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SECURITIES
DIVISION / JB
JUL 9 2010
DELAWARE

**BEFORE THE SECURITIES COMMISSIONER
OF THE STATE OF DELAWARE**

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In the matter of)
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STIFEL, NICOLAUS & COMPANY,)
INCORPORATED)
CRD #793)
501 North Broadway)
St. Louis, Missouri 63102)
)
Respondent.)

Case No. 10-6-3

ADMINISTRATIVE CONSENT ORDER

WHEREAS, Stifel, Nicolaus & Company, Incorporated ("Stifel") is a broker-dealer registered in Delaware, with its home office at 501 North Broadway St. Louis, Missouri 63106; and

WHEREAS, a multistate task force led by the Enforcement Section of the Securities Division of the Missouri Secretary of State (the "Enforcement Section") conducted an investigation into Stifel's marketing and sale of auction rate securities to investors during the period January 1, 2006, through February 14, 2008; and

WHEREAS, Stifel has advised the Enforcement Section of its agreement to resolve the multistate task force investigation relating to its marketing and sale of auction rate securities to investors; and

WHEREAS, Stifel elects to permanently waive any right to a hearing and appeal under the Delaware Securities Act (the "Act") with respect to this Administrative Consent Order (the "Order"); and

WHEREAS, Stifel agrees that Stifel is not the prevailing party in this action and Stifel elects to specifically forever release and hold harmless the Delaware Division of Securities (the "Division") and its representatives and agents from any and all liability and claims arising out of, pertaining to, or relating to this matter; and

WHEREAS, Stifel agrees not to take any action or to make or permit to be made any public statement creating the impression that this Order is without a factual basis. Nothing in

1 this paragraph affects Stifel's: (a) testimonial obligations; (b) right to take legal or factual
2 positions in defense of litigation or in defense of other legal proceedings in which the Division is
3 not a party; or (c) right to make public statements that are factual;

4 NOW, THEREFORE, the Securities Commissioner of the State of Delaware (the
5 "Commissioner") hereby enters this Order.

6 **I.**

7 **FINDINGS OF FACT**

8 1. Stifel admits the jurisdiction of the Division for purposes of this Order, neither
9 admits nor denies the Findings of Fact and Conclusions of Law contained in this Order, and
10 consents to the entry of this Order by the Commissioner.

11 2. Auction rate securities are long-term debt or equity instruments that include
12 auction preferred shares of closed-end funds, municipal auction rate bonds, and various asset-
13 backed auction rate bonds (collectively referred to herein as "ARS"), with variable interest rates
14 that reset through a bidding process known as a Dutch auction.

15 3. At a Dutch auction, bidders generally state the number of ARS they wish to
16 purchase and the minimum interest rate they are willing to accept. Bids are ranked, from lowest
17 to highest, according to the minimum interest rate each bidder is willing to accept. The lowest
18 interest rate required to sell all of the ARS at auction, known as the "clearing rate," becomes the
19 rate paid to all holders of that particular security until the next auction. The process is then
20 repeated, typically every seven, twenty-eight, or thirty-five days.

21 4. While ARS are all long-term instruments, one significant feature of ARS (which
22 historically provided the potential for short-term liquidity) is the interest/dividend reset through
23 periodic auctions. If an auction is successful (i.e., there are enough buyers for every ARS being
24 offered for sale at the auction), investors are able to exit their positions at the auction. If,
25 however, auctions "fail" (i.e., there are not enough buyers for every ARS being offered for sale),
26 investors are required to hold all or some of their ARS until the next successful auction in order

1 to liquidate their funds.

2 5. Beginning in February 2008, the ARS market experienced widespread failed
3 auctions.

4 6. Stifel and its Delaware-registered securities agents ("Registered Agents") sold
5 ARS to Delaware residents.

6 7. Stifel's Registered Agents recommended ARS as safe and/or liquid investments,
7 and compared ARS to cash alternatives, such as certificates of deposit or money market
8 accounts.

9 8. Stifel did not formally train its Registered Agents regarding the risks and features
10 of ARS.

11 9. A number of Registered Agents did not sufficiently understand, and therefore did
12 not adequately communicate to retail purchasers, the risks and features of ARS. As a result,
13 some Delaware retail investors who had purchased ARS from Stifel or its Registered Agents
14 found themselves holding illiquid securities after the market stopped functioning.

15 **Stifel's Failure to Supervise the Sale of ARS**

16 10. Stifel failed to reasonably supervise its Registered Agents, which is grounds to
17 discipline Stifel under 6 *Del.C.* § 7316(a)(10). Stifel failed to provide reasonable supervision by
18 failing to provide pertinent information and comprehensive training to its Registered Agents and
19 other sales and marketing staff regarding ARS and the mechanics of the auction process.

