Con-way Inc.
Form 10-Q
November 08, 2006

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, 2006

OR

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

For the transition period from N/A to N/A

COMMISSION FILE NUMBER 1-5046

Con-way Inc.

Incorporated in the State of Delaware
I.R.S. Employer Identification No. 94-1444798

2855 Campus Drive, Suite 300, San Mateo, California 94403
Telephone Number (650) 378-5200

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 and (2) has been subject to such filing requirements for the past 90 days.
Yes X No
---- ----

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

X Large accelerated filer Accelerated filer Non-accelerated filer
--- --- ---

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

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Number of shares of Common Stock, $.625 par value,
outstanding as of October 31, 2006: 47,061,104

CON-WAY INC.
FORM 10-Q
Quarter Ended September 30, 2006

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CON-WAY INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands)

ASSETS	September 30, 2006	December 31, 2005
Current Assets		
Cash and cash equivalents	$ 293,235	$ 514,275
Marketable securities	181,950	202,350
Trade accounts receivable, net	504,010	541,507
Other accounts receivable (Note 1)	48,152	42,529
Operating supplies, at lower of average cost or market	19,917	19,069
Prepaid expenses (Note 1)	51,802	53,883
Deferred income taxes	48,796	49,434
Assets of discontinued operations (Note 2)	10,522	21,000
Total Current Assets	1,158,384	1,444,047
Property, Plant and Equipment, at cost		
Land	158,458	150,413
Buildings and leasehold improvements	680,684	649,786
Revenue equipment	935,700	778,958
Other equipment	234,009	217,269
	2,008,851	1,796,426
Accumulated depreciation and amortization	(913,112)	(845,428)
	1,095,739	950,998
Other Assets		
Deferred charges and other assets (Note 3)	42,841	42,578
Capitalized software, net	37,453	42,949
	80,294	85,527
Total Assets	$ 2,334,417	$ 2,480,572

The accompanying notes are an integral part of these statements.

CON-WAY INC.
CONSOLIDATED BALANCE SHEETS
(Unaudited)
(Dollars in thousands except per share amounts)

LIABILITIES AND SHAREHOLDERS' EQUITY	September 30, 2006	December 31, 2005

Current Liabilities		
Accounts payable	$ 271,389	$ 274,742
Accrued liabilities (Note 1)	249,858	209,824
Self-insurance accruals (Note 1)	88,676	91,342
Current maturities of long-term debt	18,633	15,033
Liabilities of discontinued operations (Note 2)	16,037	40,555
Total Current Liabilities	644,593	631,496
Long-Term Liabilities		
Long-term debt and guarantees	559,038	581,469
Self-insurance accruals (Note 1)	109,464	102,416
Employee benefits (Note 5)	173,589	212,824
Other liabilities and deferred credits	20,711	19,142
Deferred income taxes	38,239	22,307
Total Liabilities	1,545,634	1,569,654
Commitments and Contingencies (Notes 10 and 11)		
Shareholders' Equity		
Preferred stock, no par value; authorized 5,000,000 shares: Series B, 8.5% cumulative, convertible, $.01 stated value; designated 1,100,000 shares; issued 614,465 and 641,359 shares, respectively	6	6
Additional paid-in capital, preferred stock	93,454	97,544
Deferred compensation, DC Plan	(33,775)	(40,628)
Total Preferred Shareholders' Equity	59,685	56,922
Common stock, $.625 par value; authorized 100,000,000 shares; issued 61,601,799 and 61,204,263 shares, respectively	38,425	38,253
Additional paid-in capital, common stock	546,762	528,743
Retained earnings	777,451	620,565
Deferred compensation, nonvested stock (Note 8)	--	(3,078)
Cost of repurchased common stock (Note 7) (14,270,504 and 8,928,008 shares, respectively)	(596,752)	(293,380)
Total Common Shareholders' Equity	765,886	891,103
Accumulated Other Comprehensive Loss (Note 6)	(36,788)	(37,107)
Total Shareholders' Equity	788,783	910,918
Total Liabilities and Shareholders' Equity	$ 2,334,417	$ 2,480,572

The accompanying notes are an integral part of these statements.

CON-WAY INC.
STATEMENTS OF CONSOLIDATED INCOME
(Unaudited)
(Dollars in thousands except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues	$1,076,807	$1,084,457	$3,222,851	$3,041,617
Costs and Expenses				
Operating expenses	848,024	871,019	2,561,516	2,436,055
Selling, general and administrative expenses (Note 8)	93,868	80,363	272,855	240,949
Depreciation	32,600	29,319	96,424	82,895
	974,492	980,701	2,930,795	2,759,899
Operating Income	102,315	103,756	292,056	281,718
Other Income (Expense)				
Investment income	5,399	5,668	19,021	15,830
Interest expense	(8,761)	(8,426)	(25,226)	(28,580)
Miscellaneous, net	(511)	(732)	145	(3,317)
	(3,873)	(3,490)	(6,060)	(16,067)
Income from Continuing Operations Before Income Tax Provision	98,442	100,266	285,996	265,651
Income Tax Provision (Note 9)	33,664	35,244	97,273	90,322
Income from Continuing Operations	64,778	65,022	188,723	175,329
Discontinued Operations, net of tax (Note 2)				
Loss from Discontinued Operations	--	(549)	(1,929)	(1,849)
Gain (Loss) from Disposal	--	3,335	(4,850)	(3,490)
	--	2,786	(6,779)	(5,339)
Net Income	64,778	67,808	181,944	169,990
Preferred Stock Dividends	1,748	1,816	5,319	5,841
Net Income Available to Common Shareholders	$ 63,030	$ 65,992	$ 176,625	$ 164,149
Net Income From Continuing Operations (after preferred dividends)	$ 63,030	$ 63,206	$ 183,404	$ 169,488
Weighted-Average Common Shares Outstanding (Note 1)				
Basic	47,601,175	52,081,891	49,717,418	52,198,251

Diluted	50,857,496	55,966,289	53,092,636	56,259,541
Earnings (Loss) per Common Share (Note 1)				
Basic				
Net Income from Continuing Operations	$ 1.32	$ 1.21	$ 3.69	$ 3.25
Loss from Discontinued Operations	--	(0.01)	(0.04)	(0.04)
Gain (Loss) from Disposal	--	0.07	(0.10)	(0.07)
Net Income Available to Common Shareholders	$ 1.32	$ 1.27	$ 3.55	$ 3.14
Diluted				
Net Income from Continuing Operations	$ 1.24	$ 1.13	$ 3.47	$ 3.03
Loss from Discontinued Operations	--	(0.01)	(0.04)	(0.04)
Gain (Loss) from Disposal	--	0.06	(0.09)	(0.06)
Net Income Available to Common Shareholders	$ 1.24	$ 1.18	$ 3.34	$ 2.93

The accompanying notes are an integral part of these statements.

CON-WAY INC.
STATEMENTS OF CONSOLIDATED CASH FLOWS
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2006	2005
Cash and Cash Equivalents, Beginning of Period	$ 514,275	$ 346,581
Operating Activities		
Net income	181,944	169,990
Adjustments to reconcile net income to net cash provided by operating activities:		
Discontinued operations, net of tax	6,779	5,339
Depreciation and amortization, net of accretion	103,615	90,928
Increase (Decrease) in deferred income taxes	17,667	(17,043)
Amortization of deferred compensation	6,853	6,432
Share-based compensation (Note 8)	5,555	1,359

Provision for uncollectible accounts	2,152	3,467
Equity in earnings of joint venture	(10,858)	(10,833)
Gain from sales of property and equipment, net	(1,052)	(443)
Gain on sale of business	(6,231)	--
Changes in assets and liabilities:		
Receivables	25,915	(109,963)
Prepaid expenses	2,081	4,617
Accounts payable	(5,792)	16,060
Accrued incentive compensation	13,200	(1,214)
Accrued liabilities, excluding accrued incentive compensation	26,613	29,894
Self-insurance accruals	4,382	2,769
Income taxes	8,929	61,379
Employee benefits	(39,235)	(39,807)
Deferred charges and credits	13,699	26,643
Other	(5,970)	(5,491)
Net Cash Provided by Operating Activities	350,246	234,083
Investing Activities		
Capital expenditures	(243,297)	(168,031)
Software expenditures	(7,500)	(6,326)
Proceeds from sales of property and equipment, net	4,630	3,756
Proceeds from sale of business, including discontinued operations	8,000	108,366
Net decrease in marketable securities	20,400	236,350
Net Cash Provided by (Used in) Investing Activities	(217,767)	174,115
Financing Activities		
Repayment of long-term debt and guarantees	(15,024)	(112,722)
Proceeds from exercise of stock options	11,771	56,844
Excess tax benefit from stock option exercises (Note 8)	2,518	--
Payments of common dividends	(15,004)	(15,782)
Payments of preferred dividends	(8,457)	(9,664)
Repurchases of common stock (Note 7)	(305,925)	(111,562)
Net Cash Used in Financing Activities	(330,121)	(192,886)
Net Cash Provided by (Used in) Continuing Operations	(197,642)	215,312
Discontinued Operations		
Net Cash Used In Operating Activities	(23,220)	(14,033)
Net Cash Used In Investing Activities	(178)	(40)
Net Cash Used in Discontinued Operations	(23,398)	(14,073)
Increase (Decrease) in Cash and Cash Equivalents	(221,040)	201,239
Cash and Cash Equivalents, End of Period	$ 293,235	$ 547,820

Supplemental Disclosure

Cash paid for income taxes, net	$ 65,044	$ 40,916
Cash paid for interest, net of amounts capitalized	$ 21,295	$ 28,187

The accompanying notes are an integral part of these statements.

CON-WAY INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. Principal Accounting Policies

Re-branding Initiative and Organization

The term "Con-way" or "Company" refers to Con-way Inc. (formerly CNF Inc.) and its subsidiaries. On April 18, 2006, shareholders approved management's proposal to change the Company's name to Con-way Inc. from CNF Inc. The corporate name change marks the launch of a strategy to bring the Company's operations under a single master brand. Company management and the Board of Directors believe that the corporate name change and the re-branding initiative will result in better understanding of the Company's core businesses, operating strengths, corporate culture and values, thereby enabling the Company to compete more effectively in the markets it serves. Included in the initiative is a new Con-way logo and graphic identity.

In December of 2004, Con-way completed the sale of Menlo Worldwide Forwarding, Inc. and its subsidiaries and Menlo Worldwide Expedite!, Inc. (hereinafter collectively referred to as "MWF") to United Parcel Service, Inc. and United Parcel Service of America, Inc. (collectively, "UPS"). Prior to the sale, the collective results of MWF and Emery Worldwide Airlines, Inc. ("EWA") were reported as the Menlo Worldwide Forwarding reporting segment. EWA is a separate wholly owned subsidiary of Con-way that was not sold to UPS. In addition, on June 2, 2006, Con-way closed the operations of its domestic air freight forwarding business known as Con-way Forwarding. As a result, for the periods presented, the results of operations, net liabilities, and cash flows of the Menlo Worldwide Forwarding ("Forwarding") segment and the Con-way Forwarding operating unit have been segregated and reported as discontinued operations, as more fully discussed in Note 2, "Discontinued Operations." Refer to Note 4, "Reporting Segments," for additional discussion of the re-branding initiative and other organizational changes.

Basis of Presentation

Pursuant to the rules and regulations of the Securities and Exchange Commission, the accompanying consolidated financial statements of Con-way Inc. and its wholly owned subsidiaries have been prepared by Con-way, without audit by an independent registered public accounting firm. In the opinion of management, the consolidated financial statements include all normal recurring adjustments necessary to present fairly the information required to be set forth therein. Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted from these statements pursuant to such rules and regulations and, accordingly, should be read in conjunction with the consolidated financial statements included in Con-way's 2005 Annual Report on Form 10-K. Results for the periods presented are not necessarily indicative of annual results.

Earnings per Share ("EPS")

Basic EPS is computed by dividing reported earnings (loss) by the weighted-average common shares outstanding. Diluted EPS is calculated as follows:

(Dollars in thousands except per share data)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Numerator:				
Continuing operations (after preferred stock dividends), as reported	$ 63,030	$ 63,206	$ 183,404	$ 169,488
Add-backs:				
Dividends on Series B preferred stock, net of replacement funding	262	269	807	830
Continuing operations	63,292	63,475	184,211	170,318
Discontinued operations	--	2,786	(6,779)	(5,339)
Available to common shareholders	$ 63,292	$ 66,261	$ 177,432	$ 164,979
Denominator:				
Weighted-average common shares outstanding	47,601,175	52,081,891	49,717,418	52,198,251
Stock options and nonvested stock	363,420	786,186	482,317	963,078
Series B preferred stock	2,892,901	3,098,212	2,892,901	3,098,212
	50,857,496	55,966,289	53,092,636	56,259,541
Anti-dilutive stock options not included in denominator	400,900	--	324,500	44,000
Earnings (Loss) per Diluted Share:				
Continuing operations	$ 1.24	$ 1.13	$ 3.47	$ 3.03
Discontinued operations	--	0.05	(0.13)	(0.10)
Available to common shareholders	$ 1.24	$ 1.18	$ 3.34	$ 2.93

Income Taxes

Deferred income taxes are provided for the tax effect of temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Con-way uses the liability method to account for income taxes, which requires deferred taxes to be recorded at the statutory rate to be in effect when the taxes are paid. At September 30, 2006 and December 31, 2005, income tax receivables of $28.7

million and $31.5 million, respectively, were included in other accounts receivable in Con-way's consolidated balance sheets.

Self-Insurance Accruals

Con-way uses a combination of purchased insurance and self-insurance programs to provide for the costs of medical, casualty, liability, vehicular, cargo and workers' compensation claims. Con-way participates in a re-insurance pool to reinsure a portion of its workers' compensation liabilities. Annually, each participant in the pool reinsures claims with the pool and assumes claims of an approximately equal amount. Reinsurance does not relieve Con-way of its liabilities under the original policy. In the 2006 plan year, Con-way increased its participation in the re-insurance pool when compared to the 2005 plan year. Con-way's higher participation level in 2006 resulted in a $13.9 million increase in the amount of annual premiums Con-way is obligated to pay the re-insurance pool and resulted in a similar increase in unearned annual premiums the re-insurance pool is obligated to pay to Con-way. Con-way's prepaid premiums and unearned premiums are recognized ratably over the year and the unamortized amounts are reported in the consolidated balance sheets in prepaid expenses and accrued liabilities, respectively.

Property, Plant and Equipment

Con-way periodically evaluates whether changes to estimated useful lives are necessary to ensure that these estimates accurately reflect the economic use of the assets. In the second quarter of 2006, Con-way completed an analysis of equipment lives and extended the estimated useful lives for certain classes of revenue equipment from 10 years to 13 years. Revenue equipment is depreciated on a straight-line basis over its estimated useful life, which ranges from 5 to 13 years. The effect of this change did not have a material effect on Con-way's results of operations for the periods presented.

