COMMISSIONER OF SECURITIES AND INSURANCE
MONTANA STATE AUDITOR
STATE OF MONTANA

IN THE MATTER OF **STIFEL, NICOLAUS & COMPANY, INCORPORATED** CRD #793 501 NORTH BROADWAY ST. LOUIS, MISSOURI 63102, Respondent.	)	SEC-2010-25 ADMINISTRATIVE CONSENT ORDER

This CONSENT ORDER dated this 4th day of May, 2010, is entered based upon mutual agreement between the Montana Department of Securities and Insurance (the "CSI"), acting pursuant to the authority of the Securities Act of Montana, Mont. Code Ann. § 30-10-101, *et seq.* and Mont. Code Ann. § 2-4-603, and Stifel, Nicolaus & Company, Incorporated ("Stifel").

WHEREAS, Stifel is a broker-dealer registered in Montana, with its home office at 501 North Broadway St. Louis, Missouri 63106; and

WHERE, 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 Mont. Code Ann. §§ 2-4-702 and 30-10-308 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 CSI 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 this paragraph affects Stifel's: (a) testimonial obligations; (b) right to take legal or factual positions in defense of litigation or in defense of other legal proceedings in which the CSI is not a party; or (c) right to make public statements that are factual;

NOW, THEREFORE, the State Auditor, Commissioner of Securities and Insurance ("Commissioner") hereby enters this Order.

I.

FINDINGS OF FACT

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

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

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

4. While ARS are all long-term instruments, one significant feature of ARS (which

historically provided the potential for short-term liquidity) is the interest/dividend reset through periodic auctions. If an auction is successful (i.e., there are enough buyers for every ARS being offered for sale at the auction), investors are able to exit their positions at the auction. If, however, auctions "fail" (i.e., there are not enough buyers for every ARS being offered for sale), investors are required to hold all or some of their ARS until the next successful auction in order to liquidate their funds.

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

6. Stifel and its Montana registered securities agents ("Registered Agents") sold ARS to Montana residents.

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

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

9. A number of Registered Agents did not sufficiently understand, and therefore did not adequately communicate to retail purchasers, the risks and features of ARS.

Stifel's Failure to Supervise the Sale of ARS

10. Stifel failed to reasonably supervise its Registered Agents, which is grounds to discipline Stifel under Mont. Code Ann. § 30-10-201(13)(k), Stifel failed to provide reasonable supervision by failing to provide pertinent information and comprehensive training to its Registered Agents and other sales and marketing staff regarding ARS and the mechanics of the auction process.

II.

CONCLUSIONS OF LAW

11. The State Auditor is the Commissioner of Securities ("Commissioner") pursuant

to Mont. Code Ann. §§ 2-15-1901 and 30-10-107.

12. The administration of the Securities Act of Montana, Mont. Code Ann. § 30-10-101, *et seq.*, is under the supervision and control of the Securities Commissioner pursuant to Mont. Code Ann. § 30-10-107.

13. The Securities Act of Montana shall be construed to protect investors, persons engaged in securities transactions, and the public interest according to Mont. Code Ann. § 30-10-102.

14. The CSI has jurisdiction over this matter pursuant to Mont. Code Ann. § 30-10-107 (the "Act").

15. The CSI finds Stifel failed to reasonably supervise its Registered Agents in Montana, and that this conduct constitutes grounds to discipline Stifel under Mont. Code Ann. § 30-10-201(13)(k).

16. The CSI finds this Order and the following relief appropriate, in the public interest, and consistent with the purposes intended by the Act.

III.

ORDER

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

IT IS HEREBY ORDERED:

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

2. This Order is entered into solely for the purpose of resolving the multistate

investigation and is not intended to be used for any other purpose.

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

4. In accordance with the Consent Order entered against Stifel by the Missouri Office of the Secretary of State dated January __, 2010, Case No. Ap-10-05 ("Missouri Order"), Stifel has or will retain, at its expense, an outside consultant ("Consultant"). The scope of Consultant's work is to conduct a review and make written recommendations concerning Stifel's supervisory and compliance policies and procedures relating to the product review of nonconventional investments and the training, marketing, and sale of nonconventional investments by Stifel and its Registered Agents throughout Stifel's retail branch office system. Stifel will receive a report prepared by the Consultant describing his or her recommendations and Stifel will provide to the Enforcement Section a copy of such report. Stifel shall authorize the Enforcement Section to share these written reports with Montana pursuant to Missouri law, provided that such written reports are given confidential treatment and are treated as nonpublic, nondisclosable records to the extent possible under Montana law.

