	$ 3,323,198

The following table presents contractual maturity information for securities available for sale at December 31, 2006 (in thousands):

	Amortized Cost	Fair Value
Due in 1 year or less	$ 1,075,205	$ 1,072,826
Due after 1 year through 5 years	978,465	973,961
Due after 5 years through 10 years	206,900	206,147
Due after 10 years	62,851	62,590
Total	2,323,421	2,315,524
Mortgage-backed securities	942,339	923,124
Total securities available for sale	$ 3,265,760	$ 3,238,648

Securities may be disposed of before contractual maturities due to sales by the Company or because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities available for sale with a market value of $2,568,579,000 at December 31, 2006, and $2,693,439,000 at December 31, 2005, were pledged to secure U.S. Government deposits, other public deposits, securities sold under repurchase agreements, and certain trust deposits as required by law.

During 2006, proceeds from the sales of securities available for sale were $3,895,000 compared to $15,964,000 for 2005. Securities transactions resulted in gross realized gains of $130,000 for 2006, $8,000 for 2005 and $148,000 for 2004. The gross realized losses were $13,000 for 2006, $233,000 for 2005 and $7,000 for 2004.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Trading Securities

The net realized gains on trading securities at December 31, 2006, 2005, and 2004 were $62,214, $12,600, and $42,400, respectively, and were included in trading and investment banking income.

Securities Held to Maturity

The table below provides detailed information for securities held to maturity at December 31, 2006 and 2005 (in thousands):

	December 31			
2006	**Amortized Cost**	**Unrealized Gains**	**Unrealized Losses**	**Fair Value**
State and political subdivisions	$ 44,781	$ 38	$	$ 44,819
2005				
State and political subdivisions	$ 67,037	$ 328	$	$ 67,365

The following table presents contractual maturity information for securities held to maturity at December 31, 2006 (in thousands):

	Amortized Cost	Fair Value
Due in 1 year or less	$ 7,615	$ 7,653
Due after 1 year through 5 years	8,445	8,445
Due after 5 years through 10 years	8,798	8,798
Due after 10 years	19,923	19,923
Total securities held to maturity	$ 44,781	$ 44,819

Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

There were no sales of securities held to maturity during 2006 and 2005.

Securities held to maturity and some municipals available for sale with a market value of $435,756,000 at December 31, 2006, and $389,452,000 at December 31, 2005, were pledged to secure U.S. Government deposits, other public deposits and certain Trust deposits as required by law.

The following table shows the Company s available for sale investments gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2006 (in thousands).

	Less than 12 months		12 months or more		Total	
Description of Securities	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury obligations	$ 109,452	$ (400)	$ 162,898	$ (1,582)	$ 272,350	$ (1,982)
Direct obligations of U.S. government agencies	55,282	(266)	356,281	(3,256)	411,563	(3,522)
Federal agency mortgage backed securities	174,393	(1,138)	673,389	(18,582)	847,782	(19,720)
Municipal securities available for sale	184,421	(815)	282,713	(4,554)	467,134	(5,369)
Total temporarily-impaired debt securities available for sale	$ 523,548	$ (2,619)	$ 1,475,281	$ (27,974)	$ 1,998,829	$ (30,593)

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The unrealized losses in the Company s investments in U.S. Treasury obligations; direct obligations of U.S. government agencies; federal agency mortgage backed securities and municipal securities were caused by interest rate increases. Because the Company has the ability and intent to hold these investments until a recovery of fair value, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2006.

5. *SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL*

The Company regularly enters into agreements for the purchase of securities with simultaneous agreements to resell (resell agreements). The agreements permit the Company to sell or repledge these securities. Resell agreements were $333,597,000 and $284,054,000 at December 31, 2006 and 2005, respectively. All of the $333,597,000 represented sales of securities in which securities were received under reverse repurchase agreements (resell agreements) during 2006. Of the $284,054,000 amount, $250,000,000 represented sales of securities in which securities were received under reverse repurchase agreements (resell agreements) during 2005.

6. *LOANS TO OFFICERS AND DIRECTORS*

Certain Company and principal affiliate bank executive officers and directors, including companies in which those persons are principal holders of equity securities or are general partners, borrow in the normal course of business from affiliate banks of the Company. All such loans have been made on the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with unrelated parties. In addition, all such loans are current as to repayment terms.

For the years 2006 and 2005, an analysis of activity with respect to such aggregate loans to related parties appears below (in thousands):

	Year Ended December 31	
	2006	2005
Balance beginning of year	$ 228,381	$ 132,086

New loans	164,581	223,884
Repayments	(197,891)	(127,589)
Balance end of year	$ 195,071	$ 228,381

63

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. *GOODWILL AND OTHER INTANGIBLES*

Changes in the carrying amount of goodwill for the years ended December 31, 2006 and 2005 by operating segment are as follows (in thousands):

	Consumer Services	Asset Management	Commercial Banking and Lending	Investment Services Group	Total
Balances as of January 1, 2005	$ 34,981	$ 10,479	$	$ 13,655	$ 59,115
Additional earn-out payment for 2001acquisition of Sunstone Financial Group, Inc.				843	843
Other changes to prior years acquisitions	(238)			7	(231)
Balances as of December 31, 2005	$ 34,743	$ 10,479	$	$ 14,505	$ 59,727
Balances as of January 1, 2006	$ 34,743	$ 10,479	$	$ 14,505	$ 59,727
Acquisition of Mountain States Bank	16,426		16,566		32,992
Additional earn-out payment for 2001acquisition of Sunstone Financial Group, Inc.				1,004	1,004
Balances as of December 31, 2006	$ 51,169	$ 10,479	$ 16,566	$ 15,509	$ 93,723

Following are the intangible assets that continue to be subject to amortization as of December 31, 2006 and 2005 (in thousands):

	As of December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Core deposit intangible assets	$ 16,777	$ 16,777	$

Core deposit premium from acquisition of Mountain States Bank	13,897	519	13,378
Core deposit premium from branch deposits acquired during period	2,912	347	2,565
Total core deposit intangible assets	33,586	17,643	15,943
Other intangible assets	7,201	3,853	3,348
Other intangible assets acquired during period	21	3	18
Total other intangible assets	7,222	3,856	3,366
Total intangible assets	$ 40,808	$ 21,499	$ 19,309

	As of December 31, 2005		
Amortizing intangible assets			
Core deposit intangibles assets	$ 16,777	$ 16,777	$
Other intangible assets	7,200	3,122	4,078
Total	$ 23,977	$ 19,899	$ 4,078

	Year Ended December 31		
	2006	2005	2004
Aggregate amortization expense	$ 1,600	$ 741	$ 742

64

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Estimated amortization expense of intangible assets on future years:

For the year ended December 31, 2007	$ 2,907
For the year ended December 31, 2008	2,802
For the year ended December 31, 2009	2,692
For the year ended December 31, 2010	2,519
For the year ended December 31, 2011	1,940

8. *BANK PREMISES AND EQUIPMENT*

Bank premises and equipment consisted of the following (in thousands):

	December 31	
	2006	2005
Land	$ 42,530	$ 37,573
Buildings and leasehold improvements	250,714	261,009
Equipment	152,667	136,857
Software	85,934	66,150
	531,845	501,589
Accumulated depreciation	(233,742)	(216,948)
Accumulated amortization	(54,887)	(48,603)
Bank premises and equipment, net	$ 243,216	$ 236,038

Consolidated rental and operating lease expenses were $5,993,000 in 2006, $5,664,000 in 2005 and $5,434,000 in 2004. Consolidated bank premises and equipment depreciation and amortization expenses were $33,331,000 in 2006, $30,215,000 in 2005 and $30,835,000 in 2004. Minimum rental commitments as of December 31, 2006 for all non-cancelable operating leases are: 2007 $4,358,000; 2008 $3,815,000; 2009 $3,329,000; 2010 $2,205,000; 2011 $1,391,000; and thereafter $11,259,000.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

9. *BORROWED FUNDS*

The components of the Company's short-term and long-term debt are as follows (in thousands):

	December 31	
	2006	2005
Short-term debt:		
U. S. Treasury demand notes and other	$ 17,881	$ 35,091
Long-term debt:		
Federal Home Loan Bank 3.80% due 2018	2,082	2,225
Federal Home Loan Bank 4.53% due 2018	1,445	1,541
Federal Home Loan Bank 4.56% due 2019	902	957
Federal Home Loan Bank 4.75% due 2018	1,285	1,371
Federal Home Loan Bank 4.86% due 2019	5,020	5,295
Federal Home Loan Bank 4.92% due 2019	651	688
Federal Home Loan Bank 5.00% due 2019	1,375	1,456
Federal Home Loan Bank 5.14% due 2020	103	108
Federal Home Loan Bank 5.47% due 2020	16,577	17,407
Federal Home Loan Bank 5.54% due 2021	1,495	
Federal Home Loan Bank 5.97% due 2017	1,878	2,004
Federal Home Loan Bank 5.89% due 2014	2,419	2,662
Federal Home Loan Bank 7.13% due 2010	710	897
Kansas Equity Fund IV, L.P. 0% due 2014	950	910
St. Louis Equity Fund 2005 LLC 0% due 2010	848	950
St. Louis Equity Fund 2006 LLC 0% due 2010	280	
Total long-term debt	38,020	38,471
Total borrowed funds	$ 55,901	$ 73,562

Aggregate annual repayments of long-term debt at December 31, 2006 are as follows (in thousands):

2007	$ 3,274
2008	3,071
2009	3,163

2010	2,629
2011	2,672
Thereafter	23,211
Total	$ 38,020

All of the Federal Home Loan Bank notes are secured by investment securities of the Company. Federal Home Loan Bank notes require monthly principal and interest payments and may require a penalty for payoff prior to the maturity date.