New Accounting Standards

In December 2004, the FASB issued SFAS No. 123R, "Share-Based Payment" ("SFAS 123R"), a revision of SFAS 123, "Accounting for Stock-Based Compensation" ("SFAS 123") that supersedes Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and its related implementation guidance. SFAS 123R eliminates the alternative to use APB 25's intrinsic-value method of accounting that was provided in SFAS 123 as originally issued, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the grant-date fair value of those awards (with limited exceptions) over the period during which an employee is required to provide service in exchange for the award. The adoption of SFAS 123R also requires new disclosures and additional accounting related to income taxes, earnings per share, and the cash flow effects of share-based compensation. See Note 8, "Share-Based Compensation" for more information on the effects of this accounting standard.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of SFAS 109" ("FIN 48"), which clarifies the accounting for uncertainty in tax positions. FIN 48 is a comprehensive model for how a company should recognize, measure, present, and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. Tax positions shall be recognized only when it is more likely than not that the position will be sustained upon examination by a taxing authority. If the position meets the more-likely-than-not criteria, it should be measured using a probability-weighted approach as the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement. It requires previously recognized tax positions that no longer meet the more-likely-than-not

recognition threshold to be derecognized in the first subsequent financial reporting period in which the threshold is no longer met. FIN 48 requires expanded disclosure, including a reconciliation of the unrecognized tax benefits at the beginning and end of the period. The effective date of FIN 48 is the first fiscal year beginning after December 15, 2006. Con-way does not expect the adoption of FIN 48 to have a material effect on its financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands disclosures about fair-value measurements. SFAS 157 applies to other accounting pronouncements that require or permit fair-value measurements and does not require any new fair-value measurements. The effective date of SFAS 157 is the first fiscal year beginning after November 15, 2007, and interim periods within those years, which for Con-way is the first quarter of 2008. Con-way does not expect the adoption of SFAS 157 to have a material effect on its financial statements.

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)" ("SFAS 158"), as more fully discussed in Note 5, "Employee Benefits - New Accounting Standard."

Reclassification

Certain amounts in the prior-period financial statements have been reclassified to conform to the current-period presentation, including Con-way's reclassification of variable-rate demand notes in its financial statements from cash and cash equivalents to marketable securities in the fourth quarter of 2005. In the consolidated statements of cash flows for the nine months ended September 30, 2005, the revised classification of these securities decreased beginning cash and cash equivalents by $40.0 million and reduced investing activities by $53.9 million from the amounts reported in Con-way's 2005 third-quarter report on Form 10-Q.

2. Discontinued Operations

Discontinued operations in the periods presented relate to the closure of Con-way Forwarding, the sale of MWF, and the shut-down of EWA and its terminated Priority Mail contract with the U.S. Postal Service ("USPS"). The results of operations, net liabilities, and cash flows of discontinued operations have been segregated from continuing operations, except where otherwise noted.

Results of discontinued operations are summarized below:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2006	2005	2006	2005
Revenues				
Con-way Forwarding	$ --	$ 14,694	$ 21,699	$ 39,092
Loss from Discontinued Operations				
Con-way Forwarding				
Loss before income tax benefit	--	(723)	(2,963)	(2,900)
Income tax benefit	--	174	1,034	1,051
	$ --	$ (549)	$ 1,929)	$ (1,849)

Gain (Loss) from Disposal, net of tax				
Con-way Forwarding	$ --	$ --	$ (5,128)	$ --
MWF		8,967	644	2,824
EWA and Other		(5,632)	(366)	(6,314)
	$ --	$ 3,335	$ (4,850)	$ (3,490)

The assets and liabilities of discontinued operations are presented in the consolidated balance sheets under the assets (or liabilities) of discontinued operations. At September 30, 2006 and December 31, 2005, assets of discontinued operations were $10.5 million and $21.0 million respectively, and liabilities of discontinued operations were $16.0 million and $40.6 million, respectively. As of the balance sheet dates reported, assets of discontinued operations consisted primarily of deferred taxes, while liabilities of discontinued operations included primarily accrued liabilities.

Con-way Forwarding

On June 2, 2006, Con-way closed the operations of its domestic air freight forwarding business known as Con-way Forwarding. The decision to close the operating unit was made following management's detailed review of the unit's competitive position and its prospects in relation to Con-way's long-term strategies. As a result of the closure, Con-way recognized a second-quarter $5.1 million loss (net of a $2.8 million tax benefit), due to a $4.0 million write-off of non-transferable capitalized software and other assets, a $2.2 million loss related to non-cancelable operating leases, $0.7 million of employee severance costs, and $1.0 million of other costs. Reflecting the write-off of assets and accrual of related costs, the remaining assets and liabilities related to the Con-way Forwarding operating unit at September 30, 2006 were $0.9 million and $3.3 million, respectively.

MWF

In October 2004, Con-way and Menlo Worldwide, LLC ("MW") entered into a stock purchase agreement with UPS to sell all of the issued and outstanding capital stock of MWF. Con-way completed the sale in December 2004, as more fully discussed below. The stock purchase agreement excludes certain assets and liabilities of MWF and includes certain assets and liabilities of Con-way or its subsidiaries related to the business conducted by MWF. Among the assets and liabilities so excluded are those related to EWA, and the obligation related to MWF employees covered under Con-way's domestic pension, postretirement medical and long-term disability plans. Under the agreement, UPS agreed to pay to Con-way an amount equal to MWF's cash position as of December 31, 2004, and to pay the estimated present value of Con-way's retained obligations related to MWF employees covered under Con-way's long-term disability and postretirement medical plans, as agreed to by the parties. Under the stock purchase agreement, Con-way has agreed to a three-year non-compete covenant that, subject to certain exceptions, will limit Con-way's annual air freight and ocean forwarding and/or customs brokerage revenues to $175 million through December 19, 2007. Con-way has also agreed to indemnify UPS against certain losses that UPS may incur after the closing of the sale with certain limitations. Any losses related to these indemnification obligations or any other costs, including any future cash expenditures, related to the sale that have not been estimated and recognized at this time will be recognized in future periods as an additional loss from disposal when and if incurred.

Upon completion of the sale of MWF on December 19, 2004, Con-way received cash consideration of $150 million, subject to certain post-closing adjustments, including adjustments for cash held by MWF at closing and MWF's net working capital as of closing. Following settlement of the MWF cash balance in March 2005, Con-way received cash of $29.4 million and recognized a first-quarter net loss from disposal in 2005 of $9.8 million, primarily to recognize the difference between the actual cash received and Con-way's estimate of the cash position at December 31, 2004, and to accrue additional estimated transaction costs.

As a result of additional adjustments in its estimated disposition loss, Con-way in 2005 reported a $3.6 million second-quarter gain for revisions to disposal-related cost estimates. Under an agreement reached in August 2005, UPS paid $79.0 million to Con-way for the agreed-upon estimated present value of the retained obligations of reimbursable long-term disability and postretirement medical plans. No additional gain or loss was recognized in connection with the cash reimbursement as the carrying value of these obligations was equal to the cash reimbursement. However, in the third quarter of 2005, Con-way recognized a $9.0 million gain, primarily to recognize an increase in its estimate of deferred tax assets associated with pension and postretirement plans retained by Con-way.

Con-way's disposal of MWF generated a capital loss for tax purposes. Under current tax law, capital losses can only be used to offset capital gains. Since Con-way did not forecast any significant taxable capital gains in the five-year tax carry-forward period, the $40.8 million cumulative disposal-related tax benefit at December 31, 2004 was fully offset by a valuation allowance of an equal amount. The cumulative disposal-related tax benefit and the associated valuation allowance declined to $30.0 million at December 31, 2005, due primarily to third-quarter sale-related proceeds received from UPS in 2005 and revisions to the tax effect of sale-related estimates in 2005, partially offset by the first-quarter disposal-related capital loss in 2005. At September 30, 2006, the cumulative disposal-related tax benefit and the associated valuation allowance declined to $26.5 million due to the capital gain recognized in connection with the sale of assets related to Con-way Expedite, as more fully discussed in Note 4, "Reporting Segments."

See Note 2, "Discontinued Operations," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2005 Annual Report on Form 10-K for a complete description of the disposition of MWF, including a discussion of losses from impairment and disposal of MWF and of cash payments received from UPS in connection with sale of MWF.

EWA

The results of EWA relate to the cessation of its air-carrier operations in 2001 and to the termination of its Priority Mail contract with the USPS in 2000. EWA's estimated loss reserves declined to $14.1 million at September 30, 2006, from $34.1 million at December 31, 2005, due primarily to litigation settlements described below. EWA's remaining loss reserves at September 30, 2006 were reported in liabilities of discontinued operations and consisted of Con-way's estimated remaining exposure related to the labor matters described below, and other litigation-related losses, as more fully discussed in Note 11, "Commitments and Contingencies."

In connection with the cessation of its air-carrier operations in 2001, EWA terminated the employment of all of its pilots and flight crewmembers. Those pilots and crewmembers were represented by the Air Line Pilots Association ("ALPA") under a collective bargaining agreement. Subsequently, ALPA filed grievances on behalf of the pilots and flight crewmembers protesting the cessation of EWA's air-carrier operations and MWF's use of other air carriers. These matters have been the subject of litigation in U.S. District

Court and state court in California, including litigation brought by ALPA and by former EWA pilots and crewmembers no longer represented by ALPA. On June 30, 2006, EWA, for itself and for Con-way Inc. and Menlo Worldwide Forwarding, Inc. ("MWF, Inc."), concluded a final settlement of the California state court litigation. Under the terms of the settlement, plaintiffs received a cash payment of $9.2 million from EWA, and the lawsuit was dismissed with prejudice. The cash settlement reduced by an equal amount its estimated loss reserve applicable to the grievances filed by ALPA. On August 8, 2006, EWA paid $10.9 million to settle the litigation brought by ALPA that finally concluded litigation with former EWA pilots and flight crewmembers still represented by ALPA as of that date. The remaining ALPA matters are also the subject of a claim by former EWA pilots and flight crewmembers no longer represented by ALPA that has been ordered by the court to binding arbitration. Other former pilots have also initiated litigation in federal court. Based on management's current evaluation, Con-way believes that it has provided for its estimated remaining exposure related to the ALPA matters. However, there can be no assurance in this regard as Con-way cannot predict with certainty the ultimate outcome of these matters.

3. Investment in Unconsolidated Joint Venture

Vector SCM, LLC ("Vector") is a joint venture formed with General Motors ("GM") in December 2000 for the purpose of providing logistics management services on a global basis for GM, and for customers in addition to GM. As more fully discussed below, on June 23, 2006, GM exercised its right to purchase MW's membership interest in Vector ("Call Right"). The joint venture agreements provide a valuation methodology for the fair value of MW's membership interest in Vector and a framework for transition.

MW Capital and Profit Interest in Vector

Under the agreements, MW's membership interest in Vector consists of MW's capital account, its portion of Vector's undistributed earnings, and its profit interest in Vector. At September 30, 2006 and December 31, 2005, MW's capital account and undistributed earnings totaled $44.4 million and $33.6 million, respectively, and were reported net of Con-way's payable to Vector in deferred charges and other assets in Con-way's consolidated balance sheets.

In exchange for assets contributed, MW's capital account on Vector's date of formation was $10.0 million. No additional capital account contributions have been made subsequent to the date of formation. Although MW owns a majority interest in Vector, MW's portion of Vector's operating results are reported as an equity-method investment based on GM's ability to control certain operating decisions. MW's equity-method income from its investment in Vector is reported in Con-way's statements of consolidated income as a reduction of operating expenses and, in Note 4, "Reporting Segments," is reported as operating income in the Menlo Worldwide reporting segment.

Profit and loss are allocated to MW and GM on a percentage basis. MW's portion of Vector's net income does not include any provision for U.S. federal income taxes that will be incurred by Con-way, but does include a provision for MW's portion of Vector's income taxes on foreign and state income, as more fully discussed in Note 3, "Investment in Unconsolidated Joint Venture," of Item 8, "Financial Statements and Supplementary Data," in Con-way's 2005 Annual Report on Form 10-K. MW's undistributed earnings from Vector at September 30, 2006 and December 31, 2005, before provision for Con-way's related parent income taxes, were $34.4 million and $23.6 million, respectively.

Con-way's Affiliate Payable to Vector and Transition-Related Accounts

Vector participates in Con-way's centralized cash management system, and, consequently, Vector's domestic trade accounts payable and payroll costs are paid by Con-way and, prior to June 30, 2006, were settled through Vector's affiliate accounts with Con-way. In addition, excess cash balances in Vector's bank accounts, if any, are invested by Con-way and, prior to June 30, 2006, were settled through affiliate accounts that earn interest income based on a rate earned by Con-way's cash-equivalent investments and marketable securities. As a result of Vector's excess cash invested by Con-way prior to June 30, 2006, Con-way's affiliate payable to Vector as of September 30, 2006 and December 31, 2005 was $32.9 million and $22.0 million, respectively, as reported in deferred charges and other assets in Con-way's consolidated balance sheets. Subsequent to June 30, 2006, Vector's excess cash balances invested by Con-way are reported separately as accrued transition-related liabilities, as more fully discussed below.

GM Exercise of Call Right

As a result of GM's exercise of the Call Right, Con-way is entitled to receive the fair value of MW's membership interest in Vector as of June 22, 2006. Con-way believes that the fair value of MW's membership interest in Vector consists of the amount of MW's capital account, the amount of MW's portion of Vector's undistributed earnings, and the fair value of MW's portion of Vector's future profit. At the agreed-upon effective valuation date of June 30, 2006, MW's capital account and MW's portion of undistributed earnings in Vector totaled $42.4 million. Following June 30, 2006, only profits associated with the settlement of business case activity for the period prior to June 30, 2006 are reported as operating income in the Menlo Worldwide reporting segment.

Pursuant to the agreements, each party engaged a financial advisor to develop a valuation within 75 days of the call date. Because the parties were unable to resolve a difference in excess of ten percent between the financial advisors' valuations, they are retaining a third financial advisor to perform a valuation that will be used to arrive at the final valuation. The third financial advisor will have 30 days from the receipt of valuation-related information from Con-way and GM to complete the valuation, and the proceeds from the valuation are to be paid within an additional 30 days following the completion of the valuation or the end of the transition period described below, whichever occurs later. Proceeds received in excess of MW's capital account and MW's portion of undistributed earnings in Vector will be reported as a gain from continuing operations, based on Vector's classification as an equity-method investment in Con-way's consolidated financial statements. Exercise of the Call Right results in MW retaining commercialization contracts involving customers other than GM.

Con-way will provide transition-support services for a transition period up to nine months from the call date. Customary costs incurred by Con-way during this transition period, including those related to personnel, technology and other intellectual property, are required to be reimbursed by GM.

Subsequent to June 30, 2006, Vector's excess cash balances invested by Con-way are reported in accrued liabilities in Con-way's consolidated balance sheets as a transition-related liability to Vector. At September 30, 2006, Con-way's transition-related liability to Vector was $4.5 million and is reported net of amounts receivable from Vector for unreimbursed costs for transition-support services provided by Con-way.

As part of the sale of MW's membership interest, Con-way expects to settle its affiliate payable to Vector, as described above. In addition, the $10 million line of credit provided by Con-way to Vector was automatically

terminated effective on June 23, 2006.