20 **II.**

21 **CONCLUSIONS OF LAW**

22 11. The Commissioner has jurisdiction over this matter pursuant to 6 *Del.C.* § 7325.

23 12. The Commissioner finds Stifel failed to reasonably supervise its Registered
24 Agents in Delaware, and that this conduct constitutes grounds to discipline Stifel under 6 *Del.C.*
25 § 7316(a)(10).

26 13. The Commissioner finds this Order and the following relief appropriate, in the

1 public interest, and consistent with the purposes intended by the Act.

2 **III.**

3 **ORDER**

4 On the basis of the Findings of Fact, Conclusions of Law, and Stifel's consent to the entry of
5 this Order,

6 IT IS HEREBY ORDERED:

7 1. This Order concludes the investigation by the Division and any other action that the
8 Division could commence under applicable Delaware law on behalf of Delaware as it relates to
9 Stifel, relating to the marketing and sale of auction rate securities. The Division shall refrain from
10 initiating any action against Stifel based upon or related to the conduct set forth in this order.
11 Specifically excluded from and not covered by this paragraph are any claims by the Division
12 arising from or relating to the Order provisions contained herein.

13 2. This Order is entered into solely for the purpose of resolving the multistate
14 investigation and is not intended to be used for any other purpose.

15 3. Stifel will CEASE AND DESIST from violating the Act and will comply with the
16 Act.

17 4. In accordance with the Consent Order entered against Stifel by the Missouri
18 Office of the Secretary of State dated in January, 2010, Case No. Ap-10-05 ("Missouri Order"),
19 Stifel has or will retain, at its expense, an outside consultant ("Consultant"). The scope of
20 Consultant's work is to conduct a review and make written recommendations concerning Stifel's
21 supervisory and compliance policies and procedures relating to the product review of
22 nonconventional investments and the training, marketing, and sale of nonconventional
23 investments by Stifel and its Registered Agents throughout Stifel's retail branch office system.
24 Stifel will receive a report prepared by the Consultant describing his or her recommendations and
25 Stifel will provide to the Enforcement Section a copy of such report. Stifel shall authorize the
26 Enforcement Section to share these written reports with the Division pursuant to Missouri law,

1 provided that such written reports are given confidential treatment and are treated as nonpublic,
2 nondisclosable records to the extent possible under Delaware law.

3 5. For a period of one (1) year following the conclusion of the Consultant's work,
4 Stifel, and its affiliates may not employ or hire the Consultant in any capacity.

5 6. Stifel shall modify its Voluntary Offer to Repurchase Eligible Auction Rate
6 Securities at Par dated April 9, 2009 (the "Voluntary Offer") for all Eligible Investors as
7 described in Paragraph 7 below. For purpose of this Order, Eligible Investors shall be defined as
8 investors who hold Eligible Accounts as that term is defined in the Voluntary Offer. Except as
9 modified by this Order, all other terms and conditions of the Voluntary Offer shall remain in full
10 force and effect and shall in no way be modified by this Order.

11 7. Stifel shall accelerate its repurchase of Eligible ARS from Eligible Investors who
12 have accepted the Voluntary Offer as follows:

13 a. January 2010 Repurchase

14 Stifel will repurchase at par up to the greater of twenty-five thousand
15 dollars (\$25,000) of the remaining Eligible ARS holdings or ten percent (10%) of the
16 remaining Eligible ARS holdings plus any accrued and unpaid interest or dividend of
17 such amount no later than January 15, 2010.

18 b. December 2010 Repurchase

19 Stifel will repurchase at par up to the greater of twenty-five thousand
20 dollars (\$25,000) of the remaining Eligible ARS holdings or ten percent (10%) of the
21 remaining Eligible ARS holdings plus any accrued and unpaid interest or dividend of
22 such amount no later than December 31, 2010.

23 c. 2010 Supplemental Repurchase

24 Stifel will repurchase at par all of the Eligible ARS that remain after the
25 December 2010 Repurchase from Eligible Investors who, as of January 1, 2009,
26 maintained in an Eligible Account, Eligible ARS in an amount of one hundred fifty

1 thousand dollars (\$150,000) or less. Such repurchase shall be completed no later than
2 December 31, 2010.

3 d. 2011 Repurchase

4 Stifel will repurchase at par all of the remaining Eligible ARS holdings
5 plus any accrued and unpaid interest. Such repurchase shall be completed no later than
6 December 31, 2011. Stifel will make its Voluntary Offer as modified by this Order to
7 those Eligible Investors who have not previously accepted the Voluntary Offer.