The Company enters into sales of securities with simultaneous agreements to repurchase (repurchase agreements). The amounts received under these agreements represent short-term borrowings and are reflected as a separate item in the consolidated balance sheets. The amount outstanding at December 31, 2006, was $1,916,130,000 (with accrued interest payable of $1,140,940). This amount consists of $333,597,000 representing sales of securities in which securities were received under reverse repurchase agreements (resell

66

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

agreements) and $1,582,533,000 of sales of U.S. Treasury and Agency securities from the Company s securities portfolio. The amount outstanding at December 31, 2005, was $1,530,942,000 (with accrued interest payable of $466,000). This amount consists of $250,000,000 represented sales of securities in which securities were received under reverse repurchase agreements (resell agreements) and $1,280,942,000 of sales of U.S. Treasury and Agency securities from the Company s securities portfolio.

The carrying amounts and market values of the securities and the related repurchase liabilities and weighted average interest rates of the repurchase liabilities (grouped by maturity of the repurchase agreements) were as follows as of December 31, 2006 (in thousands):

Maturity of the Repurchase Liabilities	Securities Market Value	Repurchase Liabilities	Weighted Average Interest Rate
On Demand	$ 56,456	$ 55,991	5.27%
2 to 30 days	1,729,178	1,526,542	5.80
Total	$ 1,785,634	$ 1,582,533	5.78%

10. *REGULATORY REQUIREMENTS*

Payment of dividends by the affiliate banks to the parent company is subject to various regulatory restrictions. For national banks, the governing regulatory agency must approve the declaration of any dividends generally in excess of the sum of net income for that year and retained net income for the preceding two years. At December 31, 2006, approximately $32,432,000 of the equity of the affiliate banks and non-bank subsidiaries was available for distribution as dividends to the parent company without prior regulatory approval or without reducing the capital of the respective affiliate banks below minimum levels.

Certain affiliate banks maintain reserve balances with the Federal Reserve Bank as required by law. During 2006, this amount averaged $34,266,000, compared to $45,399,000 in 2005.

The Company is required to maintain minimum amounts of capital to total risk weighted assets, as defined by the banking regulators. At December 31, 2006, the Company is required to have minimum Tier 1 and Total capital ratios of 4.0% and 8.0%, respectively. The Company s actual ratios at that date were 13.8% and 14.7%, respectively. The Company s leverage ratio at December 31, 2006, was 9.8%.

As of December 31, 2006, the most recent notification from the Office of Comptroller of the Currency categorized all of the affiliate banks as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized all of the Company s affiliate banks must maintain total risk-based, Tier 1 risk-based and Tier 1 leverage ratios of 10.0%, 6.0% and 5.0%, respectively. There are no conditions or events since that notification that management believes have changed the affiliate banks category.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Actual capital amounts as well as required and well-capitalized Tier 1, Total and Tier 1 Leverage ratios as of December 31 for the Company and its banks are as follows (in thousands):

	2006					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Capital:						
UMB Financial Corporation	$ 752,890	13.81%	$ 218,127	4.00%	$ N/A	N/A%
UMB Bank, n. a.	530,123	11.61	182,580	4.00	273,871	6.00
UMB National Bank of America, n.a.	50,654	18.76	10,802	4.00	16,203	6.00
UMB Bank Colorado, n.a.	78,452	12.29	25,540	4.00	38,310	6.00
UMB Bank, Warsaw, n.a.	6,729	15.39	1,749	4.00	2,624	6.00
UMB Bank Arizona, n.a.	9,511	56.73	671	4.00	1,006	6.00
Total Capital:						
UMB Financial Corporation	798,814	14.65	436,255	8.00	N/A	N/A
UMB Bank, n. a.	566,557	12.41	365,161	8.00	456,451	10.00
UMB National Bank of America, n.a.	52,284	19.36	21,605	8.00	27,006	10.00
UMB Bank Colorado, n.a.	85,648	13.41	51,080	8.00	63,850	10.00
UMB Bank, Warsaw, n.a.	7,138	16.32	3,499	8.00	4,374	10.00
UMB Bank Arizona, n.a.	9,721	57.98	1,341	8.00	1,677	10.00
Tier 1 Leverage:						
UMB Financial Corporation	752,890	9.83	306,290	4.00	N/A	N/A
UMB Bank, n. a.	530,123	8.37	253,285	4.00	316,607	5.00
UMB National Bank of America, n.a.	50,654	9.18	22,063	4.00	27,578	5.00
UMB Bank Colorado, n.a.	78,452	9.85	31,855	4.00	39,819	5.00
UMB Bank, Warsaw, n.a.	6,729	8.18	3,289	4.00	4,111	5.00
UMB Bank Arizona, n.a.	9,511	48.74	781	4.00	976	5.00

	2005					
Tier 1 Capital:						
UMB Financial Corporation	$ 790,980	16.14%	$ 195,985	4.00%	$ N/A	N/A%
UMB Bank, n. a.	529,155	12.37	171,137	4.00	256,706	6.00
	72,470	31.92	9,082	4.00	13,623	6.00

UMB National Bank of America, n.a.						
UMB Bank Colorado, n.a.	36,754	9.70	15,154	4.00	22,731	6.00
UMB Bank, Warsaw, n.a.	6,150	14.33	1,717	4.00	2,575	6.00
UMB Bank Arizona, n.a.	9,861	59.49	663	4.00	995	6.00
Total Capital:						
UMB Financial Corporation	832,551	16.99	391,970	8.00	N/A	N/A
UMB Bank, n. a.	564,553	13.20	342,275	8.00	427,843	10.00
UMB National Bank of America, n.a.	74,185	32.67	18,164	8.00	22,705	10.00
UMB Bank Colorado, n.a.	40,633	10.73	30,307	8.00	37,884	10.00
UMB Bank, Warsaw, n.a.	6,558	15.28	3,433	8.00	4,292	10.00
UMB Bank Arizona, n.a.	10,032	60.52	1,326	8.00	1,658	10.00
Tier 1 Leverage:						
UMB Financial Corporation	790,980	10.96	288,742	4.00	N/A	N/A
UMB Bank, n. a.	529,155	8.61	245,841	4.00	307,301	5.00
UMB National Bank of America, n.a.	72,470	13.89	20,867	4.00	26,084	5.00
UMB Bank Colorado, n.a.	36,754	7.65	19,209	4.00	24,011	5.00
UMB Bank, Warsaw, n.a.	6,150	7.69	3,197	4.00	3,997	5.00
UMB Bank Arizona, n.a.	9,861	95.38	414	4.00	517	5.00

11. EMPLOYEE BENEFITS

The Company has a discretionary noncontributory profit sharing plan, which features an employee stock ownership plan. This plan is for the benefit of substantially all eligible officers and employees of the Company and its subsidiaries. A $1,234,529 accrual was made in 2006 in anticipation of a discretionary payment in 2007 for the 2006 year. No contributions were accrued for 2005 or 2004 under this discretionary plan.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The Company has a qualified 401(k) profit sharing plan that permits participants to make contributions by salary deduction. The Company made a matching contribution to this plan of $1,907,966 in 2006 for the year 2005 and $1,905,580 in 2005 for the 2004 year. The Company has accrued and anticipates making a matching contribution of $2,448,105 in March 2007 for the 2006 year.

On April 18, 2002, the shareholders of the Company approved the 2002 Incentive Stock Options Plan (the 2002 Plan), which provides incentive options to certain key employees to receive up to 2,000,000 common shares of the Company. All options that are issued under the 2002 plan are in effect for 10 years (except for any option granted to a person holding more than 10 percent of the Company s stock, in which case the option is in effect for five years). All options issued prior to 2005 under the 2002 plan cannot be exercised until at least four years 11 months after the date they are granted. Options issued in 2006 and 2005 under the 2002 plan have a vesting schedule of 50 percent after three years; 75 percent after four years and 100 percent after four years and eleven months. Except under circumstances of death, disability or certain retirements, the options cannot be exercised after the grantee has left the employment of the Company or its subsidiaries. The exercise period for an option may be accelerated upon the optionee s qualified disability, retirement or death. All options expire at the end of the exercise period. Prior to 2006, the Company made no recognition in the balance sheet of the options until such options were exercised and no amounts applicable thereto were reflected in net income as all options were granted at strike prices at the then current fair value of the underlying shares. For options granted after January 1, 2006, SFAS No. 123 (R) requires compensation expense to be recognized on unvested options outstanding. Options are granted at exercise prices of no less than 100 percent of the fair market value of the underlying shares based on the fair value of the option at date of grant. The plan terminates April 17, 2012.