Con-way is currently in discussions with GM as to the valuation amount and transition terms for Vector's operations. While Con-way believes that it is entitled to receive the payments described above and therefore expects to realize a gain from the sale of MW's membership interest to GM, it has not reached agreement with GM and cannot predict with certainty the ultimate outcome of these matters.

4. Reporting Segments

Con-way discloses segment information in the manner in which the components are organized for making operating decisions, assessing performance and allocating resources. For financial reporting purposes, Con-way is divided into three reporting segments: Con-way Freight and Transportation, Menlo Worldwide and Con-way Other. Menlo Worldwide consists of the operating results of Menlo Worldwide Logistics ("Logistics") and Vector, the joint venture with GM that is accounted for as an equity-method investment. Certain corporate activities are reported in the Con-way Other reporting segment.

Re-branding Initiative and Organization

On April 18, 2006, shareholders approved management's proposal to change the Company's name to Con-way Inc. As a part of the strategy to bring the Company's operations under a single master brand, reporting units and segments were revised as described below.

Con-way Freight and Transportation includes the combined operating results of Con-way Freight and Con-way Transportation. Con-way Freight includes the U.S. less-than-truckload ("LTL") companies, formerly known as Con-Way Western Express, Con-Way Central Express and Con-Way Southern Express, which are being converted to the single Con-way Freight logo and colors. Also included in Con-way Freight are Con-Way Canada Express, which is renamed Con-way Canada, and Con-way Mexico. Collectively, these units provide primarily next-day and second-day LTL freight transportation throughout the U.S., Canada and Mexico within an integrated regional-carrier network. Con-way Transportation provides asset-based regional and transcontinental full-truckload services, and domestic brokerage services for truckload and intermodal shipments. Under the new master brand initiative, the former Con-Way NOW expediting unit and Con-Way Full Load brokerage units were renamed, collectively, Con-way Expedite and Brokerage. As more fully discussed below, the expedited-shipping portion of that business was sold in July 2006 and the truckload brokerage portion of that business was merged into Con-way Truckload in September 2006. Con-way Truckload will retain its existing name. Also within Con-way Transportation is Road Systems, a trailer manufacturing company. Logistics will continue to operate under its existing name within the corporate Con-way master brand while Con-way examines global trademark issues. Once the research is completed, a decision to change the Menlo name to Con-way will be considered.

Segment results reported below reflect (1) the integration of the former Con-way Logistics with Menlo Worldwide Logistics effective in the second quarter of 2005, (2) the reporting of Road Systems in the Con-way Freight and Transportation operating segment rather than the Con-way Other reporting segment effective in the first quarter of 2006, and (3) the closure of Con-way's domestic air freight forwarding business known as Con-way Forwarding in June 2006, which requires that the operating unit be excluded from the Con-way Freight and Transportation operating segment and reported separately as discontinued operations. Prior-period segment results have been reclassified to reflect the above and to conform to the current-period presentation.

On June 23, 2006, GM exercised its Call Right. As more fully discussed in Note 3, "Investment in Unconsolidated Joint Venture," following June 30, 2006, only profits associated with the settlement of business case activity for the period prior to June 30, 2006 are reported as operating income in the Menlo Worldwide reporting segment.

On July 21, 2006, Con-way executed an agreement with Panther II Transportation, Inc. ("Panther") for Panther to purchase a portion of the former Con-way Expedite and Brokerage business unit. Under the agreement, Con-way sold to Panther the customer list, owner-operator relationships and certain equipment of its expedited-shipping business and retained the portion of business involved in truckload brokerage. As part of the transaction, Con-way executed a non-compete agreement with Panther and agreed to exit the expedited-shipping market immediately. In connection with the sale, Con-way received proceeds of $8.0 million in the third quarter of 2006 and reported a third-quarter gain in continuing operations of $6.2 million.

Financial Data

Management evaluates segment performance primarily based on revenue and operating income (loss), except for Vector, which is evaluated based on MW's proportionate share of Vector's income before taxes. Accordingly, interest expense, investment income and other non-operating items are not reported in segment results. Corporate expenses are generally allocated based on measurable services provided to each segment or, for general corporate expenses, based on segment revenue and capital employed. Inter-segment revenue and related operating income have been eliminated to reconcile to consolidated revenue and operating income.

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Revenues from External Customers				
Con-way Freight and Transportation	$ 735,938	$ 729,660	$2,186,421	$2,067,835
Menlo Worldwide Logistics	340,869	354,797	1,036,430	973,782
	$1,076,807	$1,084,457	$3,222,851	$3,041,617
Inter-segment Revenues				
Con-way Freight and Transportation	$ 11,345	$ 25,379	$ 56,974	$ 57,102
Menlo Worldwide Logistics	--	--	226	--
	$ 11,345	$ 25,379	$ 57,200	$ 57,102
Revenues before Inter-segment Eliminations				
Con-way Freight and Transportation	$ 747,283	$ 755,039	$2,243,395	$2,124,937
Menlo Worldwide Logistics	340,869	354,797	1,036,656	973,782
Inter-segment Revenue Eliminations	(11,345)	(25,379)	(57,200)	(57,102)

	$1,076,807	$1,084,457	$3,222,851	$3,041,617
Operating Income (Loss)				
Con-way Freight and Transportation	$ 95,524	$ 95,340	$ 264,603	$ 255,508
Menlo Worldwide				
Logistics	5,462	7,889	17,740	18,553
Vector	1,019	4,220	13,068	13,196
	6,481	12,109	30,808	31,749
Con-way Other	(670)	(2,852)	(1,145)	(3,176)
	$ 101,335	$ 104,597	$ 294,266	$ 284,081
Reconciliation of segments to consolidated amount:				
Income tax benefit (provision) related to Vector, an equity-method investment	980	(841)	(2,210)	(2,363)
	$ 102,315	$ 103,756	$ 292,056	$ 281,718

5. Employee Benefit Plans

Employees of Con-way and its subsidiaries in the U.S. are covered under several benefit plans, including defined benefit pension plans, a defined contribution retirement plan, and a postretirement medical plan. On October 13, 2006, Con-way's Board of Directors approved changes to Con-way's retirement benefit plans intended to preserve the retirement benefits earned by existing employees under Con-way's primary defined benefit pension plan while expanding benefits earned under its defined contribution plan. The major provisions of the plan amendments are effective on January 1, 2007 and are more fully discussed below.

Defined Benefit Pension Plans

Con-way's defined benefit pension plans primarily consist of a plan that covers the non-contractual employees and former employees of Con-way's continuing operations as well as former employees of its discontinued operations (the "DB Plan"). Under current terms of the DB Plan, benefits are generally based on an employee's five highest consecutive amounts of annual compensation earned during the ten years immediately preceding retirement.

Con-way's annual pension expense and contributions are based on actuarial computations at the actuarial plan measurement date of November 30 of each year. Con-way has contributed $75 million to the DB Plan in 2006, which represents all of the estimated contributions for 2006.

The table below summarizes the components of net periodic benefit expense for the DB Plan and does not include amounts related to separate defined benefit pension plans that cover only the former employees of the discontinued Forwarding segment (the "Forwarding DB Plans"). Also, the benefit expense associated with employees of MWF and EWA covered under the DB Plan was reported in the consolidated statements of income as discontinued operations in 2005, but is reported as continuing operations in 2006, as more fully discussed in Note 9, "Benefit Plans," of Item 8, "Financial Statements and Supplementary Data" in Con-way's 2005 Annual Report on Form 10-K. The portion of benefit expense that relates to discontinued operations was immaterial for the periods presented.

(Dollars in thousands)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Service cost - benefits earned during the quarter	$ 13,451	$ 12,209	$ 40,553	$ 36,213
Interest cost on benefit obligation	13,576	13,117	40,930	38,905
Expected return on plan assets	(16,347)	(14,611)	(49,283)	(43,337)
Net amortization and deferral	1,820	882	5,485	2,616
Net periodic benefit expense	$ 12,500	$ 11,597	$ 37,685	$ 34,397

Under the recent amendments described above, the following major provisions to the DB Plan will take effect on January 1, 2007:

- Participation in the DB plan will be limited to those employees participating as of December 31, 2006. No new employees will be eligible to participate in the DB Plan.
- Employees who are participants in the DB Plan as of December 31, 2006 will retain all accrued benefits and credited service time earned, with credited service capped at December 31, 2006. Future benefit plan payments will reflect participants' eligible compensation increases through 2016, after which the benefit will be capped.
- Benefits paid under the DB Plan will be determined based on years of credited service and final average pay. Final average eligible compensation will be calculated from the five highest years of earnings in any of the past ten years preceding retirement or, for employees retiring after December 31, 2016, in any of the past ten years preceding December 31, 2016.
- Vesting rules remain unchanged.

Con-way also has an unfunded non-qualified supplemental defined benefit pension plan (the "Supplemental DB Plan") that provides additional benefits for certain employees who are affected by Internal Revenue Code ("IRC") limitations on benefits available under the qualified DB Plan. The benefit expense for the Supplemental DB Plan is based on actuarial computations that are consistent with the DB Plan. Effective January 1, 2007, the changes described above for the DB Plan will also affect the Supplemental DB Plan.

Defined Contribution Retirement Plan

Con-way sponsors the Con-way Retirement Savings Plan, a voluntary defined contribution retirement plan for non-contractual U.S. employees with a salary-deferral feature qualified under Section 401(k) of the Internal Revenue Code (the "DC Plan"). Under current terms of the DC Plan (formerly the "Thrift and Stock Plan" or "TASP"), Con-way contributes common and preferred stock equal to 50% of the first 3 percent of the employee's pay. The DC Plan also operates as a leveraged employee stock ownership plan, as more fully discussed in Note 9, "Benefit Plans," of Item 8, "Financial Statements and Supplementary Data" in Con-way's 2005 Annual Report on Form 10-K

Under the recent amendments described above, the following major provisions to the DC Plan will take effect on January 1, 2007:

- Con-way's matching contributions to an employee's 401(k) account will double from the current level to 50% of the first 6 percent of the employee's eligible compensation.
- In addition to the matching contribution, Con-way will make a new Basic

Contribution to the 401(k) accounts of all employees that will equal 3 to 5 percent of the employee's eligible compensation, depending on years of service, with the size of the contribution increasing (up to the maximum 5% contribution) as years of service increase. The contribution will be made quarterly in every succeeding year of employment and will vest immediately.

- In addition to the matching contribution and the Basic Contribution, Con-way will make a new Transition Contribution to the 401(k) accounts of qualifying employees that will equal 1 to 3 percent of the employee's eligible compensation, depending on the employee's combined age and years of service as of December 31, 2006. The contribution will be made quarterly in every succeeding year of employment and will vest immediately.

Concurrent with plan amendments affecting the Supplemental DB Plan described above, Con-way established a new supplemental defined contribution retirement plan (the "Supplemental DC Plan') to provide benefits for certain employees affected by IRC limitations on benefits and compensation available under the qualified DC Plan. The Supplemental DC Plan provides benefits to the extent that employees' elective deferrals and Con-way's matching, Basic and Transition Contributions exceed the IRC benefits and compensation limitations that apply to the qualified DC Plan.

Postretirement Medical Plan

The table below summarizes the components of net periodic benefit expense for Con-way's postretirement medical plan (the "Postretirement Plan"). Like the DB Plan, the benefit expense associated with employees of MWF and EWA covered under the Postretirement Plan was reported in the consolidated statements of income as discontinued operations in 2005, but is reported as continuing operations in 2006. The portion of benefit expense that relates to discontinued operations was $1.0 million and $2.7 million in the third quarter and first nine months of 2006, respectively, and was $3.2 million in both the third quarter and first nine months of 2005.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2006	2005	2006	2005
Service cost - benefits earned during the quarter	$ 582	$ 791	$ 1,650	$ 1,053
Interest cost on benefit obligation	1,800	3,315	5,101	4,413
Net amortization and deferral	618	1,141	1,754	1,518
Net periodic benefit expense	$ 3,000	$ 5,247	$ 8,505	$ 6,984

New Accounting Standard

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)" ("SFAS 158"). The standard requires a company to:

- Recognize in its balance sheet an asset for a plan's over-funded status or a liability for a plan's under-funded status.
- Recognize as a component of other comprehensive income the gains or

losses and prior-service costs and credits that arise during the period but are not recognized as components of net periodic benefit costs.

- Measure a plan's assets and its obligations as of the end of the fiscal year rather than at an earlier measurement date, as allowed under current accounting standards.
- Provide additional disclosures in the notes to the financial statements.

The effective date for the recognition and disclosure elements of SFAS 158 is the first fiscal year ending after December 15, 2006 and the effective date for the end-of-fiscal-year measurement-date requirement is the first fiscal year ending after December 15, 2008.

At September 30, 2006 and December 31, 2005, Con-way reported a net liability of $47.8 million and $82.7 million, respectively, for its obligation related to its defined benefit pension plans, including the DB Plan, the Supplemental DB Plan and the Forwarding DB Plans. The net-of-tax accumulated other comprehensive loss associated with those plans at those dates was $36.2 million. Based on projected actuarial estimates as of December 31, 2006, which reflect the recent retirement benefit plan changes described above, Con-way estimates that it would be required to report a liability for pension benefits of $128 million and a net-of-tax accumulated other comprehensive loss of $63 million in shareholders' equity.

At September 30, 2006 and December 31, 2005, Con-way reported a liability of $95.8 million and $96.4 million, respectively, for its obligation related to its postretirement medical plan. Based on projected actuarial estimates as of December 31, 2006, Con-way estimates that it would be required to report a liability for postretirement benefits of $129 million and a net-of-tax accumulated other comprehensive loss of $21 million in shareholders' equity.

The effect of adoption of SFAS 158 on Con-way's consolidated financial statements is based on projections and actuarial assumptions, and accordingly, is subject to variation based on changes in interest rates, asset returns, and other factors.

6. Comprehensive Income

Comprehensive income, which is a measure of all changes in equity except those resulting from investments by owners and distributions to owners, was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in thousands)	2006	2005	2006	2005
Net income	$ 64,778	$ 67,808	$ 181,944	$ 169,990
Other comprehensive income (loss):				
Foreign currency translation adjustment	(182)	31	319	642
Comprehensive income	$ 64,596	$ 67,839	$ 182,263	$ 170,632

The following is a summary of the components of accumulated other comprehensive loss, net of tax:

(Dollars in thousands)	September 30, 2006	December 31, 2005

Accumulated foreign currency translation adjustments	$ (613)	$ (932)
Minimum pension liability adjustment	(36,175)	(36,175)
Accumulated other comprehensive loss	$ (36,788)	$ (37,107)

7. Common Stock Repurchase Program

In January 2005, the Board of Directors authorized the repurchase of up to $300 million in Con-way's common stock from time to time during a two-year period in open-market and privately negotiated transactions. As described below, Con-way's Board of Directors on April 24, 2006 authorized an expanded repurchase program that replaced the $300 million program approved in January 2005. Under the old program, Con-way repurchased common stock of $189.6 million from January 1, 2005 through April 24, 2006, and no additional shares will be repurchased under that program. Under the new program, Con-way is authorized to repurchase an additional $400 million of common stock through open-market purchases and privately negotiated transactions from time to time in such amounts as management deems appropriate through June 30, 2007. Under the new program, Con-way repurchased common stock of $265.4 million from April 27, 2006 through September 30, 2006, leaving $134.6 million available for future repurchases of common stock.