8 8. Subject to applicable regulatory requirements and limitations, Stifel will
9 cooperate with its bank affiliate to use its best efforts to make no-net-cost loans to Eligible
10 Investors, provided such investors have demonstrated need for liquidity.

11 9. In accordance with the Missouri Order, Stifel shall, within fifteen (15) days of the
12 end of each calendar quarter following the execution of the Missouri Order, provide to the
13 Missouri Commissioner of Securities a written report describing and updating, in detail, all
14 repurchase/buyback, issuer redemption and investor arbitration claims related to Eligible ARS
15 that occur or continue to occur. Where applicable and in describing repurchase, redemption and
16 arbitration developments or occurrences, Stifel shall include investor or issuer names and state of
17 residence and amounts of repurchases, redemptions, and/or arbitration claims/awards. Missouri
18 shall be authorized to share these written reports with the Delaware Securities Division pursuant
19 to Missouri law, provided that such written reports are given confidential treatment and are
20 treated as nonpublic, nondisclosable records to the extent possible under Delaware law.

21 10. Stifel shall pay fines and/or penalties totaling five hundred twenty-five thousand
22 dollars (\$525,000) to the states and other jurisdictions participating in this multistate task force
23 as allocated by the North American Securities Administrators Association to resolve matters
24 relating to Stifel's marketing and sale ARS in those states or other jurisdictions.

25 3. 11. Within ten (10) calendar days following the entry of this Order, Stifel shall
26 pay the sum of \$1,182.08 to the investor protection fund of the State of Delaware by delivering

1 to the Commissioner within that ten day period of time a check drawn on good and sufficient
2 funds in that same amount made out and payable to the State of Delaware. This amount
3 constitutes Delaware's allocated share of the total settlement payment described in the preceding
4 paragraph.

5 12. If Stifel defaults in any of its obligations set forth in this Order, the Division may
6 vacate this Order, at its sole discretion, upon ten (10) days notice to Stifel and without
7 opportunity for administrative hearing or may take other enforcement action deemed appropriate
8 pursuant to applicable law.

9 13. This Order is not intended to indicate that Stifel or any of its affiliates or current
10 or former employees shall be subject to any disqualifications contained in the federal securities
11 law, the rules and regulations there under, the rules and regulations of self-regulatory
12 organizations or various states' securities laws, including any disqualifications from relying upon
13 the registration exemptions or safe harbor provisions. In addition, this Order is not intended to
14 form the basis for any such disqualifications.

15 14. This Order may not be read to indicate that Stifel or any of its affiliates or current
16 or former employees engaged in fraud or violated any federal or state laws, the rules and
17 regulations thereunder, or the rules and regulations of any self regulatory organization.

18 15. For any person or entity not a party to this Order, this Order does not limit or create
19 any private rights or remedies against Stifel including, without limitation, the use of any e-mails or
20 other documents of Stifel or of others for the marketing and sale of auction rate securities to
21 investors, limit or create liability of Stifel, or limit or create defenses of Stifel to any claims.

22 16. This Order shall not disqualify Stifel or any of its affiliates or current or former
23 employees from any business that they are otherwise qualified or licensed to perform under
24 applicable state law, or form the basis for any such disqualification.

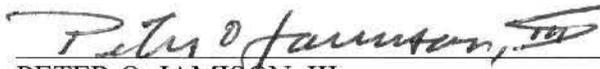
25 17. Nothing herein shall preclude Delaware, its departments, agencies, boards,
26 commissions, authorities, political subdivisions and corporations (collectively, "State Entities"),

1 other than the Division and only to the extent set forth in paragraph 1 above, and the officers, agents
2 or employees of State Entities from asserting any claims, causes of action, or applications for
3 compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief
4 against Stifel in connection with the marketing and sale of auction rate securities at Stifel.

5 18. Stifel shall pay its own costs and attorneys' fees with respect to this matter.

6 Dated this 8th day of July, 2010.

7 BY ORDER OF THE COMMISSIONER

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11 PETER O. JAMISON, III
12 Securities Commissioner
13 State of Delaware
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Stifel, Nicolaus & Company, Incorporated

By: Scott B. McCuaig
Title: PRESIDENT

STATE OF Missouri)
city) ss.
County of St. Louis)

SUBSCRIBED AND SWORN TO before me by Scott B. McCuaig, this
28th day of June, 2010.

Karen L. Kehrer
Notary Public

My commission expires:

12.3.13