The table below discloses the information relating to option activity in 2006 under the 2002 plan:

Stock Options Under the 2002 Plan	Number of Shares	Weighted Average Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding December 31, 2005	569,160	$ 26.98		
Granted	142,650	36.36		
Canceled	(55,742)	26.75		
Exercised				
Outstanding December 31, 2006	656,068	$ 29.04	8.2 yrs.	$ 4,901,809

Exercisable or expected to be exercisable December 31, 2006	601,976	$ 28.36	8.0 yrs.	$ 4,908,313

The weighted average grant-date fair value of options granted during the years 2006, 2005, and 2004 was $8.88, $8.37, and $8.28, respectively. The total intrinsic value of options exercised during the year ended December 31, 2005 was $12,176. No options were exercised during 2006 and 2004. As of December 31, 2006, there was $2,208,224 of unrecognized compensation cost related to the nonvested shares. The cost is expected to be recognized over a period of 3.2 years.

On April 16, 1992, the shareholders of the Company approved the 1992 Incentive Stock Option Plan (the 1992 plan), which provides incentive options to certain key employees for up to 1,000,000 common shares of the Company. Of the options granted prior to 1998, 40 percent are exercisable two years from the date of the grant and are thereafter exercisable in 20 percent increments annually, or for such periods or vesting increments as the Board of Directors, or a committee thereof, specify (which may not exceed 10 years or in the case of a recipient holding more than 10 percent of the Company s stock, five years), provided that the optionee has remained in the employment of the Company or its subsidiaries. None of the options granted during or after 1998 are exercisable until four years eleven months after the grant date. The exercise period may be accelerated for an option upon the

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

optionee s qualified disability, retirement or death. All options expire at the end of the exercise period. Prior to 2006, the Company made no recognition in the balance sheet of the options until such options were exercised and no amounts applicable thereto were reflected in net income because options were granted at exercise prices of no less than 100 percent of the fair market value of the underlying shares at date of grant. No further options may be granted under the 1992 plan.

The table below discloses the information relating to option activity in 2006 under the 1992 plan:

Stock Options Under the 1992 Plan	Number of Shares	Weighted Average Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding December 31, 2005	276,574	$ 18.64		
Granted				
Canceled	(21,960)	18.97		
Exercised	(37,704)	16.89		
Outstanding December 31, 2006	216,910	$ 18.91	3.5 yrs.	$ 3,817,806
Exercisable or expected to be exercisable December 31, 2006	216,910	$ 18.91	3.5 yrs.	$ 3,817,806

There were no options granted under the plan during the years 2006, 2005, and 2004. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005, and 2004 was $637,516, $701,072, and $509,224, respectively. As of December 31, 2006, there was no unrecognized compensation expense to be recognized for this plan.

On May 4, 2004, the Company entered into an agreement with Peter J. deSilva, President and Chief Operating Officer of the Company to issue 8,000 shares of common stock of the Company. The shares vest 20 percent per year of employment through January 20, 2009. These restricted shares are automatically enrolled in the dividend reinvestment plan of the Company. Dividends paid on the restricted shares are used to purchase new shares which contain the same restriction. If Mr. deSilva terminates employment all non-vested shares are forfeited.

The table below discloses the status of the restricted shares during 2006.

Restricted Stock	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested December 31, 2005	6,400	$ 25.52
Granted		
Canceled		
Vested	(1,600)	25.52
Nonvested December 31, 2006	4,800	$ 25.52

As of December 31, 2006, there was $83,905 of unrecognized compensation cost related to the nonvested shares. The cost is expected to be recognized over a period of 2.0 years. Total fair value of shares vested during the years ended December 31, 2006 and 2005 was $40,832 and $40,832, respectively.

At the April 26, 2005, shareholders meeting, the shareholders approved the UMB Financial Corporation Long-Term Incentive Compensation Plan (LTIP) which became effective as of January 1, 2005. The Plan permits the issuance to selected officers of the Company service based restricted stock grants, performance-based

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

restricted stock grants and non-qualified stock options. Service-based restricted stock grants will contain a service requirement. The performance-based restricted grants will contain performance and service requirements. The non-qualified stock options will contain a service requirement.

The Plan reserves up to 1,200,000 shares of the Company s stock. Of the total, no more than 400,000 shares can be issued as restricted stock. These two requirements will be in effect with the 2006 LTIP issuance. In 2005, the service and performance based restricted stock grants were issued out of treasury stock. No one eligible employee may receive more than $1,000,000 in benefits under the Plan during any one fiscal year taking into account the value of all stock options and restricted stock received during such fiscal year.

The service-based restricted stock grants contain a service requirement. The vesting requirement is 50 percent of the shares after three years of service, 75 percent after four years of service and 100 percent after five years of service.

The performance-based restricted stock grants contain a service and a performance requirement. The performance requirement is based on a pre-determined performance requirement over a three year period. The service requirement portion is a three year cliff vesting. If the performance requirement is not met, the executives do not receive the shares.

The dividends on service and performance-based restricted stock grants are treated as two separate transactions. First, cash dividends are paid on the restricted stock. Those cash dividends are then paid to purchase additional shares of restricted stock. The dividends paid on the stock are recorded as a reduction to retained earnings (similar to all dividend transactions).

The table below discloses the status of the service based restricted shares during 2006

Service Based Restricted Stock	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested December 31, 2005	43,904	$ 27.08

Granted	49,633	34.60
Canceled	(2,722)	30.14
Vested		
Nonvested December 31, 2006	90,815	$ 31.10

As of December 31, 2006, there was $2,205,666 of unrecognized compensation cost related to the nonvested shares. The cost is expected to be recognized over a period of 4.0 years. No shares have vested in 2006 and 2005.

The table below discloses the status of the performance based restricted shares during 2006

Performance Based Restricted Stock	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested December 31, 2005	34,964	$ 27.09
Granted	36,444	34.82
Canceled	(2,734)	30.63
Vested		
Nonvested December 31, 2006	68,674	$ 31.05

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of December 31, 2006, there was $1,261,241 of unrecognized compensation cost related to the nonvested shares. The cost is expected to be recognized over a period of 2.0 years. No shares have vested in 2006 and 2005.

The non-qualified stock options carry a service requirement and will vest 50 percent after three years, 75 percent after four years and 100 percent after five years.

The table below discloses the information relating to option activity in 2006 under the LTIP

Stock Options Under the LTIP	Number of Shares	Weighted Average Price Per Share	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding December 31, 2005	130,572	$ 27.09		
Granted	102,865	34.81		
Canceled	(10,970)	29.68		
Exercised				
Outstanding December 31, 2006	222,467	$ 30.53	8.7 yrs.	$ 1,329,403
Exercisable or expected to be exercisable December 31, 2006	213,615	$ 30.44	8.7 yrs.	$ 1,297,634

The weighted average grant-date fair value of options granted during the years 2006 and 2005 was $8.21 and $7.63. No options were exercised during 2006 and 2005. As of December 31, 2006, there was $1,186,344 million of unrecognized compensation cost related to the nonvested shares. The cost is expected to be recognized over a period of 3.8 years.

Cash received from option exercised under all share based compensation plans was $636,872, $942,557, and $967,744 for the years ended December 31, 2006, 2005, and 2004, respectively. The tax benefit realized for stock options exercised was inconsequential for 2006, 2005, and 2004.

The Company has no specific policy to repurchase common shares to mitigate the dilutive impact of options; however, the Company has historically made adequate discretionary purchases to satisfy stock option exercise activity. See a description of the Company s share repurchase plan in Note 14 to the Consolidated Financial Statements provided in Item 8, page 76 of this report.

With the acquisition of Mountain States Bank in the third quarter of 2006, the Company assumed the liability associated with the Mountain States Bank Retirement Plan, a defined benefit plan. As of August 31, 2006, the Mountain States Bank Retirement Plan had a plan curtailment. This plan curtailment suspended future accruals of benefits under the plan so that the employees do not earn additional defined benefits for future services. Under SFAS 88, Employer s Accounting for Settlements and Curtailments of Defined Benefit Pension Plans and for Termination Benefits , the Company has recorded a minimum pension liability of approximately $0.8 million at December 31, 2006. An application has been filed with the Internal Revenue Service to terminate the plan, liquidate the plan assets and make required distributions to plan participants as of August 31, 2006.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12. OTHER COMPREHENSIVE INCOME (LOSS)

The company s only component of other comprehensive income (loss) during the periods presented below was the unrealized holding gains (in thousands):

	2006	2005	2004
Unrealized holding gains (losses)	$ 6,879	$ (17,569)	$ (21,676)
Reclassification adjustments for gains (losses) included in net income	(117)	225	(141)
Net unrealized holding gains (losses)	6,762	(17,344)	(21,817)
Income tax expense (benefit)	(2,471)	6,413	8,015
Other comprehensive income (loss)	$ 4,291	$ (10,931)	$ (13,802)

13. BUSINESS SEGMENT REPORTING

The Company has strategically aligned its operations into six major segments, as shown below (collectively, Business Segments). The Business Segments are differentiated based on the products and services provided. Business segment financial results produced by the Company s internal management accounting system are evaluated regularly by the Executive Committee in deciding how to allocate resources and assess performance per individual Business Segment. The management accounting system assigns balance sheet and income statement items to each business segment using methodologies that are refined on an ongoing basis. For comparability purposes, amounts in all periods are based on methodologies in effect at December 31, 2006 consistent with SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information .