8. Share-Based Compensation

Under terms of Con-way's share-based compensation plans, employees and directors may be granted options to purchase Con-way's common stock and, in some cases, may be awarded nonvested shares of Con-way's common stock (also known as restricted stock). Stock options are granted at prices equal to the market value of the common stock on the date of grant and expire 10 years from the date of grant. Generally, stock options are granted with three- or four-year graded-vesting terms, under which one-third or one-fourth of the award vests each year, respectively. Stock options granted in and after December 2004 generally have three-year graded-vesting terms, while stock options issued before that date generally have four-year graded-vesting terms. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the stock option plans). Shares of nonvested stock are valued at the market price of Con-way's common stock at the date of award and are generally granted with three-year graded-vesting terms. At September 30, 2006, Con-way had 6,339,147 common shares available for the grant of stock options, restricted stock, or other share-based compensation under its equity plans.

Effective January 1, 2006, Con-way adopted the provisions of SFAS 123R, which requires recognition of compensation expense to share-based payment awards issued to Con-way's employees and directors. Con-way previously applied the recognition provisions of APB 25 and provided the required pro forma disclosures under SFAS 123.

Pro Forma Information for Periods Prior to Adoption of SFAS 123R

Prior to the adoption of SFAS 123R, Con-way did not recognize compensation expense for stock option awards, as all options had an exercise price equal to the market value of the underlying common stock on the date of grant. For shares of nonvested stock, Con-way recognized expense using the accelerated amortization method under FIN 28, "Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans," based on the estimated grant-date fair value.

In accordance with the disclosures required under SFAS 123, as amended by

SFAS 148, "Accounting for Stock-Based Compensation," Con-way provided pro forma disclosures in periods prior to adoption of SFAS 123R. In the pro forma disclosures, compensation expense attributable to stock options and shares of nonvested common stock has been amortized on a straight-line basis over the requisite service period stated in the award and forfeitures have been recognized as they occurred.

The table below is presented for comparative purposes and illustrates the pro forma effect on net income and earnings per share as if Con-way had applied the fair-value recognition provisions of SFAS 123 to share-based compensation prior to January 1, 2006:

(Dollars in thousands, except per share data)	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
Net income available to common shareholders, as reported	$ 65,992	$ 164,149
Share-based compensation expense included in reported income, net of tax	434	829
Compensation expense, net of tax, that would have been included in net income if the fair-value method had been applied	(1,407)	(4,570)
Pro forma net income as if the fair-value method had been applied	$ 65,019	$ 160,408
Earnings per share:		
Basic:		
As reported	$ 1.27	$ 3.14
Pro forma	$ 1.25	$ 3.07
Diluted:		
As reported	$ 1.18	$ 2.93
Pro forma	$ 1.17	$ 2.87

Effect of the Adoption of SFAS 123R

Con-way adopted SFAS 123R using the modified prospective transition method beginning January 1, 2006. Under the modified prospective method, compensation expense recognized in the first nine months of 2006 includes (1) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123, adjusted for estimated forfeitures, and (2) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

In accordance with SFAS 123R, compensation expense for options granted subsequent to January 1, 2006 will be recorded on a straight-line basis over the shorter of (1) the requisite service period stated in the award or (2) the period from the grant date of the award up to the date the employee is no longer obligated to perform service in order to retain the award. For awards granted prior to, but not yet vested upon adoption of SFAS 123R, compensation expense will be recognized over the requisite service period stated in the award.

The following is the effect of adopting SFAS 123R:

(Dollars in thousands)	Three Months Ended September 30, 2006		Nine Months Ended September 30, 2006	
	Stock Options	Nonvested Stock	Stock Options	Nonvested Stock
Compensation expense recognized				
Selling, general and administrative expenses	$ 1,566	$ 504	$ 4,408	$ 1,147
Deferred income tax benefit	611	196	1,719	447
Decrease in net income	$ 955	$ 308	$ 2,689	$ 700

As a result of adopting SFAS 123R, Con-way's basic and diluted earnings per share for the third quarter of 2006 was $0.02 lower and for the first nine months of 2006 was $0.05 lower than if Con-way had continued to account for share-based compensation under APB 25. SFAS 123R requires the benefits on tax deductions in excess of recognized compensation expense to be reported as a financing cash flow rather than as an operating activity, as required by APB 25. In accordance with SFAS 123R, $2.5 million of excess tax benefits were reported as financing cash flows in the first nine months of 2006. In the first nine months of 2005, Con-way recognized excess tax benefits of $15.9 million. Prior-period cash flows have not been reclassified.

Valuation Assumptions

The fair value of each stock option grant is estimated using the Black-Scholes option pricing model. The following is a summary of the weighted-average assumptions used and the calculated weighted-average fair value:

	Nine Months Ended September 30,	
	2006	2005
Estimated fair value	$ 16.96	$ 17.98
Risk-free interest rate	4.8%	3.8%
Expected term (years)	4.50	5.53
Expected volatility	31%	42%
Expected dividend yield	1.09%	1.19%

The risk-free interest rate is determined using the U.S. Treasury zero-coupon issue with a remaining term equal to the expected life of the option. The expected life of the option is derived from a binomial lattice model, which is based on the historical rate of voluntary exercises, post-vesting terminations and volatility. Expected volatility is based on the historical volatility of Con-way's common stock over the most recent period equal to the expected term of the option.

Share-Based Payment Award Activity

The following table summarizes stock-option award activity for the nine months ended September 30, 2006:

	Stock Options	
	Number of	Wtd-Avg.

	Options	Exercise Price
Outstanding at December 31, 2005	1,729,550	$ 34.29
Granted	325,900	55.19
Exercised	(377,350)	31.19
Expired or cancelled	(29,010)	43.24
Outstanding at September 30, 2006	1,649,090	$ 38.97
Exercisable at September 30, 2006	911,444	$ 32.83

	Outstanding	Exercisable
Weighted-average remaining contractual term	6.68 years	5.27 years
Aggregate intrinsic value (in thousands)	$ 13,422	$ 11,159

The aggregate intrinsic value reported in the table above represents the total pretax value, based on Con-way's closing common stock price of $44.82 at September 30, 2006, which would have been received by employees and directors had all of the holders exercised their in-the-money stock options on that date. The aggregate intrinsic value of options exercised in the first nine months of 2006 was $9.5 million, the total amount of cash received from the exercise of options was $11.8 million and the related tax benefit realized from the exercise of options was $3.7 million. The total unrecorded deferred compensation cost on stock options, net of forfeitures, was $7.8 million, which is expected to be recognized over a weighted-average period of 1.62 years.

The following table summarizes nonvested stock award activity for the nine months ended September 30, 2006:

	Nonvested Stock	
	Number of Awards	Wtd-Avg. Grant-Date Price
Outstanding at December 31, 2005	158,048	$ 38.43
Awarded	20,186	51.51
Vested	(55,825)	36.89
Outstanding at September 30, 2006	122,409	$ 44.12

The total fair value of nonvested stock that became vested in the first nine months of 2006 was $3.1 million, based on Con-way's closing common stock price on the vesting date. The total unrecorded deferred compensation cost on shares of nonvested stock, net of forfeitures, was $3.0 million, which is expected to be recognized over a weighted-average period of 2.08 years. In connection with the adoption of SFAS 123R, Con-way eliminated the amount of deferred compensation related to shares of nonvested stock, as recorded in shareholder's equity in the consolidated balance sheets on dates before adoption. As required by SFAS 123R, Con-way also reduced an equal and related amount of additional paid-in capital on common stock.

9. Income Taxes

Con-way's effective tax rate of 34.2% in the third quarter of 2006 decreased

from 35.2% in the third quarter in 2005, while the effective tax rate in the first nine months of both 2006 and 2005 was 34.0%. Con-way's effective tax rate in both nine-month periods reflects the effect of second-quarter discrete tax items related to the settlement with the IRS of previous tax filings, which reduced the tax provision in 2006 and 2005 by $6.9 million and $7.0 million, respectively. Also, the third quarter and the first nine months of 2006 include the utilization of a tax-loss carry-forward realized in connection with a capital gain on the sale of Con-way Expedite. The lower taxable income related to the use of the tax-loss carry-forward reduced Con-way's tax provision in the third quarter of 2006 by $2.9 million. Excluding the effect of the second-quarter adjustments, the effect of the third-quarter tax-loss carry-forward in 2006, and other less significant discrete items, the effective tax rate in the third quarter and first nine months of 2006 was 37.5% and 37.7%, respectively, compared to 35.7% and 37.0% in the third quarter and first nine months of 2005, respectively.

10. Debt

In September 2006, Con-way's $400 million revolving credit facility was amended to revise the pricing and to extend the term from March 11, 2010 to September 30, 2011. The revised pricing reduced the credit facility fee from a range of 0.10% to 0.25% to a range of 0.07% to 0.175% and decreased the borrowing margin paid on outstanding balances. Borrowings under the agreement bear interest at a rate based upon the lead bank's base rate or Eurodollar rate plus a margin dependent on either Con-way's senior debt credit ratings or a ratio of "net debt" (i.e., indebtedness net of cash, cash equivalents and certain marketable securities) to earnings before interest, taxes and depreciation/amortization.

11. Commitments and Contingencies

Spin-Off of CFC

On December 2, 1996, Con-way completed the spin-off of Consolidated Freightways Corporation ("CFC") to Con-way's shareholders. CFC was, at the time of the spin-off, a party to certain multiemployer pension plans covering some of its current and former employees. The cessation of its U.S. operations in 2002 resulted in CFC's "complete withdrawal" (within the meaning of applicable federal law) from these multiemployer plans, at which point it became obligated, under federal law, to pay its share of any unfunded vested benefits under those plans.

It is possible that the trustees of CFC's multiemployer pension plans may assert claims that Con-way is liable for amounts owing to the plans as a result of CFC's withdrawal from those plans and, if so, there can be no assurance that those claims would not be material. Con-way has received requests for information regarding the spin-off of CFC from representatives from some of the pension funds, and, in accordance with federal law, Con-way has responded to those requests.

Con-way believes that it would ultimately prevail if any such claims were made, although there can be no assurance in this regard. Con-way believes that the amount of those claims, if asserted, could be material, and a judgment against Con-way for all or a significant part of these claims could have a material adverse effect on Con-way's financial condition, results of operations and cash flows.

Prior to the enactment in April 2004 of the Pension Funding Equity Act of 2004, if the multiemployer funds had asserted such claims against Con-way, Con-way would have had a statutory obligation to make cash payments to the funds prior to any arbitral or judicial decisions on the funds' determinations. Under the facts related to the CFC withdrawals and the law

in effect after enactment of the Pension Funding Equity Act of 2004, Con-way would no longer be required to make such payments to the multiemployer funds unless and until final decisions in arbitration proceedings, or in court, upheld the funds' determinations.

As a result of the matters discussed above, Con-way can provide no assurance that matters relating to the spin-off of CFC will not have a material adverse effect on Con-way's financial condition, results of operations or cash flows. The likelihood of such claims being asserted by multiemployer funds continues to diminish with the passage of time.

Other

In February 2002, a lawsuit was filed against EWA in the District Court for the Southern District of Ohio, alleging violations of the Worker Adjustment and Retraining Notification Act (the "WARN Act") in connection with employee layoffs and ultimate terminations due to the August 2001 grounding of EWA's airline operations and the shutdown of the airline operations in December 2001. The court subsequently certified the lawsuit as a class action on behalf of affected employees laid off between August 11 and August 15, 2001. The WARN Act generally requires employers to give 60-days notice, or 60-days pay and benefits in lieu of notice, of any shutdown of operations or mass layoff at a site of employment. The estimated range for potential loss on this matter is zero to approximately $8 million. Con-way intends to continue to vigorously defend the lawsuit.

In September 2003, Con-way received notice from the U.S. Attorney's Office for the District of Columbia that EWA is being considered for possible civil action under the False Claims Act for allegedly submitting false invoices to the USPS for payment under the Priority Mail contract. EWA subsequently entered into a tolling agreement with the government in order to give the parties more time to investigate the allegations. In November 2004, Con-way representatives met with the government to discuss the government's allegations, and at that time received certain information relating to the government's investigation. In addition, Con-way, on behalf of EWA, conducted its own investigation into the allegations. Under the False Claims Act, the government would be entitled to recover treble damages, plus penalties, if a court were to ultimately conclude that EWA knowingly submitted false invoices to the USPS. Based on management's current evaluation, Con-way believes that it has provided for its estimated exposure related to the allegations. However, there can be no assurance in this regard as Con-way cannot predict with certainty the outcome of this matter.

Con-way is a defendant in various other lawsuits incidental to its businesses. It is the opinion of management that the ultimate outcome of these actions will not have a material effect on Con-way's financial condition, results of operations or cash flows.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Introduction

Management's Discussion and Analysis of Financial Condition and Results of Operations (referred to as "Management's Discussion and Analysis") is intended to assist in a historical and prospective understanding of Con-way's results of operations, financial condition and cash flows, including a discussion and analysis of the following:

* Overview of Business

* Results of Operations
* Liquidity and Capital Resources
* Estimates and Critical Accounting Policies
* Other Matters

This discussion and analysis should be read in conjunction with the information included in Con-way's 2005 Annual Report on Form 10-K.

Overview of Business

Con-way provides transportation, logistics and supply chain management services for a wide range of manufacturing, industrial, and retail customers. For financial reporting purposes, Con-way is divided into three reporting segments: Con-way Freight and Transportation, primarily a provider of regional less-than-truckload ("LTL") freight services; Menlo Worldwide, a provider of integrated contract logistics solutions; and Con-way Other, which includes certain corporate activities. Menlo Worldwide consists of the operating results of Menlo Worldwide Logistics ("Logistics") and Vector, a joint venture with GM that is accounted for as an equity-method investment.

Con-way's operating-unit results depend on the number and weight of shipments transported, the prices received on those shipments, and the mix of services provided to customers, as well as the fixed and variable costs incurred by Con-way in providing the services and the ability to manage those costs under changing shipment levels. Con-way Freight and Transportation primarily transports shipments through a freight service center network while Logistics and Vector manage the logistics functions of their customers and primarily utilize third-party transportation providers for the movement of customer shipments.

Re-branding Initiative and Organization

On April 18, 2006, shareholders approved management's proposal to change the Company's name to Con-way Inc., as more fully discussed in Note 1, "Principal Accounting Policies - Re-branding Initiative and Organization," of Item 1, "Financial Statements." Con-way has begun a re-branding initiative to introduce a new Con-way logo and graphic identity as the master brand. Con-way's regional LTL operations have been renamed Con-way Freight, while the Company's truckload, expediting, brokerage and trailer manufacturing operations were made part of Con-way Transportation. As more fully discussed under "Results of Operations - Con-way Freight and Transportation," the expediting portion of that business was sold in July 2006. Logistics will continue to operate under its existing name within the corporate Con-way master brand while Con-way examines global trademark issues. Once the research is completed, a decision to change the Menlo name to Con-way will be considered. The Con-way re-branding initiative is expected to incur costs of $25 million to $35 million. Complete conversion to the Company's new graphic identity is scheduled to take 24 to 36 months. In the third quarter and first nine months of 2006, Con-way recognized re-branding expense of $0.4 million and $1.7 million, respectively.