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

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

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

a. <u>January 2010 Repurchase</u>

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

b. December 2010 Repurchase

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

c. 2010 Supplemental Repurchase

Stifel will repurchase at par all of the Eligible ARS that remain after the December 2010 Repurchase from Eligible Investors who, as of January 1, 2009, maintained in an Eligible Account, Eligible ARS in an amount of one hundred fifty thousand dollars ($150,000) or less. Such repurchase shall be completed no later than December 31, 2010.

d. 2011 Repurchase

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

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

9. In accordance with the Missouri Order, Stifel shall, within fifteen (15) days of the end of each calendar quarter following the execution of the Missouri Order, provide to the Missouri Commissioner of Securities a written report describing and updating, in detail, all

repurchase/buyback, issuer redemption and investor arbitration claims related to Eligible ARS that occur or continue to occur. Where applicable and in describing repurchase, redemption and arbitration developments or occurrences, Stifel shall include investor or issuer names and state of residence and amounts of repurchases, redemptions, and/or arbitration claims/awards. Missouri shall be authorized to share these written reports with the CSI pursuant to Missouri law, provided that such written reports are given confidential treatment and are treated as nonpublic, nondisclosable records to the extent possible under Montana law.

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

11. Within ten (10) calendar days following the entry of this Order, Stifel shall pay to the state of Montana the sum of $1,050.00, which constitutes Montana's allocated share of the total settlement payment described in the preceding paragraph.

12. If Stifel defaults in any of its obligations set forth in this Order, the CSI may vacate this Order, at its sole discretion, upon ten (10) days notice to Stifel and without opportunity for administrative hearing or may refer this matter for enforcement as provided in Mont. Code Ann. §30-10-305 (3).

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

14. This Order may not be read to indicate that Stifel or any of its affiliates or current or former employees engaged in fraud or violated any federal or state laws, the rules and

regulations thereunder, or the rules and regulations of any self regulatory organization.

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

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

17. Nothing herein shall preclude Montana, its departments, agencies, boards, commissions, authorities, political subdivisions and corporations (collectively, "State Entities"), other than the CSI and only to the extent set forth in paragraph 1 above, and the officers, agents or employees of State Entities from asserting any claims, causes of action, or applications for compensatory, nominal and/or punitive damages, administrative, civil, criminal, or injunctive relief against Stifel in connection with the marketing and sale of auction rate securities at Stifel.

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

Dated this 4th day of May, 2010.

MONICA J. LINDEEN
Commissioner of Securities and Insurance

By: Lynne Egan
LYNNE EGAN
Deputy Securities Commissioner

CONSENT TO ENTRY OF ADMINISTRATIVE ORDER BY STIFEL

Stifel hereby acknowledges that it has been served with a copy of this Administrative Consent Order ("Order"), has read the foregoing Order, is aware of its right to a hearing and appeal in this matter, and has waived the same.

Stifel admits the jurisdiction of the CSI; neither admits nor denies the Findings of Fact and Conclusions of Law contained in this Order; and consents to entry of this Order by the CSI as settlement of the issues contained in this Order.

Stifel states that no promise of any kind or nature whatsoever was made to it to induce it to enter into this Order and that it has entered into this Order voluntarily.

Scott B McCuaig represents that he/she is President of Stifel, Nicolaus & Company, Incorporated, and that, as such, has been authorized by Stifel, Nicolaus & Company, Incorporated to enter into this Order for and on behalf of Stifel, Nicolaus & Company, Incorporated

Stifel agrees that it shall not seek or accept, directly or indirectly, reimbursement or indemnification, including, but not limited to, payment made pursuant to any insurance policy, with regard to any administrative monetary penalty that Stifel shall pay pursuant to this Order. Stifel further agrees that it shall not claim, assert, or apply for a tax deduction or tax credit with regard to any state, federal, or local tax for any administrative monetary penalty that Stifel shall pay pursuant to this Order. Stifel understands and acknowledges that these provisions are not intended to imply that the CSI would agree that any other amounts Stifel shall pay pursuant to this Order may be reimbursed or indemnified (whether pursuant to an insurance policy or otherwise) under applicable law or may be the basis for any tax deduction or tax credit with regard to any state, federal, or local tax.

Dated this 5th day of April, 2010.

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 5th day of April, 2010.

(SEAL)

KAREN L. KEHRER
My Commission Expires: 12-3-2013
NOTARY PUBLIC
NOTARY SEAL
Commission # 09513638
ST. LOUIS CITY
STATE OF MISSOURI

Karen L Kehrer
Printed Name: Karen L. Kehrer
Notary Public
State of Missouri
Residing at: Illinois
My Commission Expires: 12-3-13