In determining revenues and expenses associated with each individual business segment, the Company utilizes a funds transfer pricing model. This model records cost of funds or credit for funds using matched maturity funding for certain assets and liabilities, or a blended rate based on various maturities for the remaining assets and liabilities. The allowance for loan losses is allocated using specifically identified reserves assigned to loans where available, with general reserves assigned to the remaining loan portfolio based on historical losses, economic outlook and other factors. The related loan loss provision is assigned based on the amount necessary to maintain reserves adequate for each segment. Noninterest income and noninterest expense directly attributable to a segment is assigned to that segment. Direct

expenses incurred by areas whose services support the overall Company are allocated to the Business Segments based on standard unit costs applied to actual volume measurements. Administrative expenses are allocated based on the estimated time expended for each segment. Any remaining expenses, such as corporate overhead, are assigned based on the ratio of an individual business segment s noninterest expense to total noninterest expense incurred by all business lines. Virtually all interest rate risk is assigned to the Treasury and Other business segment that is the offset to the funds transfer pricing charges and credits assigned to each business segment.

The following summaries provide information about the activities of each segment:

Commercial Banking and Lending serves the commercial lending/leasing as well as the capital markets needs of the Company s mid-market businesses and governmental entities by offering various products and services. The commercial loan and leasing group provides commercial loans and lines of credit, letters of credit, and loan syndication services. Capital Markets provides consultative services and offers a variety of financing for companies that need non-traditional banking services. The services provided by Capital Markets include asset based financing, asset securitization, equity and mezzanine financing, factoring, private and public placement of senior debt, as well as merger and acquisition consulting.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Payment and Technology Solutions meets the treasury management, healthcare services and security transfer needs of our commercial clients. Treasury management products and services include account reconciliation services, automated clearing house, controlled disbursements, lockbox services and various card products and services. Healthcare services include health saving account and flexible savings account products for healthcare providers, third-party administrators and large employers. Securities Transfer services include dividend disbursing/reinvestment, employee stock purchase plans, proxy services, as well as acting as transfer agent.

Banking Services provides products and services to the Company s correspondent bank customer network in the Midwest. Products and services include bond trading transactions, cash letter collections, FiServ account processing, investment portfolio accounting and safekeeping, reporting for asset/liability management, Fed funds transactions and compliance education. Banking Services includes the bank dealer function in which competitive and negotiated underwritings of municipal securities as well as underwritings of government agency securities are performed.

Consumer Services delivers products and services through the Company s bank branches, Call Center, Internet Banking and ATM network. These services are distributed over a seven state area, as well as through on-line and telephone banking. Consumer Services is a major provider of funds and assets for the Company. This segment offers a variety of consumer products, including deposit accounts, installment loans, credit cards, home equity lines of credit, residential mortgages, small business loans, and insurance services for individuals.

Asset Management provides a full spectrum of trust and custody services to both personal and institutional clients of the Company focusing on estate planning, trust, retirement planning and investment management services. The Company s investment advisory services provided to the Company s proprietary funds, the UMB Scout Funds, are also included in this segment. Corporate Trust services include serving as corporate and municipal bond trustee as well as the paying agent/registrar for issued bonds and notes.

Investment Services Group provides a full range of services for mutual funds, partnerships, funds of funds and commingled funds to a wide range of investment advisors, independent money managers, broker/dealers, banks, third-party administrators, insurance companies and other financial service providers. Services provided include fund administration and accounting, investor services and transfer agency, cash management, marketing and distribution, custody and alternative investment services.

Treasury and Other Adjustments includes asset and liability management activities and miscellaneous other items of a corporate nature not allocated to specific business lines. The assets within this segment include the Company s investment portfolio. Corporate eliminations and taxes are also allocated to this segment.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

BUSINESS SEGMENT INFORMATION

Line of business/segment financial results were as follows:

	Year Ended December 31					
	Commercial Banking and Lending			Payment and Technology Solutions		
	2006	2005	2004	2006	2005	2004
	(dollars in thousands)					
Net interest income	$ 53,726	$ 47,602	$ 48,696	$ 54,066	$ 45,324	$ 39,668
Provision for loan losses	5,989	3,643	1,825			
Noninterest income	1,970	1,856	1,288	50,125	53,309	52,356
Noninterest expense	26,988	26,053	26,932	73,388	73,636	70,326
Net income (loss) before tax	$ 22,719	$ 19,762	$ 21,227	$ 30,803	$ 24,997	$ 21,698
Average assets	$ 2,066,000	$ 1,921,000	$ 1,748,000	$ 46,000	$ 48,000	$ 130,000
Depreciation and amortization	1,988	1,491	1,465	6,400	5,486	7,100
Expenditures for additions to premises and equipment	2,328	1,559	1,839	7,407	9,969	8,971

	Banking Services			Consumer Services		
	2006	2005	2004	2006	2005	2004
	(dollars in thousands)					
Net interest income	$ 4,447	$ 4,109	$ 6,230	$ 94,008	$ 81,441	$ 76,426
Provision for loan losses				2,745	2,132	3,545
	29,550	30,660	31,219	63,101	65,682	55,046

Noninterest income						
Noninterest expense	30,422	31,009	28,813	149,629	134,134	134,984
Net income (loss) before tax	$ 3,575	$ 3,760	$ 8,636	$ 4,735	$ 10,857	$ (7,057)
Average assets	$ 73,000	$ 70,000	$ 94,000	$ 1,146,000	$ 1,136,000	$ 1,090,000
Depreciation and amortization	1,507	1,321	1,241	17,175	15,477	16,473
Expenditures for additions to premises and equipment	1,543	1,658	1,371	22,646	23,008	22,734

	Asset Management			Investment Services Group		
	2006	**2005**	**2004**	**2006**	**2005**	**2004**
	(dollars in thousands)					
Net interest income	$ 1,763	$ 144	$ 517	$ 8,925	$ 8,808	$ 6,599
Provision for loan losses						
Noninterest income	72,659	64,960	61,431	40,810	37,207	33,798
Noninterest expense	59,589	55,830	54,044	39,394	37,456	33,746
Net income (loss) before tax	$ 14,833	$ 9,274	$ 7,904	$ 10,341	$ 8,559	$ 6,651
Average assets	$ 23,000	17,000	$ 14,000	$ 26,000	$ 26,000	$ 26,000
Depreciation and amortization	3,477	2,996	633	3,236	2,804	2,539
Expenditures for additions to premises and equipment	3,470	3,989	1,801	3,300	4,576	2,838

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Treasury and Other Adjustments			Total Consolidated Company		
	2006	2005	2004	2006	2005	2004
	(dollars in thousands)					
Net interest income	$ 289	$ 862	$ 968	$ 217,224	$ 188,290	$ 179,104
Provision for loan losses				8,734	5,775	5,370
Noninterest income	(3,270)	(1,801)	(7,035)	254,945	251,873	228,103
Noninterest expense	2,007	(49)	1,257	381,417	358,069	350,102
Net income (loss) before tax	$ (4,988)	$ (890)	$ (7,324)	$ 82,018	$ 76,319	$ 51,735
Average assets	$ 4,203,000	$ 3,876,000	$ 3,826,000	$ 7,583,000	$ 7,094,000	$ 6,928,000
Depreciation and amortization	1,148	1,381	2,126	34,931	30,956	31,577
Expenditures for additions to premises and equipment	1,195	670	2,069	41,889	45,429	41,623

14. ***COMMON STOCK AND EARNINGS PER SHARE***

The following table summarizes the share transactions for the three years ended December 31, 2006:

	Shares Issued	Shares in Treasury
Balance December 31, 2003	55,056,730	(11,668,574)
Purchase of Treasury Stock		(174,728)
Sale of Treasury Stock		3,100
Issued for stock options		65,578

Balance December 31, 2004	55,056,730	(11,774,624)
Purchase of Treasury Stock		(445,038)
Sale of Treasury Stock		11,970
Issued for stock options & restricted stock		132,084
Balance December 31, 2005	55,056,730	(12,075,608)
Purchase of Treasury Stock		(850,997)
Sale of Treasury Stock		13,784
Issued for stock options & restricted stock		122,132
Balance December 31, 2006	55,056,730	(12,790,689)

On May 30, 2006, the Company s common stock was split 2-for-1 in the form of a stock dividend. Stockholders received one additional share for every share owned. The Board of Directors declared the stock split April 25, 2006 and the record date was May 16, 2006. All share and per share amounts (including stock options and restricted stock) in the Consolidated Financial Statements and accompanying notes were restated to reflect the split.

On April 25, 2006 the Board of Directors of the Company also authorized the repurchase of up to two million shares of common stock. This plan will terminate on April 25, 2007. The Company has not made any repurchases other than through this plan. All shares purchased under the share repurchase plan are intended to be within the scope of Rule 10b-18 promulgated under the Securities Exchange Act of 1934. Rule 10b-18 provides a safe harbor for purchases in a given day if the Company satisfies the manner, timing and volume conditions of the rule when purchasing its own common shares.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Basic earnings per share are computed by dividing income available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share gives effect to all potential common shares that were outstanding during the year.