As more fully discussed in Note 2, "Discontinued Operations," of Item 1, "Financial Statements," Con-way and Menlo Worldwide, LLC ("MW") in 2004 sold MWF to UPS, and on June 2, 2006, Con-way closed the operations of its domestic air freight forwarding business known as Con-way Forwarding. Accordingly, the results of operations, net liabilities, and cash flows of the Menlo Worldwide Forwarding segment and the Con-way Forwarding operating unit have been segregated and reported as discontinued operations, except where otherwise noted. Refer to Note 4, "Reporting Segments," of Item 1, "Financial Statements," for additional discussion of organizational changes.

On June 23, 2006, GM exercised its call right to purchase MW's membership

interest in Vector ("Call Right"). Accordingly, following June 30, 2006, only profits associated with the settlement of business case activity for the period prior to June 30, 2006 are reported as operating income in the Menlo Worldwide reporting segment, as more fully discussed in Note 3, "Investment in Unconsolidated Joint Venture," of Item 1,"Financial Statements."

Results of Operations

The following table summarizes Con-way's consolidated operating results for continuing and discontinued operations:

(Dollars in thousands, except per share amounts)	Three MonthsEnded September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net Income (Loss)				
Continuing Operations 1	$ 63,030	$ 63,206	$ 183,404	$ 169,488
Discontinued Operations	--	2,786	(6,779)	(5,339)
Available to Common Shareholders	$ 63,030	$ 65,992	$ 176,625	$ 164,149
Diluted Earnings (Loss) per Share				
Continuing Operations	$ 1.24	$ 1.13	$ 3.47	$ 3.03
Discontinued Operations	--	0.05	(0.13)	(0.10)
Available to Common Shareholders	$ 1.24	$ 1.18	$ 3.34	$ 2.93

1 After preferred stock dividends

Con-way's net income from continuing operations (after preferred stock dividends) of $63.0 million in the third quarter of 2006 was essentially unchanged from $63.2 million in 2005, and in the first nine months of 2006, grew 8.2% to $183.4 million from $169.5 million in 2005. Net income from continuing operations in both the third quarter and first nine months of 2006 primarily reflects higher operating income from Con-way Freight and Transportation and lower operating income from Menlo Worldwide.

Con-way's diluted earnings per share from continuing operations increased 9.7% to $1.24 in the third quarter of 2006 and improved 14.5% to $3.47 in the first nine months of 2006, due primarily to the accretive effect of Con-way's share repurchase program, which included the repurchase in May 2006 of 3.75 million shares in two significant privately negotiated transactions. Primarily as the result of share repurchases, Con-way's third-quarter average diluted shares outstanding declined to 50.9 million shares in 2006 from 56.0 million shares in 2005, and in the nine-month period, declined to 53.1 million shares from 56.3 million shares.

In 2006, net income from continuing operations in the first nine months was partially offset by losses from discontinued operations, which primarily reflect a $5.1 million second-quarter charge related to the closure of Con-way Forwarding in June 2006. In 2005, discontinued operations primarily includes a $9.8 million first-quarter loss related to the disposal of MWF, a $3.0 million second-quarter net gain due to revisions of cost estimates for the disposal of MWF and EWA, and a third-quarter net gain of $3.3 million primarily related to MWF gains that more than offset EWA losses. For periods

prior to its closure in June 2006, discontinued operations in all periods presented include operating losses reported by Con-way Forwarding. The resulting third-quarter net income available to common shareholders declined to $63.0 million ($1.24 per diluted share) in 2006 from $66.0 million ($1.18 per diluted share) in 2005, while in the first nine months, net income available to common shareholders grew 7.6% to $176.6 million ($3.34 per diluted share) in 2006 from $164.1 million ($2.93 per diluted share) in 2005.

Continuing Operations

The following table compares Con-way's segment operating results of continuing operations:

(Dollars in thousands)	Three Months Ended September 30, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2006	Nine Months Ended September 30, 2005
Revenues				
Con-way Freight and Transportation	$ 735,938	$ 729,660	$2,186,421	$2,067,835
Menlo Worldwide Logistics	340,869	354,797	1,036,430	973,782
	$1,076,807	$1,084,457	$3,222,851	$3,041,617
Operating Income (Loss)				
Con-way Freight and Transportation	$ 95,524	$ 95,340	$ 264,603	$ 255,508
Menlo Worldwide Logistics	5,462	7,889	17,740	18,553
Vector	1,019	4,220	13,068	13,196
	6,481	12,109	30,808	31,749
Con-way Other	(670)	(2,852)	(1,145)	(3,176)
	$ 101,335	$ 104,597	$ 294,266	$ 284,081
Reconciliation of segments to consolidated amount:				
Income tax benefit (provision) related to Vector, an equity-method investment	980	(841)	(2,210)	(2,363)
	$ 102,315	$ 103,756	$ 292,056	$ 281,718

The overview below provides a high-level summary of Con-way's results from continuing operations in the periods presented. This introductory section is intended to facilitate an executive-level understanding that provides context for the remainder of the discussion on reporting segments. Refer to "Reporting Segment Review" below for more complete and detailed discussion and analysis.

Con-way's consolidated revenue for the third quarter of 2006 decreased 0.7% from the same period last year, due to lower revenue from Logistics, which was partially offset by revenue growth from Con-way Freight and Transportation. In the first nine months of 2006, consolidated revenue increased 6.0% due to increases from the prior-year period from Con-way Freight and Transportation and from Logistics. Revenues at Con-way Freight and Transportation reflect the effect of Con-way Freight's pricing initiatives, which emphasized the achievement of yield targets. Although yields in the third quarter and first nine months of 2006 grew 6.4% and 4.9%, respectively, the focus on yield adversely affected tonnage, resulting in a weight-per-day decline of 3.9% in the third quarter and modest growth of 2.1% in the first nine months.

Consolidated operating income in 2006 declined 1.4% in the third quarter due primarily to essentially unchanged operating income at Con-way Freight and Transportation and to a decline at Menlo Worldwide, which reflects lower operating income from Logistics and a decrease in operating income from Vector following GM's exercise of its Call Right on June 23, 2006. In the first nine months of 2006, consolidated operating income increased 3.7% on higher operating income from Con-way Freight and Transportation, partially offset by lower operating income from the Menlo Worldwide operating segment.

Consolidated operating income in the third quarter and first nine months of 2006 was adversely affected by higher selling, general and administrative costs, which increased 16.8% and 13.2%, respectively, due to a decline in costs reimbursed by UPS under a transition services agreement, increases in employee benefits expense, higher marketing and advertising costs, and the re-branding initiative. Following the sale of MWF to UPS, a portion of Con-way's corporate administrative costs in 2005 were charged to UPS under a transition services agreement. In the third quarter and first nine months 2005, Con-way was reimbursed by UPS for $3.1 million and $10.4 million of costs, respectively, while no costs were reimbursed by UPS in 2006. Employee benefits expense increased 13.0% and 15.7% in the third quarter and first nine months of 2006, respectively, due primarily to increases in share-based compensation expense and in pension and postretirement benefits expense. In the third quarter and first nine months of 2006, Con-way recognized share-based compensation expense of $1.6 million and $4.4 million, respectively, in connection with the adoption of SFAS 123R effective January 1, 2006. Pension and postretirement benefits expense increased $1.6 million and $2.8 million in the third quarter and first nine months of 2006, respectively, due substantially to the retention of benefit plan obligations following the sale of MWF. Marketing and advertising costs in the third quarter and first nine months of 2006 increased $0.8 million and $2.9 million, respectively, due primarily to customer-focused advertising and employee-focused events that support Con-way's re-branding initiative. Con-way's selling, general and administrative expenses consist of costs incurred directly by its business units as well as corporate charges that are allocated to its business units from Con-way's corporate shared-services administrative center and executive headquarters. Corporate administrative expenses are generally allocated based on measurable services provided to each segment, or for general corporate expenses, based on segment revenue or capital employed.

Con-way Freight and Transportation's operating income in the third quarter of 2006 included a $6.2 million gain from the sale of the expedited-shipping portion of its former Con-way Expedite and Brokerage business. Excluding this gain, Con-way Freight and Transportation's operating income declined 6.3% in the third quarter of 2006 and increased 1.1% in the first nine months of 2006 when compared to the same prior-year periods. Logistics' operating income in the third quarter and first nine months of 2006 decreased 30.8% and 4.4%, respectively, from the same periods of last year. Third-quarter segment operating income reported from MW's equity investment in Vector declined to $1.0 million in 2006 from $4.2 million in 2005, and for the nine-

month period, declined to $13.1 million in 2006 from $13.2 million in 2005. Vector's results in 2006 reflect GM's exercise of its Call Right.

Other net expense of $3.9 million in the third quarter of 2006 was relatively unchanged from the prior-year period, and in the first nine months of 2006, other net expense decreased $10.0 million due primarily to an increase in investment income, a reduction in interest expense, and foreign exchange gains. Investment income in the first nine months of 2006 rose $3.2 million on higher interest rates earned on cash-equivalent investments and marketable securities. Interest expense decreased $3.4 million in the first nine months of 2006 due largely to the $100.0 million repayment in June 2005 of the 7.35% Notes. In the first nine months of 2006, other miscellaneous non-operating income primarily reflects positive variations in foreign exchange transactions, which improved comparative operating results by $2.3 million.

Con-way's effective tax rate of 34.2% in the third quarter of 2006 decreased from 35.2% in the third quarter in 2005, while the effective tax rate in the first nine months of both 2006 and 2005 was 34.0%. Con-way's effective tax rate in both nine-month periods reflects the effect of second-quarter discrete tax items related to the settlement with the IRS of previous tax filings, which reduced the tax provision in 2006 and 2005 by $6.9 million and $7.0 million, respectively. Also, the third quarter and the first nine months of 2006 include the utilization of a tax-loss carry-forward realized in connection with a capital gain on the sale of Con-way Expedite. The lower taxable income related to the use of the tax-loss carry-forward reduced Con-way's tax provision in the third quarter of 2006 by $2.9 million. Excluding the effect of the second-quarter adjustments, the effect of the third-quarter tax-loss carry-forward in 2006, and other less significant discrete items, the effective tax rate in the third quarter and first nine months of 2006 was 37.5% and 37.7%, respectively, compared to 35.7% and 37.0% in the third quarter and first nine months of 2005, respectively.

Reporting Segment Review

Con-way Freight and Transportation

The following table compares operating results, operating margins, and the percentage change in selected operating statistics of the Freight and Transportation reporting segment:

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Summary of Operating Results				
Revenues	$ 735,938	$ 729,660	$2,186,421	$2,067,835
Operating Income	95,524	95,340	264,603	255,508
Operating Margin	13.0%	13.1%	12.1%	12.4%

	2006 vs. 2005	2006 vs. 2005
Selected Freight Operating Statistics		
Revenue per day	+2.2%	+7.0%
Weight per day	-3.9	+2.1
Revenue per hundredweight ("yield")	+6.4	+4.9
Weight per shipment	+0.6	+1.9

Con-way Freight and Transportation's revenue in the third quarter and first nine months of 2006 increased 0.9% and 5.7%, respectively, over the same periods in 2005, due to revenue increases from Con-way Freight that were partially offset by declines in revenue from Con-way Transportation following the sale of the expedited-shipping portion of the former Con-way Expedite and Brokerage business in July 2006, as described below. Revenue increases at Con-way Freight in the third quarter and first nine months of 2006 reflect higher revenue per day, partially offset by the effects of 1.5 fewer working days when compared to the same periods last year. In the third quarter of 2006, revenue per day for Con-way Freight rose 2.2% on a 6.4% increase in yield and a 3.9% decline in weight per day, and in the first nine months of 2006, revenue per day grew 7.0% over 2005 on increases in yield and weight per day of 4.9% and 2.1%, respectively. Both yield and weight per day in the third quarter and first nine months were affected by Con-way Freight's pricing initiatives, which emphasized the achievement of yield targets. Although yields increased, the yield focus adversely affected tonnage in a market of slowing demand for freight transportation services, particularly in the third quarter of 2006. In response to the decreased tonnage volumes, Con-way management has implemented a number of targeted sales initiatives, which it believes will lead to tonnage growth by the second quarter of 2007.

Yield increases in the third quarter and first nine months of 2006 primarily reflect an increase in fuel surcharges, general rate increases and the results of the pricing initiatives discussed above. Like other LTL carriers, Con-way Freight assesses many of its customers with a fuel surcharge. As fuel prices have risen, the fuel surcharge has increased Con-way Freight's yield and revenue. Excluding fuel surcharges, yield in the third quarter and first nine months of 2006 increased 3.1% and 1.6%, respectively. However, the fuel surcharge is only one part of Con-way Freight's overall rate structure, and the total price that Con-way Freight receives from customers for its services is governed by market forces. At times, in the interest of its customers, Con-way has temporarily capped the fuel surcharge at a fixed percentage. Following a sharp increase in fuel costs in the aftermath of hurricane Katrina in the U.S., Con-way imposed a temporary cap on its fuel surcharge in 2005 that was in effect from August 29 through October 24. Yield increases in 2006 were partially offset by the effects of 0.6% and 1.9% increases in weight per shipment in the third quarter and first nine months of 2006, respectively. For the periods presented, higher weight per shipment in 2006 was due in part to Con-way's spot-quote program, which places lower-yielding large shipments into empty linehaul segments, making use of excess trailer capacity. Commensurate with the lower transportation cost per unit of weight, spot-quote and other lower-cost higher-weight shipments generally have lower yields. In 2006, greater capacity among truckload carriers has resulted in lower growth rates of weight per shipment when compared to last year.

As more fully discussed in Note 4, "Reporting Segments," of Item 1, "Financial Statements," Con-way sold the expedited-shipping portion of its former Con-way Expedite and Brokerage business on July 21, 2006. In connection with the sale, Con-way received proceeds of $8.0 million in the third quarter of 2006 and recognized a $6.2 million third-quarter gain. Excluding this gain, Con-way Freight and Transportation's operating income declined 6.3% in the third quarter of 2006 and increased 1.1% in the first nine months of 2006 when compared to the prior-year periods.

