

**STATE OF ILLINOIS
SECRETARY OF STATE
SECURITIES DEPARTMENT**

IN THE MATTER OF:)
)
Stifel, Nicolaus & Company, Inc.)
) **No. 0900025**
)
Respondent.)

NOTICE OF HEARING

TO THE RESPONDENT: Stifel, Nicolaus & Company, Inc.
c/o its attorney
Jeffrey J. Kalinowski, Esq.
Bryan Cave, LLP
One Metropolitan Square
211 N. Broadway, Suite 3600
St. Louis, MO 63102

You are hereby notified in accordance with Sections 11.E and F of the Illinois Securities Law of 1953 [815 ILCS 5/11.E and F] (“the Act”) and 14 Ill. Adm. Code 130, subpart K, that a public hearing will be held at the Secretary of State’s office at the office of the Illinois Securities Department, 69 W. Washington Street, Suite 1220, in Chicago, Illinois 60602, on October 24, 2012 or as soon thereafter as possible before Soula Spyropoulos, or such other hearing officer who shall be presiding at that time.

Said hearing will be held to determine whether an Order shall be entered pursuant to Section 11.E of the Act sanctioning the Respondents and/or granting such other relief as may be authorized under the Act including, but not limited to, the imposition of a monetary fine in the maximum amount pursuant to Section 11.E of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for this proposed action are as follows:

1. Stifel, Nicolaus & Company, Incorporated (“Stifel”) is a broker-dealer registered in the State of Illinois, with its home office at 501 North Broadway St. Louis, Missouri 63106.
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 of 2008, the ARS market experienced widespread failed auctions.

6. Stifel and its Illinois-registered securities agents (“Registered Agents”) sold ARS to Illinois 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.

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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. As a result, in January of 2009 some Illinois retail investors who had purchased ARS from Stifel or its Registered Agents began to submit complaints regarding these purchases.

10. Stifel failed to reasonably supervise its Registered Agents, which subjects Stifel to sanctions under Section 8.E(1)(e)(i) of the Act. 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.

NOTICE: You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130)(the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this Notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules and Regulations promulgated under the Illinois Securities Law and pertaining to hearings held by the Office of the Secretary of State, Illinois Securities Department, are available at the Department's website at:
<http://www.cyberdriveillinois.com/departments/securities/lawrules.html>, or on request.

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Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 29th day of August, 2012.

A handwritten signature in black ink that reads "Jesse White" with a stylized flourish at the end.

JESSE WHITE
Secretary of State
State of Illinois

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Illinois Securities Department
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