The shares used in the calculation of basic and diluted earnings per share, are shown below:

	For the Years Ended December 31		
	2006	2005	2004
Weighted average basic common shares outstanding	42,592,960	43,109,536	43,337,497
Dilutive effect of stock options and restricted stock	220,602	203,198	150,490
Weighted average diluted common shares outstanding	42,813,562	43,312,734	43,487,987

15. *COMMITMENTS, CONTINGENCIES AND GUARANTEES*

In the normal course of business, the Company is a party to financial instruments with off-balance-sheet risk in order to meet the financing needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit, commercial letters of credit, standby letters of credit, and futures contracts. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet. The contract or notional amount of those instruments reflects the extent of involvement the Company has in particular classes of financial instruments.

The Company s exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit, commercial letters of credit, and standby letters of credit is represented by the contract or notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the agreement. These conditions generally include, but are not limited to, each customer being current as to repayment terms of existing loans and no deterioration in the customer s financial condition. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The interest rate is generally a variable rate. If the commitment has a fixed interest rate, the rate is generally not set until such time as credit is extended. For credit card customers, the Company has the right to change or terminate terms or conditions of the credit card account at any time. Since a large portion of the commitments and unused credit card lines are never actually drawn upon, the total commitment amount does not necessarily represent future cash requirements. The Company evaluates each customer s creditworthiness on an individual basis. The amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management s credit evaluation. Collateral held varies but may include accounts receivable, inventory, real estate, plant and equipment, stock, securities and certificates of deposit.

Commercial letters of credit are issued specifically to facilitate trade or commerce. Under the terms of a commercial letter of credit, as a general rule, drafts will be drawn when the underlying transaction is consummated as intended.

Standby letters of credit are conditional commitments issued by the Company payable upon the non-performance of a customer s obligation to a third party. The Company issues standby letters of credit for terms ranging from three months to three years. The Company generally requires the customer to pledge collateral to support the letter of credit. The maximum liability to the Company under standby letters of credit at

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

December 31, 2006 and 2005 was $291.9 million and $200.2 million, respectively. As of December 31, 2006 and 2005, standby letters of credit totaling $43.1 million and $44.1 million, respectively were with related parties to the Company.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities. The Company holds collateral supporting those commitments when deemed necessary. Collateral varies but may include such items as those described for commitments to extend credit.

Futures contracts are contracts for delayed delivery of securities or money market instruments in which the seller agrees to make delivery at a specified future date, of a specified instrument, at a specified yield. Risks arise from the possible inability of counterparties to meet the terms of their contracts and from movement in securities values and interest rates. Instruments used in trading activities are carried at market value and gains and losses on futures contracts are settled in cash daily. Any changes in the market value are recognized in trading and investment banking income.

The Company s use of futures contracts is very limited. The Company uses contracts to offset interest rate risk on specific securities held in the trading portfolio. Open futures contract positions averaged $44.2 million and $45.2 million during the years ended December 31, 2006 and 2005, respectively. Net futures activity resulted in gains of $0.4 million for 2006, $0.6 million for 2005 and $0.4 million for 2004. The Company controls the credit risk of its futures contracts through credit approvals, limits and monitoring procedures.

The Company also enters into foreign exchange contracts on a limited basis. For operating purposes, the Company maintains certain balances in foreign banks. Foreign exchange contracts are purchased on a monthly basis to avoid foreign exchange risk on these foreign balances. The Company will also enter into foreign exchange contracts to facilitate foreign exchange needs of customers. The Company will enter into a contract to buy or sell a foreign currency at a future date only as part of a contract to sell or buy the foreign currency at the same future date to a customer. During 2006, contracts to purchase and to sell foreign currency averaged approximately $17.1 million compared to $19.6 million during 2005. The net gains on these foreign exchange contracts for 2006, 2005 and 2004 were $1.6 million, $1.5 million and $1.7 million, respectively.

With respect to group concentrations of credit risk, most of the Company s business activity is with customers in the states of Missouri, Kansas, Colorado, Oklahoma, Nebraska and Illinois. At December 31, 2006, the Company did not have any significant credit concentrations in

any particular industry.

In the normal course of business, the Company and its subsidiaries are named defendants in various lawsuits and counter-claims. In the opinion of management, after consultation with legal counsel, none of these lawsuits are expected to have a materially adverse effect on the financial position, results of operations, or cash flows of the Company.

The following table summarizes the Company s off-balance sheet financial instruments as described above.

	Contract or Notional Amount December 31	
	2006	**2005**
	(in thousands)	
Commitments to extend credit for loans (excluding credit card loans)	$ 1,438,855	$ 1,271,717
Commitments to extend credit under credit card loans	906,179	940,290
Commercial letters of credit	7,082	13,311
Standby letters of credit	291,904	200,232
Futures contracts	33,000	50,700
Forward foreign exchange contracts	6,803	15,791
Spot foreign exchange contracts	2,828	1,302

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16. *ACQUISITIONS*

The following acquisition, which is not considered to be a material business combination, was completed during the third quarter of 2006:

On September 15, 2006, UMB Financial Corporation completed the acquisition of Mountain States Bancorporation, Inc., a bank holding company headquartered in Denver, Colorado which had consolidated assets of $284.1 million at the time of the merger. Total cash consideration in this transaction amounted to $81.3 million. Mountain States Bancorporation, and its subsidiary, Mountain States Bank were merged with and into UMB Bank Colorado on September 15, 2006. Mountain States Bank operated from a single location in Denver, Colorado. Initial goodwill, subject to the completion of appraisals and valuation of the assets acquired and liabilities assumed, amounted to $33.0 million. Identifiable intangible assets including core deposit intangibles, non-compete agreements, and commercial loan customer lists amounted to $13.9 million. The goodwill and intangibles resulting from this transaction are not deductible for tax purposes.

On April 19, 2001, the Company acquired Sunstone Financial Group, Inc. (now known as UMB Fund Services, Inc.) located in Milwaukee, Wisconsin. The purchase price of Sunstone is directly connected to gross revenue targets. The Company paid an initial amount of $8.0 million on April 19, 2001. Subsequently, the Company has made a $2.7 million payment in 2003, a $1.5 million payment in 2004, a $0.8 million payment in 2005 and a $1.0 million payment in 2006. This acquisition was recorded as a purchase and was funded with existing working capital.

17. *INCOME TAXES*

Income taxes as set forth below produce effective income tax rates of 27.1% in 2006, 26.2% in 2005, 17.2% in 2004. These percentages are computed by dividing total income tax by the sum of such tax and net income.

Income taxes include the following components (in thousands):

	Year Ended December 31		
	2006	2005	2004
Current			
Federal provision	$ 22,875	$ 19,143	$ 3,330
State benefit	(55)	(2,401)	(796)
Total current tax provision	22,820	16,742	2,534
Deferred			
Federal provision (benefit)	(1,247)	1,305	7,642
State provision (benefit)	678	1,954	(1,280)
Total deferred tax provision (benefit)	(569)	3,259	6,362
Total tax provision	$ 22,251	$ 20,001	$ 8,896

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The reconciliation between the income tax provision and the amount computed by applying the statutory federal tax rate of 35% to income taxes is as follows (in thousands):

	Year Ended December 31		
	2006	**2005**	**2004**
Provision at statutory rate	$ 28,706	$ 26,712	$ 18,107
Tax-exempt interest income	(6,859)	(6,291)	(6,298)
State and local income taxes, net of federal tax benefits	739	741	501
Federal tax credits	(18)	(700)	(1,840)
Sale of state tax credits		(946)	(1,850)
Other	(317)	485	276
Total tax provision	$ 22,251	$ 20,001	$ 8,896

Investment tax credits are recorded as a component of tax expense in the period that such credits are approved. Investment tax credits related to the acquisition of assets reduce the tax basis of the associated assets and tax depreciation is calculated on this reduced amount. A deferred tax liability is established for the difference between the book and tax basis of such assets.

In 2005 and 2004, state tax credits received for the renovation of an office building were sold under a program with the taxing authority that issued such credits. The sale of these tax credits was recorded as a component of tax expense. A deferred tax liability was established for the gain on the sale of the tax credits.

In preparing the tax return, the Company is required to interpret complex tax laws and regulations to determine its taxable income. Periodically, the Company is subject to examinations by various taxing authorities that may give rise to differing interpretations of these complex laws, regulations, and methods. The Company is not in the examination process with any tax jurisdictions at December 31, 2006. However, upon examination, agreement of tax liabilities between the Company and the multiple tax jurisdictions in which the Company files tax returns may ultimately be different.

The Company has various state net operating loss carry-forwards of approximately $19 million, $11 million, and $17 million for 2006, 2005, and 2004, respectively. These net

operating losses expire at various times through 2024. The Company acquired a state net operating loss of approximately $14 million in connection with the 2006 acquisition of Mountain States Bank resulting in an overall increase in state net operating loss (NOL) from 2005 to 2006. The state tax benefit from these net operating losses is included in the miscellaneous deferred tax assets in the table below.