Operating income in the third quarter of 2006 was adversely affected by a 9.5% increase in administrative costs, which was due primarily to a $6.7 million or 21.5% increase in allocated corporate administrative expenses, as described above under "- Continuing Operations," partially offset by a $2.1 million or 6.3% decrease in administrative business-unit expenses. Lower business-unit administrative expenses were primarily due to a decline in

administrative employee costs, as more fully discussed below. In response to lower volumes handled by Con-way Freight, in the third quarter of 2006, management reduced operations- related and administrative employee costs at Con-way Freight and Transportation by 2.9% from the same quarter of last year. The third-quarter decline in employee costs, which also represented a decline in employee costs as a percentage of revenue, was achieved with decreases in incentive compensation, base compensation and employee benefits. Compensation earned under the general annual incentive compensation plan in the third quarter of 2006 declined by $6.8 million based on variations in operating income and other performance measures relative to incentive plan targets. Lower base compensation reflects improved employee productivity and declines in time worked by hourly employees, partially offset by the effects of wage and salary rate increases, which typically take effect in the second and third quarters of each year. In the third quarter of 2006, employee benefits expense reflects decreases in payroll taxes, long-term disability costs and long-term incentive compensation for executives, partially offset by an increase in health and welfare benefits and higher expenses for pension benefits. Purchased transportation costs in the third quarter of 2006 decreased 16.1% from the same quarter of last year due primarily to an increase in Con-way Freight's utilization of Con-way Truckload for linehaul services, which reduced the amount of linehaul services provided by third-party carriers. Third-quarter fuel costs in 2006 increased 18.3% from last year due primarily to increased volumes at Con-way Truckload and to higher average diesel fuel prices. Higher fuel costs and fuel-related increases in purchased transportation costs were more than recovered through fuel surcharges, as more fully discussed below in Item 3, "Quantitative and Qualitative Disclosures About Market Risk - Fuel." In response to long-term expectations for business volumes and equipment-replacement needs, depreciation expense increased 12.5% in the third quarter of 2006 due to planned investments in strategic real estate and tractor and trailer acquisitions by Con-way Freight and Con-way Truckload, which began operations in January 2005. Other operating costs increased 7.2% in the third quarter, due primarily to increased cargo claims and vehicular-insurance costs.

Operating income in the first nine months of 2006 was adversely affected by an 11.6% increase in administrative costs, which was due primarily to a $17.3 million or 18.2% increase in allocated corporate administrative expenses, as described above, and to a $2.1 million or 2.2% increase in administrative business-unit expenses. Higher business-unit administrative expenses were primarily due to an increase in administrative employee costs and higher advertising expenses. In the first nine months of 2006, operations-related and administrative employee costs increased 4.3%, but declined as a percentage of revenue. Employee costs reflect increases in base compensation and employee benefits, partially offset by lower incentive compensation. Base compensation in the first nine months 2006 rose 5.7% due primarily to headcount increases, mostly at Con-way Truckload, and to wage and salary rate increases, partially offset by improved employee productivity. Employee benefits expense increased 4.4% due primarily to an increase in the cost of health and welfare benefits and higher expenses for pension benefits, partially offset by a decline in long-term incentive compensation for executives. Compensation earned under the general annual incentive plan in the first nine months of 2006 declined by $11.6 million. Fuel costs in the first nine months of 2006 increased 35.6% and purchased transportation decreased 6.7%, due in part to an increase in Con-way Freight's utilization of Con-way Truckload for linehaul services, which increased fuel consumption but lowered purchased transportation requirements. Purchased transportation and fuel expense in the first nine months of 2006 were adversely affected by an increase in average diesel fuel prices. However, as discussed above, higher fuel costs and fuel-related increases in purchased transportation costs were more than recovered through fuel surcharges. Depreciation expense increased 18.2% in the first nine months of 2006 due to planned investments in strategic real estate and tractor and trailer acquisitions by Con-way

Freight and Con-way Truckload, as discussed above. Other operating costs, which include fuel-related taxes, cargo claims costs and facility costs, increased 10.2% in the first nine months of 2006.

Menlo Worldwide

The Menlo Worldwide reporting segment consists of the operating results of Logistics and Vector. Menlo Worldwide in 2006 reported third-quarter operating income of $6.5 million, a decrease of 46.5% from last year. In the first nine months of 2006, segment operating income was $30.8 million, a 3.0% decline from the same prior-year period. Results in 2006 reflect GM's exercise of its Call Right, as further discussed below under "Menlo Worldwide - Vector, GM Exercise of Call Right." Accordingly, following June 30, 2006, only profits associated with the settlement of business case activity for the period prior to June 30, 2006 are included in Menlo Worldwide's segment results.

Although MW owns a majority equity interest, the operating results of Vector are reported as an equity-method investment based on GM's ability to control certain operating decisions. Accordingly, Con-way's consolidated statements of income do not include any revenue from Vector and only MW's proportionate share of the net income from Vector is reported as a reduction of operating expenses.

The table below compares operating results and operating margins of the Menlo Worldwide reporting segment for the three and nine months ended September 30. The table summarizes Logistics net revenues (revenues less purchased transportation expenses) as well as gross revenues. Carrier-management revenue is attributable to contracts for which Logistics manages the transportation of freight but subcontracts the actual transportation and delivery of products to third parties, which Logistics refers to as purchased transportation. Logistics' management believes that net revenues are a meaningful measure of the relative importance of its principal services since gross revenues earned on most carrier-management services include the third-party carriers' charges to Logistics for transporting the shipments.

(Dollars in thousands)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Summary of Operating Results				
Logistics				
Revenues	$ 340,869	$ 354,797	$1,036,430	$ 973,782
Purchased Transportation	(241,097)	(260,680)	(745,687)	(699,595)
Net Revenues	99,772	94,117	290,743	274,187
Operating Income	5,462	7,889	17,740	18,553
Operating Margin on Revenue	1.6%	2.2%	1.7%	1.9%
Operating Margin on Net Revenue	5.5%	8.4%	6.1%	6.8%
Vector				
Operating Income	$ 1,019	$ 4,220	$ 13,068	$ 13,196

Menlo Worldwide - Logistics

Logistics' revenue in the third quarter of 2006 decreased 3.9% due to a 6.9% decrease in carrier-management services, partially offset by an 8.0% increase in warehouse-management services. Revenue for the first nine months of 2006 increased 6.4%, due to increases in revenue from carrier-management and warehouse-management services of 6.4% and 6.7%, respectively. Revenues in the third quarter and first nine months of 2006 reflect management's decision to terminate in May 2006 a carrier-management contract that accounted for 2.9% of Logistics' annual segment revenues in 2005. In the third quarter of 2006, Logistics' net revenue grew 6.0% as a 3.9% decline in revenue was more than offset by a 7.5% reduction in purchased transportation costs, due primarily to an increase in the percentage of revenue derived from warehouse-management services, which has the effect of increasing gross and net revenue without an associated increase in purchased transportation. Net revenue in the first nine months of 2006 also grew 6.0%, but was the result of growth in both revenue and purchased transportation of 6.4% and 6.6%, respectively. In the first nine months of 2006, higher purchased transportation costs were due to an increase in carrier-management revenue and to fuel-related increases in carrier rates.

Logistics' operating income in the third quarter and first nine months of 2006 decreased 30.8% and 4.4%, respectively, from the same periods of last year, due primarily to administrative expenses, which increased 37.3% and 23.4%, respectively. Higher administrative expenses primarily reflect increases in both administrative business-unit expenses and allocated corporate administrative expenses. Business-unit administrative expenses in the third quarter of 2006 increased 42.4% or $3.4 million, and in the nine-month period, increased 23.9% or $6.1 million, due primarily to employee-related costs, as more fully discussed below, and to $1.0 million of third-quarter costs related to a bid for a significant contract. Corporate administrative costs allocated to Logistics in the third quarter of 2006 increased $2.0 million or 21.4%, and in the nine-month period, increased $3.8 million or 13.2%, as described above under " - Continuing Operations."

Purchased labor and employee costs collectively increased 13.3% and 13.2% in the third quarter and first nine months of 2006, respectively. In the third quarter and first nine months of 2006, purchased labor costs increased $3.3 million or 25.6% and $8.0 million or 21.4%, respectively, due to new warehouse-management projects, primarily those secured in the second quarter of 2006. Logistics utilizes purchased labor for warehouse-management services due to the flexibility provided in responding to varying customer demand. Employee costs in 2006, including both operations-related and administrative personnel, reflect increases in base compensation, employee benefits, and incentive compensation. Base compensation in the third quarter and first nine months of 2006 rose $1.1 million or 4.5% and $4.7 million or 6.4%, respectively, due primarily to growth in headcount and, to a lesser extent, wage and salary rate increases that typically take effect in the first and third quarters of each year. Employee benefits expense increased $1.4 million or 19.1% and $3.9 million or 17.6% in the third quarter and first nine months of 2006, respectively, primarily from an increase in the cost of health and welfare benefits and other employee benefit costs. Incentive compensation in the third quarter and first nine months of 2006 increased by $0.5 million and $2.1 million, respectively, based on variations in operating income, working capital and other performance measures relative to incentive plan targets. In an effort to improve margins, management continues the transition to a shared-resource process-based approach that leverages a centralized transportation group, utilizes multi-client warehouses, and creates technological solutions that benefit multiple customers.

Beginning in the second quarter of 2005, Logistics integrated into its operations the former Con-Way Logistics business, which was previously

reported in the Con-way Freight and Transportation segment. Accordingly, the operating results of Con-Way Logistics are reported with Menlo Worldwide Logistics and prior periods have been reclassified to conform to the current-period presentation.

Menlo Worldwide - Vector

Operating Results

Third-quarter segment operating income reported from MW's equity investment in Vector declined to $1.0 million in 2006 from $4.2 million in 2005, and for the nine-month period, declined to $13.1 million in 2006 from $13.2 million in 2005. Results in 2006 reflect GM's exercise of its Call Right, as further discussed below. Accordingly, following June 30, 2006, only profits associated with the settlement of business case activity for the period prior to June 30, 2006 are included in Menlo Worldwide's segment results.

GM Exercise of Call Right

As more fully discussed in Note 3, "Investment in Unconsolidated Joint Venture," of Item 1, "Financial Statements," on June 23, 2006, GM exercised its Call Right. As a result, Con-way is entitled to receive the fair value of MW's membership interest in Vector as of June 22, 2006. Con-way believes that the fair value of MW's membership interest in Vector consists of the amount of MW's capital account, the amount of MW's portion of Vector's undistributed earnings, and the fair value of MW's portion of Vector's future profit. At the agreed-upon effective valuation date of June 30, 2006, MW's capital account and MW's portion of undistributed earnings in Vector totaled $42.4 million. Proceeds received in excess of MW's capital account and MW's portion of undistributed earnings in Vector will be reported as a gain from continuing operations, based on Vector's classification as an equity-method investment in Con-way's consolidated financial statements.

Con-way is currently in discussions with GM as to the valuation amount and transition terms for Vector operations. While Con-way believes that it is entitled to receive the payments described above and therefore expects to realize a gain, it has not reached agreement with GM and cannot predict with certainty the ultimate outcome of these matters.

Con-way Other

The Con-way Other reporting segment consists of certain corporate activities for which the related income or expense has not been allocated to other reporting segments. All periods presented include results from corporate re-insurance activities and operating costs on corporate properties. The Con-way Other third-quarter operating loss decreased to $0.7 million in 2006 from $2.9 million in 2005, which included a $2.2 million loss resulting from an insurance settlement. In the first nine months, the $1.1 million operating loss in 2006 decreased from $3.2 million in 2005 as losses from re-insurance activities and operating costs on corporate properties were partially offset by gains from the sale of communication frequencies in the first nine months

25,423

25,617

23,416

Other operating expenses

47,469

35,221

181,612

116,845

148,305

112,529

84,205

Total non-interest expenses

468,618

414,946

1,788,217

1,364,366

1,254,919

1,374,136

970,222

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(In thousands, except per share amounts)	Three Months Ended March 31, 2014	Three Months Ended March 31, 2013	Year Ended December 31, 2013	2012	2011	2010	2009
Income from continuing operations before income tax expense	78,128	23,658	185,229	229,747	138,149	(1,458)	120,414
Provision for income taxes/(benefit)	30,155	8,722	12,322	84,451	53,880	(2,508)	44,616
Income from continuing operations	$ 47,973	14,936	$ 172,907	$ 145,296	$ 84,269	$ 1,050	$ 75,798
Discontinued operations:							
Income/(loss) from discontinued operations, net of tax	(591)	(317)	(10,894)	(6,723)	(135)	857	
Net income	$ 47,382	$ 14,619	$ 162,013	$ 138,573	$ 84,134	$ 1,907	$ 75,798

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USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $295,288,000 after discounts, commissions and expenses related to this offering. The net proceeds from this offering will be used for general corporate purposes. Pending such use, the proceeds may be invested temporarily in short-term, interest-bearing, investment-grade securities or similar assets.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges presented below should be read together with the consolidated financial statements and the notes accompanying them and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Quarterly Report on Form 10-Q for the period ended March 31, 2014 and our Annual Report on Form 10-K for the year ended December 31, 2013, incorporated by reference into this prospectus supplement and the accompanying prospectus. For purposes of the computation of the ratio of earnings to fixed charges, earnings consist of earnings from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest expense plus the interest component of lease rental expense.

	Year Ended December 31,					Three Months Ended March 31,	
	2009	**2010 [1]**	**2011 [2]**	**2012**	**2013 [3]**	**2014 [4]**	**2013 [5]**
Ratio of Earnings to Fixed Charges	5.56x	0.95x	4.16x	5.44x	3.59x	2.46x	6.17x

[1] For the year ended December 31, 2010, we recorded a non-cash charge of $106.4 million after-tax related to the acceleration of deferred compensation in the third quarter of 2010 as a result of a modification of our deferred compensation plan and merger-related after-tax expenses of $16.5 million related to the merger with Thomas Weisel Partners Group, Inc.

[2] For the year ended December 31, 2011, we recorded litigation-related and certain merger-related after-tax expenses of $29.4 million.

[3] For the year ended December 31, 2013, we recorded certain merger-related after-tax expenses of $71.9 million.

[4] For the three months ended March 31, 2014, we recorded certain merger-related after-tax expenses of $4.1 million.

[5] For the three months ended March 31, 2013, we recorded certain merger-related after-tax expenses of $25.3 million.

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CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2014:

On an actual basis; and

On an as adjusted basis to give effect to the notes offered hereby as if it occurred on that date.

You should read the data set forth in the table below in conjunction with Use of Proceeds, and Summary Historical Financial Information, appearing elsewhere in this prospectus supplement, as well as our unaudited financial statements and the accompanying notes and the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, each included in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 and incorporated in this prospectus supplement and the accompanying prospectus.

	March 31, 2014	
	Actual	As adjusted
(in thousands, except share data)	(Unaudited)	
Cash and cash equivalents	$ 525,409	$ 820,697
Liabilities:		
Short-term borrowings from banks	$ 414,900	$ 414,900
Payables:		
Brokerage clients	327,270	327,270
Brokers, dealers, and clearing organizations	105,404	105,404
Drafts	70,024	70,024
Securities sold under agreements to repurchase	246,159	246,159
Bank deposits	4,605,260	4,605,260
Financial instruments sold, but not yet purchased, at fair value	715,116	715,116
Accrued compensation	175,084	175,084
Accounts payable and accrued expenses	220,957	220,957
6.70% senior notes due 2022	175,000	175,000
5.375% senior notes due 2022	150,000	150,000
4.25% senior notes due 2024 offered hereby		300,000
Debenture to Stifel Financial Capital Trust II	35,000	35,000
Debenture to Stifel Financial Capital Trust III	35,000	35,000
Debenture to Stifel Financial Capital Trust IV	12,500	12,500
	7,287,674	7,587,674
Liabilities subordinated to claims of general creditors		
Shareholders Equity:		
Preferred stock $1 par value; authorized 3,000,000 shares		
Common stock $0.15 par value; authorized 97,000,000 shares	9,819	9,819
Additional paid-in-capital	1,533,968	1,533,968
Retained earnings	587,622	587,622
Accumulated other comprehensive income	(31,205)	(31,205)
	2,100,204	2,100,204
Treasury stock, at cost	(64)	(64)
	2,100,140	2,100,140
Total Liabilities and Shareholders Equity	$ 9,387,814	$ 9,687,814

DESCRIPTION OF CERTAIN INDEBTEDNESS

Our short-term financing is generally obtained through uncommitted, secured lines of credit and an unsecured revolving credit facility. We borrow from various banks on a demand basis with company-owned securities pledged as collateral to fund a portion of our daily operations. Additionally, we use customer securities pledged as collateral to fund customer borrowings. The amount borrowed under these credit facilities varies daily based on our funding needs.

Uncommitted Lines of Credit

Our uncommitted secured lines of credit at March 31, 2014 totaled $680.0 million with four banks and are dependent on having appropriate collateral, as determined by the bank agreements, to secure an advance under the line. The availability of our uncommitted lines are subject to approval by the individual banks each time an advance is requested and may be denied. As of March 31, 2014, we had approximately $414.9 million of consolidated secured, short-term indebtedness, at an average rate of 1.1% all of which is held by Stifel Nicolaus.

Revolving Credit Facility

Our committed short-term bank line financing at March 31, 2014 consisted of a $100.0 million committed revolving credit facility. The credit facility expires in December 2014. The applicable interest rate under the revolving credit facility is calculated as a per annum rate equal to the one-month Eurocurrency rate plus 1.00%, as defined in the revolving credit facility.

We can draw upon this line, as long as certain restrictive covenants are maintained. Under our revolving credit facility, we are also required to maintain compliance with a minimum consolidated tangible net worth covenant under which we are required to have at all times a consolidated tangible net worth, as defined in the revolving credit facility, and a maximum consolidated total capitalization ratio covenant under which we are required to have at all times a consolidated total capitalization ratio, as defined in the revolving credit facility. In addition, Stifel Nicolaus, our broker-dealer subsidiary, is required to maintain compliance with a minimum regulatory net capital covenant of not less than 10% of aggregate debits, as defined in the revolving credit facility.

At March 31, 2014, we had no advances on our revolving credit facility and were in compliance with all covenants. Our revolving credit facility contains customary events of default, including, without limitation, payment defaults, breaches of representations and warranties, covenant defaults, cross-defaults to similar obligations, certain events of bankruptcy and insolvency and judgment defaults.

Public Offering of Senior Notes

On January 18, 2012, we issued $175.0 million principal amount of 6.70% Senior Notes due 2022 (the 6.70% notes). Interest on the 6.70% notes has accrued from January 23, 2012 and is paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing on April 15, 2012. The 6.70% notes will mature on January 15, 2022. We may redeem the 6.70% notes in whole or in part on or after January 15, 2015 at our option at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. Proceeds from such notes issuance of $170.3 million, after discounts, commissions and expenses, has been used for general corporate purposes. The 6.70% notes are listed on the NYSE and trade under the symbol SFB.

On December 18, 2012, we issued $150.0 million principal amount of 5.375% Senior Notes due 2022 (the 5.375% notes). Interest on the 5.375% notes has accrued from December 21, 2012 and is be paid quarterly in arrears on January 15, April 15, July 15 and October 15 of each year, commencing on April 15, 2013. The

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5.375% notes will mature on December 31, 2022. We may redeem the 5.375% notes in whole or in part on or after December 31, 2015 at our option at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest to the date of redemption. Proceeds from such notes issuance of $146.1 million, after discounts, commissions and expenses, has been used for general corporate purposes. The 5.375% notes are listed on the NYSE and trade under the symbol SFN.

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DESCRIPTION OF NOTES

We will issue the notes under an indenture dated as of January 23, 2012, between Stifel Financial Corp. and U.S. Bank National Association, as trustee (the trustee), as supplemented by the Third Supplemental Indenture to be dated as of July 18, 2014 with respect to the notes. We refer to the base indenture, as supplemented by the supplemental indenture, as the indenture. The terms of the notes include those expressly set forth in the indenture and those made a part of the indenture by reference to the Trust Indenture Act of 1939, as amended (the Trust Indenture Act).

The following summary of the terms of the notes and the indenture does not purport to be complete and is subject, and qualified in its entirety by reference, to the detailed provisions of the notes and the indenture, including the definitions of certain terms used in the indenture. You may request a copy of the indenture from us as described under Where You Can Find More Information in the accompanying prospectus. Those documents, and not this description, define your legal rights as a holder of the notes. The following description supplements, and supersedes to the extent it is inconsistent with, the statements under Description of the Securities in the accompanying prospectus.

For purposes of this description, the terms Stifel Financial Corp., we, us and our refer only to Stifel Financial Corp. and not to any of its subsidiaries, unless we specify otherwise.

General

The notes will be issued in an initial principal amount of $300 million. We may, without the consent of holders of the notes, increase the principal amount of the notes by issuing additional senior debt securities in the future on the same terms and conditions, except for any difference in the issue price and interest accrued prior to the issue date of the additional senior debt securities, and with the same CUSIP number as the notes offered hereby, *provided that* such additional senior debt securities constitute part of the same issue as the notes offered hereby for U.S. federal income tax purposes. The notes offered by this prospectus supplement and any additional senior debt securities would rank equally and ratably and would be treated as a single series of debt securities for all purposes under the indenture.

The notes will be issued only in fully registered, book-entry form, in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof, except under the limited circumstances described below under Certificated Securities in this prospectus supplement.

The indenture does not contain any provisions that would necessarily protect holders of notes if we become involved in a highly leveraged transaction, reorganization, merger or other similar transaction that adversely affects us or them.

Optional Redemption

We may, at our option, at any time and from time to time redeem the notes in whole or in part on not less than 30 nor more than 60 days prior notice mailed to the holders of the notes. The notes will be redeemable at a redemption price equal to the greater of:

- 100% of the principal amount of the notes to be redeemed; and
- the sum of the present values of the Remaining Scheduled Payments (as defined below) of the notes to be redeemed, discounted to the date of redemption on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Rate (as defined below) plus 30 basis points, provided that the principal amount of a note remaining outstanding after redemption in part will be $2,000 or an integral multiple of $1,000 in excess thereof;

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in each case, plus accrued and unpaid interest thereon to, but excluding, the date of redemption. If the date of redemption is on or after an interest record date and on or before the related interest payment date, the accrued and unpaid interest, if any, will be paid to the person in whose name the note is registered at the close of business on such interest record date, and no additional interest is payable to holders whose notes will be subject to redemption by us.

For purposes of this Optional Redemption section, the following terms have the following meanings:

Business Day means any day that is not a Saturday, a Sunday or a day on which banking institutions are not required to be open in the City of New York.

Comparable Treasury Issue(s) means either (i) the United States Treasury security selected by an Independent Investment Banker as having an actual maturity, or (ii) two such securities selected by an Independent Investment Banker to be used to interpolate a maturity, in each case comparable to the remaining term of the notes to be redeemed that would be used, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

Comparable Treasury Price means, with respect to any date of redemption, the Reference Treasury Dealer Quotations for that date of redemption.

Independent Investment Banker means the Reference Treasury Dealer appointed by us.

Reference Treasury Dealer means each of Merrill Lynch, Pierce, Fenner & Smith Incorporated and Keefe, Bruyette & Woods, Inc. and their respective successors and two other nationally recognized investment banking firms that are primary U.S. Government securities dealers specified from time to time by us so long as the entity is a primary U.S. Government securities dealer.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any date of redemption, the average, as determined by us, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to us by such Reference Treasury Dealer at 5:00 p.m., New York City time, on the third Business Day preceding that date of redemption, after excluding the highest and lowest of such quotations, unless we obtain fewer than four such quotations, in which case the average of all of such quotations.

Remaining Scheduled Payments means, with respect to each note to be redeemed, the remaining scheduled payments of the principal thereof and interest thereon that would be due after the related date of redemption therefor; *provided*, *however*, that, if that date of redemption is not an interest payment date with respect to such note, the amount of the next succeeding scheduled interest payment thereon will be reduced by the amount of interest accrued thereon to that date of redemption.

Treasury Rate means, with respect to any date of redemption, the rate per annum equal to the semiannual equivalent yield to maturity, computed as of the third Business Day immediately preceding that date of redemption, of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for that date of redemption.

On and after any redemption date, interest will cease to accrue on the notes called for redemption. Prior to any redemption date, we are required to deposit with a paying agent money sufficient to pay the redemption price of and accrued interest on the notes to be redeemed on such date. If we are redeeming less than all the notes, the trustee under the indenture must select the notes to be redeemed on a pro rata basis or by such method as the trustee deems fair and appropriate in accordance with the procedures of the Depository Trust Company (DTC).

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Except as described above, the notes will not be redeemable by us prior to maturity.

We may acquire notes by means other than a redemption, whether by tender offer, open market purchases, negotiated transactions or otherwise, in accordance with applicable securities laws, so long as such acquisition does not otherwise violate the terms of the indenture or applicable law.

Interest

Interest on the notes will accrue at the rate of 4.25% per year from and including July 18, 2014 or the most recent interest payment date to which interest has been paid or provided for, and will be payable semiannually in arrears on each January 18 and July 18 of each year, commencing on January 18, 2015. We will pay interest to those persons who were holders of record of such notes on the first day of the month of each interest payment date: January 1 and July 1, the record date preceding each interest payment date. Interest on the notes will be computed on the basis of a 360-day year consisting of twelve 30-day months. We will not provide a sinking fund for the notes.

If any interest payment date or stated maturity date is not a business day, the payment otherwise required to be made on such date will be made on the next business day without any additional payment as a result of such delay. The term business day means, with respect to any note, any day, other than a Saturday, Sunday or any other day on which banking institutions in The City of New York are authorized or obligated by law or executive order to close. All payments will be made in U.S. dollars.

Ranking

The notes will be our general unsecured senior obligations that rank senior in right of payment to our future indebtedness that is expressly subordinated in right of payment to the notes. The notes will rank equally with all our other unsecured senior indebtedness. However, the notes will be effectively subordinated to any of our existing and future secured indebtedness to the extent of the value of the assets securing such indebtedness. The notes will also be effectively subordinated to all liabilities, including trade payables and lease obligations of our subsidiaries. Any right by us to receive the assets of any of our subsidiaries upon a liquidation or reorganization of that subsidiary, and the consequent right of the holders of the notes to participate in those assets, will be effectively subordinated to the claims of that subsidiary s creditors, except to the extent that we are recognized as a creditor of such subsidiary, in which case our claims would still be subordinated to any security interests in the assets of such subsidiary and any indebtedness of such subsidiary that is senior to that held by us.

Our subsidiaries are separate and distinct legal entities and have no obligation, contingent or otherwise, to pay any amounts due on the notes or to make any funds available for payment on the notes, whether by dividends, loans or other payments. In addition, the payment of dividends and the making of loans and advances to us by our subsidiaries may be subject to statutory, contractual or other restrictions, may depend on the earnings or financial condition of all of the foregoing and are subject to various business considerations. As a result, we may be unable to gain significant, if any, access to the cash flow or assets of our subsidiaries.

The indenture does not limit the amount of additional indebtedness, including senior or secured indebtedness, which we can create (other than the restrictions described in Limitation on Liens below), incur, assume or guarantee, nor does the indenture limit the amount of indebtedness or other liabilities that our subsidiaries can create, incur, assume or guarantee. As of March 31, 2014, we had approximately $407.5 million of total long-term indebtedness. As of March 31, 2014, our subsidiaries had no long-term indebtedness, excluding intercompany indebtedness, and had not guaranteed any other indebtedness. As of March 31, 2014, we had approximately $414.9 million of consolidated secured, short-term indebtedness, all of which is held at Stifel Nicolaus.

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Maturity

The notes will mature on July 18, 2024.

Covenants

Limitation on Liens

We, or any successor corporation, will not, and will not permit any subsidiary to, create, assume, incur or guarantee any indebtedness for borrowed money secured by a pledge, lien or other encumbrance, except for Permitted Liens, on the voting securities of any Principal Subsidiary unless we cause the notes (and if we so elect, any other of our indebtedness ranking on a parity with the notes) to be secured equally and ratably with (or, at our option, prior to) any indebtedness secured thereby.

For purposes of the notes:

Permitted Liens means (1) liens for taxes or assessment or governmental charges or levies (a) that are not then due and delinquent, (b) the validity of which is being contested in good faith or (c) which are less than $1,000,000 in amount; (2) judgment liens arising from any litigation or legal proceedings which (a) are currently being contested in good faith by appropriate proceedings or (b) which involve judgments of less than $5,000,000; (3) deposits to secure (or in lieu of) surety, stay, appeal or customs bonds; (4) liens imposed by law, such as carriers , warehousemen s and mechanics liens and other similar liens arising in the ordinary course of business which secure payment of obligations not more than 60 days past due or which are being contested in good faith by appropriate proceedings and for which adequate reserves shall have been set aside on its books; (5) liens arising out of pledges or deposits under worker s compensation laws, unemployment insurance, old age pensions, or other social security or retirement benefits, or similar legislation; (6) any liens existing on the issue date; (7) any extension, renewal or replacement (or successive extensions, renewals or replacements) in whole or in part, of any liens referred to in the foregoing clauses (3), (4), (5) and (6), provided that the principal amount of indebtedness secured thereby and not otherwise authorized as a Permitted Lien shall not exceed the principal of indebtedness, plus any premium or fee payable in connection with any such extension, renewal or replacement, so secured at the time of such extension, renewal or replacement; and (8) other liens arising in the ordinary course of business and consistent with past practice; and

Principal Subsidiary means any subsidiary of ours the total assets of which as set forth in the most recent statement of financial condition of such subsidiary equal more than 10% of the total consolidated assets of us and our subsidiaries as determined from the most recent consolidated statement of financial condition of us and our subsidiaries.

Limitation on Sale and Lease-Back Transactions

We will not, nor will we permit any of our Significant Subsidiaries to, enter into any Sale and Lease-Back Transaction with respect to any Principal Property, other than any such Sale and Lease-Back Transaction involving a lease for a term of not more than three years or any such Sale and Lease-Back Transaction between us and one of our Significant Subsidiaries or between our Significant Subsidiaries, unless the proceeds of such Sale and Lease-Back Transaction are at least equal to the fair market value of the affected Principal Property (as determined in good faith by the Board of Directors of the Company) and we apply an amount equal to the net proceeds of such Sale and Lease-Back Transaction within 365 days of such Sale and Lease-Back Transaction to any (or a combination) of (i) the prepayment or retirement of the notes, (ii) the prepayment or retirement (other than any mandatory retirement, mandatory prepayment or sinking fund payment or by payment at maturity) of other indebtedness of ours or of one of our Significant Subsidiaries (other than indebtedness that is subordinated to the notes or indebtedness owed to us or one of our Significant Subsidiaries) that matures more than 12 months after its creation or (iii) the purchase, construction, development, expansion or improvement of other comparable property.