Deferred income tax expense (benefit) results from differences between assets and liabilities measured for financial reporting and for income tax purposes. During 2006, a net adjustment to the deferred tax liability was recorded to reflect the purchase accounting adjustments related to the acquisition of Mountain States Bank.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The significant components of deferred tax assets and liabilities are reflected in the following table (in thousands):

	December 31,	
	2006	2005
Deferred tax assets:		
Allowance for loan losses	$ 17,110	$ 14,697
Net unrealized loss on securities available for sale	10,065	12,489
Accrued expenses	2,986	2,463
Miscellaneous	3,269	1,306
Total deferred tax assets	33,430	30,955
Deferred tax liabilities:		
Land, building, and equipment	(20,150)	(19,914)
Intangibles	(7,719)	(2,094)
Miscellaneous	(7,014)	(4,529)
Total deferred tax liabilities	(34,883)	(26,537)
Net deferred tax (liability) asset	$ (1,453)	$ 4,418

The net deferred tax liability at December 31, 2006 is included in other liabilities. The net deferred tax asset at December 31, 2005 is included in other assets.

18. *DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS*

The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

Cash and Short-Term Investments The carrying amounts of cash and due from banks, federal funds sold and resell agreements are reasonable estimates of their fair values.

Securities Available for Sale and Investment Securities Fair values are based on quoted market prices or dealer quotes, if available. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Trading Securities Fair values for trading securities (including financial futures), are based on quoted market prices where available. If quoted market prices are not available, fair values are based on quoted market prices for similar securities.

Loans Fair values are estimated for portfolios with similar financial characteristics. Loans are segregated by type, such as commercial, real estate, consumer, and credit card. Each loan category is further segmented into fixed and variable interest rate categories. The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit rating and for the same remaining maturities.

Deposit Liabilities The fair value of demand deposits and savings accounts is the amount payable on demand at December 31, 2006 and 2005. The fair value of fixed-maturity certificates of deposit is estimated by discounting the future cash flows using the rates that are currently offered for deposits of similar remaining maturities.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Short-Term Debt The carrying amounts of federal funds purchased, repurchase agreements and other short-term debt are reasonable estimates of their fair value because of the short-term nature of their maturities.

Long-Term Debt Rates currently available to the Company for debt with similar terms and remaining maturities are used to estimate fair value of existing debt.

Other Off-Balance Sheet Instruments The fair value of loan commitments and letters of credit are determined based on the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the present creditworthiness of the counterparties. Neither the fees earned during the year on these instruments nor their fair value at year-end are significant to the Company s consolidated financial position.

The estimated fair value of the Company s financial instruments at December 31, 2006 and 2005 are as follows (in millions):

	December 31			
	2006		2005	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
FINANCIAL ASSETS				
Cash and short-term investments	$ 1,380.1	1,380.1	$ 1,026.2	$ 1,026.2
Securities available for sale	3,238.6	3,238.6	3,323.2	3,323.2
Securities held to maturity	44.8	44.8	67.0	67.4
Federal Reserve Bank and other stock	15.5	15.5	15.1	15.1
Trading securities	64.5	64.5	58.5	58.5
Loans (exclusive of allowance for loan loss)	3,767.6	3,692.3	3,393.4	3,377.1
FINANCIAL LIABILITIES				
Demand and savings deposits	4,937.2	4,937.2	4,706.6	4,706.6
Time deposits	1,371.7	1,381.2	1,214.3	1,212.9
Federal funds and repurchase agreements	1,620.9	1,620.9	1,360.9	1,360.9
Short-term debt	17.9	17.9	35.1	35.1
Long-term debt	38.0	35.6	38.5	39.5
OFF-BALANCE SHEET ARRANGEMENTS				

Commitments to extend credit for loans		3.3		4.0
Commercial letters of credit		0.3		0.4
Standby letters of credit	291.9	1.7	200.2	1.4

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2006 and 2005. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since those dates and, therefore, current estimates of fair value may differ significantly from the amount presented herein.

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

19. *PARENT COMPANY FINANCIAL INFORMATION*

UMB FINANCIAL CORPORATION

BALANCE SHEETS

	December 31	
	2006	2005
	(in thousands)	
ASSETS:		
Investment in subsidiaries:		
Banks	$ 750,971	$ 677,837
Non-banks	30,519	25,164
Total investment in subsidiaries	781,490	703,001
Goodwill on purchased affiliates	5,011	5,011
Cash	28,953	33,195
Securities available for sale and other	41,432	98,829
Total assets	$ 856,886	$ 840,036
LIABILITIES AND SHAREHOLDERS' EQUITY		
Dividends payable	$ 5,521	$ 5,376
Accrued expenses and other	2,490	1,197
Total liabilities	8,011	6,573
Shareholders' equity	848,875	833,463
Total liabilities and shareholders' equity	$ 856,886	$ 840,036

STATEMENTS OF INCOME

Year Ended December 31		
2006	2005	2004

	(in thousands)		
INCOME:			
Dividends and income received from affiliate banks	$ 74,760	$ 34,860	$ 47,950
Service fees from subsidiaries	10,973	11,085	11,321
Other	1,690	2,560	2,001
Total income	87,423	48,505	61,272
EXPENSE:			
Salaries and employee benefits	12,713	9,486	7,508
Services from affiliate banks		652	652
Other	9,260	10,111	10,025
Total expense	21,973	20,249	18,185
Income before income taxes and equity in undistributed earnings of subsidiaries	65,450	28,256	43,087
Income tax benefit	(3,471)	(2,620)	(2,279)
Income before equity in undistributed earnings of subsidiaries	68,921	30,876	45,366
Equity in undistributed earnings of subsidiaries:			
Banks	(12,004)	23,678	(2,341)
Non-Banks	2,850	1,764	(186)
Net income	$ 59,767	$ 56,318	$ 42,839

83

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2006	**2005**	**2004**
		(in thousands)	
OPERATING ACTIVITIES:			
Adjustments to reconcile net income to cash used in operating activities:			
Net income	$ 59,767	$ 56,318	$ 42,839
Equity in earnings of subsidiaries	(65,606)	(60,302)	(45,423)
Net increase in trading securities	(12,228)		
Other	6,232	(3,523)	(58)
Net cash used in operating activities	(11,835)	(7,507)	(2,642)
INVESTING ACTIVITIES:			
Proceeds from sales of securities available for sale		8	
Proceeds from maturities of securities available for sale	67,000	52,950	69,500
Purchases of securities available for sale		(18,825)	(101,841)
Net capital investment in subsidiaries	(83,795)	(13,343)	(1,456)
Dividends received from subsidiaries	74,760	34,860	47,950
Net capital expenditures for premises and equipment	(52)	(378)	(1,353)
Net cash provided by investing activities	57,913	55,272	12,800
FINANCING ACTIVITIES:			
Cash dividends paid	(21,833)	(19,015)	(18,203)
Net purchase of treasury stock	(28,487)	(11,899)	(3,369)
Net cash used in financing activities	(50,320)	(30,914)	(21,572)
Net (decrease) increase in cash	(4,242)	16,851	(11,414)
Cash at beginning of period	33,195	16,344	27,758
Cash at end of period	$ 28,953	$ 33,195	$ 16,344

Table of Contents

UMB FINANCIAL CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20. ***SUMMARY OF OPERATING RESULTS BY QUARTER (unaudited) (in thousands except per share data)***

	Three Months Ended			
2006	**March 31**	**June 30**	**Sept 30**	**Dec 31**
Interest income	$ 86,473	$ 88,335	$ 94,629	$ 99,646
Interest expense	(34,227)	(34,826)	(39,801)	(43,005)
Net interest income	52,246	53,509	54,828	56,641
Provision for loan losses	(3,159)	(3,075)	(1,500)	(1,000)
Noninterest income	59,820	65,709	64,403	65,013
Noninterest expense	(91,033)	(95,391)	(96,265)	(98,728)
Income tax provision	(4,633)	(5,893)	(5,601)	(6,124)
Net income	$ 13,241	$ 14,859	$ 15,865	$ 15,802
2005	**March 31**	**June 30**	**Sept 30**	**Dec 31**
Interest income	$ 60,593	$ 64,607	$ 71,417	$ 75,294
Interest expense	(16,302)	(17,486)	(22,693)	(27,140)
Net interest income	44,291	47,121	48,724	48,154
Provision for loan losses	(750)	(750)	(1,454)	(2,821)
Noninterest income	63,697	62,534	64,736	60,906
Noninterest expense	(91,326)	(89,901)	(89,936)	(86,906)
Income tax provision	(4,332)	(5,391)	(5,900)	(4,378)
Net income	$ 11,580	$ 13,613	$ 16,170	$ 14,955

Per Share	Three Months Ended			
2006	**March 31**	**June 30**	**Sept 30**	**Dec 31**
Net income basic	$ 0.31	$ 0.35	$ 0.37	$ 0.37
Net income diluted	0.31	0.35	0.37	0.37
Dividend	0.13	0.13	0.13	0.13
Book value Per Share	19.35	19.28	20.03	20.08

2005	March 31	June 30	Sept 30	Dec 31
Net income basic	$ 0.27	$ 0.31	$ 0.38	$ 0.35
Net income diluted	0.27	0.31	0.37	0.35
Dividend	0.11	0.11	0.11	0.13
Book value	18.84	19.18	19.28	19.39

Table of Contents

FIVE YEAR AVERAGE BALANCE SHEETS/YIELDS AND RATES (in millions)

(unaudited)	2006			2005		
	Average Balance	Interest Income/ Expense (1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expense (1)	Rate Earned/ Paid (1)
ASSETS						
Loans, net of unearned interest (FTE) (2)(3)	$ 3,579.7	238.6	6.66%	$ 3,130.8	$ 177.1	5.66%
Securities:						
Taxable	2,059.9	85.6	4.15	2,230.6	64.8	2.91
Tax-exempt (FTE)	682.4	34.1	4.99	629.6	29.7	4.72
Total securities	2,742.3	119.7	4.36	2,860.2	94.5	3.30
Federal funds sold and resell agreements	378.0	19.1	5.06	228.2	8.0	3.50
Other earning assets (FTE)	56.6	2.6	4.68	60.1	2.4	3.91
Total earning assets (FTE)	6,756.6	380.0	5.62	6,279.3	282.0	4.49
Allowance for loan losses	(42.2)			(40.5)		
Cash and due from banks	461.7			481.5		
Other assets	407.1			374.0		
Total assets	$ 7,583.2			$ 7,094.3		
LIABILITIES AND SHAREHOLDERS EQUITY						
Interest-bearing demand and savings deposits	$ 2,454.7	48.9	1.99%	$ 2,302.2	$ 25.8	1.12%
Time deposits under $100,000	783.8	30.4	3.88	658.4	17.9	2.72
Time deposits of $100,000 or more	409.7	17.6	4.30	288.1	8.4	2.92
Total interest bearing deposits	3,648.2	96.9	2.66	3,248.7	52.1	1.60
Short-term debt	13.5	0.6	2.87	14.5	0.4	2.87
Long-term debt	37.5	1.6	4.27	34.8	1.8	4.89
Federal funds purchased and repurchase agreements	1,148.5	52.8	4.60	1,029.1	29.4	2.85
Total interest bearing liabilities	4,847.7	151.9	3.13	4,327.1	83.7	1.93
Noninterest bearing demand deposits	1,840.6			1,887.3		

Other	51.8			50.5		
Total	6,740.1			6,264.9		
Total shareholders equity	843.1			829.4		
Total liabilities and shareholders equity	$ 7,583.2			$ 7,094.3		
Net interest income (FTE)		228.1			$ 198.3	
Net interest spread			2.49%			2.56%
Net interest margin			3.38%			3.16%

(1) Interest income and yields are stated on a fully tax-equivalent (FTE) basis, using a rate of 35%. The tax-equivalent interest income and yields give effect to disallowance of interest expense, for federal income tax purposes related to certain tax-free assets. Rates earned/paid may not compute to the rates shown due to presentation in millions.

(2) Loan fees are included in interest income. Such fees totaled $9.9 million $7.9 million, $9.1 million, $9.8 million, and $10.3 million in 2006, 2005, 2004, 2003, and 2002, respectively.

(3) Loans on non-accrual are included in the computation of average balances. Interest income on these loans is also included in loan income.

86

Table of Contents

FIVE YEAR AVERAGE BALANCE SHEETS/YIELDS AND RATES (in millions) (continued)

2004			2003			2002			Average Balance Five-Year Compound Growth Rate
Average Balance	Interest Income/ Expense (1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expense (1)	Rate Earned/ Paid (1)	Average Balance	Interest Income/ Expense (1)	Rate Earned/ Paid (1)	
$2,781.1	$ 136.5	4.91%	$ 2,588.8	$ 137.6	5.31%	$ 2,632.9	$ 161.3	6.13%	4.09%
2,351.2	57.8	2.46	2,771.9	70.9	2.56	3,146.0	100.9	3.21	(3.65)
615.2	28.7	4.67	735.9	38.5	5.24	686.5	40.6	5.91	0.53
2,966.4	86.5	2.91	3,507.8	109.4	3.12	3,832.5	141.5	3.69	(2.70)
280.3	4.4	1.57	146.5	1.7	1.16	185.7	3.1	1.69	14.06
69.2	2.2	3.15	50.4	1.5	3.04	67.0	2.7	4.06	(4.27)
6,097.0	229.6	3.76	6,293.5	250.2	3.98	6,718.1	308.6	4.59	1.28
(44.3)			(40.8)			(37.2)			4.23
511.2			512.0			497.1			(5.64)
364.0			385.4			411.1			(1.55)
$6,927.9			$ 7,150.1			$ 7,589.1			0.59%
$2,214.7	$ 9.0	0.41%	$ 2,460.4	$ 9.1	0.37%	$ 2,624.8	$ 20.7	0.79%	(0.58)%
668.9	14.3	2.14	779.5	19.8	2.54	892.2	31.8	3.56	(0.98)
226.8	3.8	1.68	252.1	4.3	1.72	287.7	6.9	2.40	7.63
3,110.4	27.1	0.87	3,492.0	33.2	0.95	3,804.7	59.4	1.56	0.08
18.4	0.2	1.09	23.8	0.2	0.84	61.1	0.9	1.44	(31.80)
17.7	0.9	5.11	17.4	1.1	6.17	27.5	1.9	6.82	5.42
1,050.9	12.2	1.16	950.6	8.2	0.87	1,107.8	14.2	1.29	3.37
4,197.4	40.4	0.96	4,483.8	42.7	0.95	5,001.1	76.4	1.53	0.50
1,865.6			1,788.1			1,723.1			0.72
43.3			69.7			70.7			(14.17)
6,106.3			6,341.6			6,794.9			0.38
821.6			808.5			794.2			2.40
$6,927.9			$ 7,150.1			$ 7,589.1			0.59%
	$ 189.2			$ 207.5			$ 232.2		
		2.80%			3.03%			3.06%	
		3.10%			3.30%			3.46%	

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE***

None.

ITEM 9A. ***CONTROLS AND PROCEDURES***

Disclosure Controls and Procedures At the end of the period covered by this report on Form 10-K, the Company s Chief Executive Officer and Chief Financial Officer have each evaluated the effectiveness of the Company s Disclosure Controls and Procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Exchange Act) and have concluded that the Company s Disclosure Controls and Procedures are reasonably designed to be effective for the purposes for which they are intended and were effective as of the end of the period covered by this report on Form 10-K.

87

Table of Contents

Disclosure Controls and Procedures cannot provide absolute assurance of achieving disclosure objectives because of their inherent limitations. Disclosure Controls and Procedures is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Because of such limitations, there is a risk that errors in meeting the Company's reporting and disclosure obligations may not be prevented or detected on a timely basis by Disclosure Controls and Procedures. However, these inherent limitations are known features of the disclosure process. Therefore it is possible to design into the process safeguards to reduce, although not eliminate, this risk. The Company's Disclosure Controls and Procedures include such safeguards. Projections of any evaluation of effectiveness of Disclosure Controls and Procedures in future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or because the degree of compliance with the Company s policies and procedures may deteriorate.

Management s Report on Internal Control Over Financial Reporting Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting , as such term is defined in Rules 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934. Under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer of the Company, and effected by the Company s Board of Directors, management and other personnel, an evaluation of the effectiveness of internal control over financial reporting was conducted based on the Committee of Sponsoring Organizations of the Treadway Commission s *Internal Control Integrated Framework*.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper management override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process. Therefore it is possible to design into the process safeguards to reduce, although not eliminate, this risk. The Company s internal control over financial reporting includes such safeguards. Projections of any evaluation of effectiveness of internal control over financial reporting in future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or because the degree of compliance with the Company s policies and procedures may deteriorate.

Based on the evaluation under the framework in *Internal Control Integrated Framework*, the Company s Chief Executive Officer and Chief Financial Officer have each concluded that internal control over financial reporting was effective at the end of the period covered by this report on Form 10-K. Deloitte & Touche LLP, the independent registered public accounting firm that audited the financial statements included within this report, has issued an attestation report on management s assessment of the effectiveness of internal control over financial reporting at the end of the period covered by this report. Deloitte & Touche LLP s attestation report is set forth below.

Changes in Internal Control Over Financial Reporting No changes in the Company s internal control over financial reporting occurred that has materially affected, or is reasonably likely to materially affect, such controls during the last quarter of the period covered by this report.

Table of Contents

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of UMB Financial Corporation & Subsidiaries:

We have audited management s assessment, included in the accompanying Management s Report on Internal Control Over Financial Reporting appearing under Item 9A, that UMB Financial Corporation and Subsidiaries (the Company) maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Because management s assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), management s assessment and our audit of the Company s internal control over financial reporting included controls over the preparation of the schedules equivalent to the basic financial statements in accordance with the instructions for the Consolidated Financial Statements for Bank Holding Companies (Form FR Y-9C). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management s assessment and an opinion on the effectiveness of the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management s assessment, testing, and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management s assessment that the Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Table of Contents

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company s consolidated balance sheets as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders equity, and cash flows for each of the three years in the period ended December 31, 2006, and our report dated February 28, 2007 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the adoption of a new accounting standard.

/s/ Deloitte & Touche LLP

Kansas City, MO

February 28, 2007

Table of Contents

ITEM 9B. ***OTHER INFORMATION***

None

PART III

ITEM 10. ***DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE***

The information required by this item relating to executive officers is included in Part I of this Form 10-K (pages 10 and 11) under the caption Executive Officers of the Registrants.

The information required by this item regarding Directors is incorporated herein by reference under the caption Proposal #1: Election of Directors of the Company s Proxy Statement for the Annual Meeting of Shareholders to be held on April 24, 2007 (the 2007 Annual Meeting of Shareholders).

The information required by this item regarding the Audit Committee and the Audit Committee financial expert is incorporated herein by reference under the caption Corporate Governance Committees of the Board of Directors Audit Committee of the Company's Proxy Statement for the 2007 Annual Meeting of Shareholders.

The information required by this item concerning Section 16(a) beneficial ownership reporting compliance is incorporated herein by reference under the caption Section 16(a) Beneficial Ownership Reporting Compliance of the Company s Proxy Statement for the 2007 Annual Meeting of Shareholders.

The Company has adopted a code of ethics that applies to all directors, officers and employees, including its chief executive officer, chief financial officer and chief accounting officer. You can find the Company s code of ethics on its website by going to the following address: www.umb.com/investor. The Company will post any amendments to the code of ethics, as well as any waivers that are required to be disclosed, under the rules of either the SEC or NASDAQ. A copy of the code of ethics will be provided, at no charge, to any person requesting same, by written notice sent to the Company's Corporate Secretary, 6th floor, 1010 Grand Blvd., Kansas City, Missouri 64106.

ITEM 11. ***EXECUTIVE COMPENSATION***

The information required by this item is incorporated herein by reference under the Executive Compensation section of the Company s Proxy Statement for the 2007 Annual Meeting of Shareholders.

ITEM 12. ***SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS***

Security Ownership of Certain Beneficial Owners

This information is included in the Company s 2007 Proxy Statement under the caption Stock Ownership Principal Shareholders and is hereby incorporated by reference.

Table of Contents

Security Ownership of Management

This information is included in the Company's 2007 Proxy Statement under the caption "Stock Beneficially Owned by Directors and Nominees and Executive Officers" and is hereby incorporated by reference.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan
Equity compensation plans approved by security holders			
1992 Incentive Stock Option Plan	216,910	$ 18.91	None
2002 Incentive Stock Option Plan	656,068	29.04	1,342,332
2005 Long-term Incentive Plan Non-Qualified Stock Options	222,467	30.53	977,533
Equity compensation plans not approved by security holders	None	None	None
Total	1,095,445	$ 27.34	2,321,865

ITEM 13. ***CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE***

The information required by this item is incorporated herein by reference to the information provided under the captions Corporate Governance Certain Transactions and Corporate Governance Director Independence of the Company's Proxy Statement for the 2007 Annual Meeting of Shareholders.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by this item is incorporated herein by reference to the information provided under the caption Proposal #2: Ratification of Selection of Independent Public Accountants of the Company s Proxy Statement for the 2007 Annual Meeting of Shareholders.

PART IV

ITEM 15. *EXHIBITS, FINANCIAL STATEMENT SCHEDULES*

Consolidated Financial Statements and Financial Statement Schedules

The following Consolidated Financial Statements of the Company are included in item 8 of this report.

Consolidated Balance Sheets as of December 31, 2006 and 2005
Consolidated Statements of Income for the Three Years Ended December 31, 2006
Consolidated Statements of Cash Flows for the Three Years Ended December 31, 2006
Consolidated Statements of Shareholders Equity for the Three Years Ended December 31, 2006
Notes to Consolidated Financial Statements
Independent Auditors Report

Condensed Consolidated Financial Statements for the parent company only may be found in item 8 above. All other schedules have been omitted because the required information is presented in the Consolidated Financial Statements or in the notes thereto, the amounts involved are not significant or the required subject matter is not applicable.

Table of Contents

Exhibits

The following Exhibit Index lists the Exhibits to Form 10-K

3.1	Articles of Incorporation restated as of April 25, 2006. Amended Article III was filed with the Missouri Secretary of State on May 18, 2006 and incorporated by reference to Exhibit 3.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2006 and filed with the Commission on May 9, 2006.
3.2	Bylaws, restated January 25, 2005, and incorporated by reference to Exhibit 3.2 to the Company s Form 10-K for December 31, 2004, and filed with the Commission on March 14, 2005.
4	Description of the Registrant's common stock in Amendment No. 1 on Form 8 to its General Form for Registration of Securities on Form 10 dated March 5, 1993. The following portions of those documents define some of the rights of the holders of the Registrant's common stock, par value $1.00 per share: Articles III (authorized shares), X (amendment of the Bylaws) and XI (amendment of the Articles of Incorporation) of the Articles of Incorporation and Articles II (shareholder meetings), Sections 2 (number and classes of directors) and 3 (election and removal of directors) of Article III, Section 1(stock certificates) of Article VII and Section 4 (indemnification) of Article IX of the By-laws. Note: No long-term debt instrument issued by the Registrant exceeds 10% of the consolidated total assets of the Registrant and its subsidiaries. In accordance with paragraph 4 (iii) of Item 601 of Regulation S-K, the Registrant will furnish to the Commission, upon request, copies of long-term debt instruments and related agreements.
10.1	1992 Incentive Stock Option Plan incorporated by reference to Exhibit 2.8 to Form S-8 Registration Statement filed on February 17, 1993.
10.2	2002 Incentive Stock Option Plan incorporated by reference to Exhibit 4.4 to Form S-8 Registration Statement filed on December 20, 2002.
10.3	UMB Financial Corporation Long-Term Incentive Compensation Plan incorporated by reference to Appendix B of the Company s Proxy Statement for the Company s April 26, 2005 Annual Meeting filed with the Commission on March 21, 2005.
10.4	Stock Purchase Agreement by and among UMB Financial Corporation and the Stockholders of Sunstone Financial Group, Inc. dated April 3, 2001 and incorporated by reference to Exhibit 10.4 to Company s Form 10-K filed on March 12, 2003.
10.5	Deferred Compensation Plan, dated as of April 20, 1995 and incorporated by reference to Exhibit 10.6 to Company s Form 10-K filed on March 12, 2003.
10.6	UMBF 2005 Short-Term Incentive Plan incorporated by reference to Exhibit 10.7 to the Company s Form 10-K for December 31, 2004 and filed with the Commission on March 14, 2005
10.7	Employment letter between the Company and Vincent J. Ciavardini dated January 14, 2002.
10.8	Restricted Stock Award Agreement and description of employment arrangement between the Company and Peter J. deSilva, incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended March 31, 2004, and filed with the Commission of May 7, 2004.
10.9	Employment offer letter between the Company and Michael D. Hagedorn dated February 9, 2005, incorporated by reference to Exhibit 10.1 to the Company s

	Current Report on Form 8-K dated February 9, 2005, and filed with the Commission on February 14, 2005.
10.10	Employment offer letter between the company and Bradley J. Smith dated January 6, 2005 incorporated by reference to Exhibit 10.10 to the Company s Form 10-K for December 31, 2004 and filed with the Commission on March 14, 2005.

93

Table of Contents

10.11	Consulting Agreement between the Company and R. Crosby Kemper, Jr. dated November 1, 2004 incorporated by reference to Exhibit 10.11 to the Company s Form 10-K for December 31, 2004 and filed with the Commission on March 14, 2005.
10.12	Employment offer letter between the Company and Clyde Wendel dated June 8, 2006, incorporated by reference to Exhibit 10.1 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2006 and filed with the Commission on August 8, 2006.
21	Subsidiaries of the Registrant.
23	Consent of Independent Registered Public Accounting Firm
24	Powers of Attorney
31.1	CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act
32.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act
32.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

UMB FINANCIAL CORPORATION

/s/ J. MARINER KEMPER

J. Mariner Kemper

Chairman of the Board

/s/ MICHAEL D. HAGEDORN

Michael D. Hagedorn

Chief Financial Officer

/s/ CHRISTOPHER G. TREECE

Christopher G. Treece

Senior Vice President, Controller

and Tax Director

(Chief Accounting Officer)

Date: March 1, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities on the date indicated.

THEODORE M. ARMSTRONG **Theodore M. Armstrong**	Director
PETER J. DESILVA **Peter J. deSilva**	Director

GREGORY M. GRAVES	Director
Gregory M. Graves	
ALEXANDER C. KEMPER	Director
Alexander C. Kemper	
KRIS A. ROBBINS	Director
Kris A. Robbins	
L. JOSHUA SOSLAND	Director
L. Joshua Sosland	
JON M. WEFALD	Director
Jon M. Wefald	
MICHAEL CHESSER	Director
Michael Chesser	

Table of Contents

David R. Bradley, Jr.	Director
David R. Bradley, Jr.	
Terrence P. Dunn	Director
Terrence P. Dunn	
	Director
Richard Harvey	
John H. Mize, Jr.	Director
John H. Mize, Jr.	
Thomas D. Sanders	Director
Thomas D. Sanders	
Paul Uhlmann III	Director
Paul Uhlmann III	
Thomas J. Wood III	Director
Thomas Jr. Wood III	
*/s/ J. Mariner Kemper	Director, Chairman of the Board
J. Mariner Kemper	
Attorney-in-Fact for each director	

Date: March 1, 2007

96