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For purposes of the notes:

Attributable Debt with regard to a Sale and Lease-Back Transaction with respect to any Principal Property means, at the time of determination, the present value of the total net amount of rent required to be paid under such lease during the remaining term thereof (including any period for which such lease has been extended), discounted at the rate of interest set forth or implicit in the terms of such lease (or, if not practicable to determine such rate, the weighted average interest rate per annum borne by the securities of all series then outstanding under the indenture) compounded semi-annually. In the case of any lease which is terminable by the lessee upon the payment of a penalty, such net amount shall be the lesser of (x) the net amount determined assuming termination upon the first date such lease may be terminated (in which case the net amount shall also include the amount of the penalty, but shall not include any rent that would be required to be paid under such lease subsequent to the first date upon which it may be so terminated) or (y) the net amount determined assuming no such termination.

Principal Property means the land, improvements, buildings and fixtures (including any leasehold interest therein) constituting a corporate office, facility or other capital asset within the United States (including its territories and possessions) which is owned or leased by us or any of our Significant Subsidiaries unless our Board of Directors has determined in good faith that such office or facility is not of material importance to the total business conducted by us and our Significant Subsidiaries taken as a whole. With respect to any Sale and Lease-Back Transaction or series of related Sale and Lease-Back Transactions, the determination of whether any property is a Principal Property shall be determined by reference to all properties affected by such transaction or series of transactions.

Sale and Lease-Back Transaction means any arrangement with any person providing for the leasing by us or any of our Significant Subsidiaries of any Principal Property, whether now owned or hereafter acquired, which Principal Property has been or is to be sold or transferred by us or such Significant Subsidiary to such person; provided that Sale and Lease-Back Transaction shall not include any such arrangement in place as of the issue date.

Significant Subsidiary means, with respect to any person, any subsidiary of such person that satisfies the criteria for a Significant Subsidiary set forth in Rule 1-02(w) of Regulation S-X under the Exchange Act.

Excepted Indebtedness

Notwithstanding the limitations on liens and Sale and Lease-Back Transactions described above, and without limiting our or any Significant Subsidiary s ability to issue, incur, create, assume or guarantee indebtedness secured by Permitted Liens, we and any Significant Subsidiary will be permitted to incur indebtedness secured by a lien or may enter into a Sale and Lease-Back Transaction, in either case, without regard to the restrictions contained in the preceding two sections entitled Limitations on Liens and Limitations on Sale and Lease-Back Transactions, if at the time the indebtedness is incurred and after giving effect to such Indebtedness and to the retirement of indebtedness which is concurrently being retired, the sum of (a) the aggregate principal amount of all indebtedness secured by liens that are restricted by, and not otherwise permitted by, the provisions described under Limitation on Liens and (b) the Attributable Debt of all our Sale and Lease-Back Transactions not otherwise permitted by the provisions described under Limitations on Sale and Lease-Back Transactions, does not exceed 15% of Consolidated Net Worth (as defined below).

Consolidated Net Worth means, the consolidated stockholders equity of us and our subsidiaries, as defined according to GAAP.

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Additional Covenants

Under the indenture, we are also required to:

- pay the principal, interest and any premium on the notes when due and deposit sufficient funds with any paying agent on or before the due date for any principal, interest or any premium;
- provide the trustee with a copy of the reports we must file the SEC pursuant to Section 13 or 15(d) of the Exchange Act no later than the time those reports must be filed with the SEC (after giving effect to any grace period provided by Rule 12b-25 under the Exchange Act); provided, that the filing of these reports with the SEC through its EDGAR database within the time periods for filing the same under the Exchange Act (taking into account any applicable grace periods provided thereunder) will satisfy our obligation to furnish those reports to the trustee;
- pay, and cause each of our subsidiaries to pay, prior to delinquency, all material taxes, assessments and governmental levies, subject to certain exceptions;
- to the extent that we may lawfully do so, to not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of the indenture; and
- maintain our corporate existence and the corporate, partnership, limited liability company or other existence of each of our significant subsidiaries, subject to certain exceptions.

Merger, Consolidation and Sale of Assets

The indenture generally permits us to consolidate or merge with another entity. The indenture also permits us to sell all or substantially all of our property and assets. If this happens, the remaining or acquiring entity must assume all of our responsibilities and liabilities under the indenture including the payment of all amounts due on the notes and performance of the covenants in the indenture. However, we will only consolidate or merge with or into any other entity or sell all or substantially all of our assets according to the terms and conditions of the indenture. The remaining or acquiring entity will be substituted for us in the indenture with the same effect as if it had been an original party to the indenture. Thereafter, the successor entity may exercise our rights and powers under any indenture, in our name or in its own name. Any act or proceeding required or permitted to be done by our board of directors or any of our officers may be done by the board or officers of the successor entity. When the successor assumes all of our obligations under the indenture, our obligations under the indenture will terminate.

Events of Default, Notice and Waiver

The following are events of default under the indenture for the notes:

- failure by us to pay the principal of, or premium, if any, on any note when due, whether at maturity, upon redemption or otherwise;
- failure by us to pay an installment of interest on any note when due, if the failure continues for 30 days after the date when due;
- failure by us to comply with our obligations under Merger, Consolidation and Sale of Assets above;
- failure by us to comply with any other term, covenant or agreement contained in the notes or the indenture, if the failure is not cured within 60 days after notice to us by the trustee or to the trustee and us by holders of at least 25% in aggregate principal amount of the notes then outstanding, in accordance with the indenture;
- a default by us or any of our subsidiaries in the payment when due, after the expiration of any applicable grace period, of principal of, or premium, if any, or interest on, indebtedness for money borrowed in the aggregate principal amount then outstanding of $25 million or more, or acceleration of our or our subsidiaries indebtedness for money borrowed in such aggregate principal amount or more so that it becomes due and payable before the date on which it would otherwise have become due and payable, if such default is not cured or waived, or such acceleration is not rescinded, within 30 days after notice to us by the trustee or to us and the trustee by holders of at least 25% in aggregate principal amount of the notes then outstanding, in accordance with the indenture;

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- failure by us or any of our subsidiaries, within 30 days, to pay, bond or otherwise discharge any final, non-appealable judgments or orders for the payment of money the total uninsured amount of which for us or any of our subsidiaries exceeds $25 million, which are not stayed on appeal; and
- certain events of bankruptcy, insolvency or reorganization with respect to us or any of our subsidiaries that is a significant subsidiary (as defined in Regulation S-X under the Exchange Act) or any group of our subsidiaries that in the aggregate would constitute a significant subsidiary.

If an event of default, other than an event of default referred to in the last bullet point above with respect to us (but including an event of default referred to in that bullet point solely with respect to a significant subsidiary, or group of subsidiaries that in the aggregate would constitute a significant subsidiary, of ours), has occurred and is continuing, either the trustee, by notice to us, or the holders of at least 25% in aggregate principal amount of the notes then outstanding, by notice to us and the trustee, may declare the principal of, and any accrued and unpaid interest on, all notes to be immediately due and payable. In the case of an event of default referred to in the last bullet point above with respect to us (and not solely with respect to a significant subsidiary, or group of subsidiaries that in the aggregate would constitute a significant subsidiary, of ours), the principal of, and accrued and unpaid interest on, all notes will automatically become immediately due and payable.

Notwithstanding the paragraph above, for the first 365 days immediately following an event of default relating to (i) our failure to file with the trustee pursuant to Section 314(a)(1) of the Trust Indenture Act any documents or reports that we are required to file with the SEC pursuant to Section 13 or 15(d) of the Exchange Act or (ii) our failure to comply with our reporting obligations to the trustee set forth under the second sub-bullet under the heading Covenants above, the sole remedy for any such event of default shall be the accrual of additional interest on the notes at a rate per year equal to (i) 0.25% of the outstanding principal amount of the notes for the first 180 days following the occurrence of such event of default and (ii) 0.50% of the outstanding principal amount of the notes for the next 180 days after the first 180 days following the occurrence of such event of default, in each case, payable quarterly at the same time and in the same manner as regular interest on the notes. This additional interest will accrue on all outstanding notes from, and including the date on which such event of default first occurs to, and including, the 365th day thereafter (or such earlier date on which such event of default shall have been cured or waived). In addition to the accrual of such additional interest, on and after the 360th day immediately following an event of default relating to such reporting obligations, either the trustee or the holders of not less than 25% in aggregate principal amount of the notes then outstanding may declare the principal amount of the notes and any accrued and unpaid interest through the date of such declaration, to be immediately due and payable.

If any portion of the amount payable on the notes upon acceleration is considered by a court to be unearned interest (through the allocation of a portion of the value of the notes to the embedded warrant or otherwise), the court could disallow recovery of any such portion.

After any acceleration of the notes, the holders of a majority in aggregate principal amount of the notes by written notice to the trustee, may rescind or annul such acceleration in certain circumstances, if:

- the rescission would not conflict with any order or decree;
- all events of default, other than the non-payment of accelerated principal or interest, have been cured or waived; and
- certain amounts due to the trustee are paid.

Except as provided in the indenture, the holders of a majority of the aggregate principal amount of outstanding notes may, by notice to the trustee, waive any past default or event of default and its consequences, other than a default or event of default:

- in the payment of principal of, or interest or premium, if any, on, any note; or
- in respect of any provision under the indenture that cannot be modified or amended without the consent of the holders of each outstanding note affected.

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We will promptly notify the trustee upon our becoming aware of the occurrence of any default or event of default. In addition, the indenture requires us to furnish to the trustee, on an annual basis, an officer s certificate stating whether they have actual knowledge of any default or event of default by us in performing any of our obligations under such indenture or the notes and describing any such default or event of default. If a default or event of default has occurred and the trustee has received notice of the default or event of default in accordance with the indenture, the trustee must mail to each registered holder of notes a notice of the default or event of default within 30 days after receipt of the notice. However, the trustee need not mail the notice if the default or event of default:

- has been cured or waived; or
- is not in the payment or delivery of any amounts due (including principal or interest) with respect to any note and the trustee in good faith determines that withholding the notice is in the best interests of the holders.

Limitation on Suits

The indenture limits the right of holders of the notes to institute legal proceedings. No holder will have the right to bring a claim under the indenture unless:

- the holder has previously given written notice to the trustee that an event of default with respect to the notes is continuing;
- the holders of not less than 25% of the aggregate principal amount of the notes shall have made a written request to the trustee to pursue the claim and furnished the trustee, if requested, security or an indemnity reasonably satisfactory to the trustee against any loss, liability or expense;
- the trustee does not comply within 60 days of receipt of the request and the offer of security or indemnity; and
- during such 60-day period, no direction inconsistent with a request has been given to the trustee by the holders of a majority of the aggregate principal amount of the notes.

Subject to the indenture, applicable law and the trustee s rights to indemnification, the holders of a majority in aggregate principal amount of the outstanding notes will have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee.

Legal Defeasance and Covenant Defeasance

We may at any time elect to have all of our obligations discharged with respect to the outstanding notes (legal defeasance) except for the rights of holders of outstanding debt securities to receive payments in respect of the principal of, or interest or premium, if any, on, such debt securities when such payments are due from the trust referred to below, and except for certain of our other obligations and certain other rights of the trustee under the indenture.

In addition, we may at any time elect to have our obligations released with respect to certain covenants and thereafter any omission to comply with those covenants will not constitute a default or event of default with respect to the debt securities (covenant defeasance). In the event covenant defeasance occurs, certain events will no longer constitute an event of default with respect to the debt securities.

In order to exercise either legal defeasance or covenant defeasance, we must irrevocably deposit with the trustee for the benefit of the holders of the notes funds in amounts as will be sufficient to pay the principal of and premium, if any, and interest on the outstanding debt securities of such series on the stated date for payment thereof or on the applicable redemption date, as the case may be. In addition, we must deliver to the trustee certain opinions of counsel and officer s certificate in connection with such defeasance, and we may not exercise such defeasance if certain defaults or events of default with respect to debt securities of such series

have occurred and are continuing on the date of such deposit or if such defeasance would result in a breach or violation of, or constitute a default under, any material agreement or instrument to which we or any of our subsidiaries is a party or by which we or any of our subsidiaries are bound.

Satisfaction and Discharge

The indenture will be discharged and will cease to be of further effect with respect to the notes, when:

either:

- all the notes that have been authenticated have been delivered to the trustee for cancellation; or
- all the notes that have not been delivered to the trustee for cancellation:
  - have become due and payable,
  - will become due and payable at their stated maturity within one year, or
  - are to be called for redemption within one year,

and we, in the case of the first, second and third sub-bullets above, have irrevocably deposited or caused to be deposited with the trustee as trust funds in trust solely for the benefit of the holders of debt securities of such series, in amounts as will be sufficient, without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness (including all principal, premium, if any, and interest) on such notes delivered to the trustee for cancellation (in the case of notes that have become due and payable on or prior to the date of such deposit) or to the stated maturity or redemption date, as the case may be,

- we have paid or caused to be paid all other sums payable by us under the indenture with respect to the notes; and
- we have delivered irrevocable instructions to the trustee under the indenture to apply the deposited money toward the payment of the notes at maturity or on the redemption date, as the case may be.

Modifications and Amendments

We may amend or supplement the indenture or the notes with the consent of the trustee and holders of at least a majority in aggregate principal amount of the outstanding notes (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes). In addition, subject to certain exceptions, the holders of a majority in aggregate principal amount of the outstanding notes may waive by consent (including, without limitation, consents obtained in connection with a purchase of, or tender offer or exchange offer for, notes) our compliance with any provision of the indenture or notes. However, without the consent of the holders of each outstanding note affected, no amendment, supplement or waiver may:

- reduce the percentage of principal amount of outstanding notes whose holders must consent to an amendment, supplemental indenture or waiver;
- reduce the rate of interest on any note;
- reduce the principal amount of or the premium, if any, on any note or change the stated maturity of any note;
- change the place, manner, timing or currency of payment of principal of, or premium, if any, or interest on, any note;
- make any change in the ranking provisions of the indenture that adversely affects the rights of any holders of the notes;
- waive a default or event of default in the payment of the principal of or premium, if any, or interest on the notes (except a rescission of acceleration of the notes by the holders of at least a majority in principal amount of the outstanding notes and a waiver of the payment default that resulted from such acceleration);
- make any change in the provisions of the indenture relating to waivers of past defaults or the rights of holders of notes to receive payments of principal of or premium, if any, or interest on the notes;
- waive a redemption payment with respect to any note or changes any of the provisions with respect to the redemption of any note;

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- make any change in any amendment and waiver provision; or
- make any change to the timing of payment of principal or interest on any notes.

We may, with the trustee s consent, amend or supplement the indenture or the notes without notice to or the consent of any holder of the notes to:

- cure any ambiguity, defect, mistake or inconsistency;
- comply with the terms set forth under Merger, Consolidation and Sale of Assets, above;
- provide for uncertificated notes in addition to or in place of certificated notes;
- evidence the assumption of our obligations under the indenture and the notes, by a successor thereto in the case of a consolidation or merger or a sale of all or substantially all of our properties or assets;
- comply with the provisions of any clearing agency, clearing corporation or clearing system, or the requirements of the trustee or the registrar, relating to transfers and exchanges of the notes pursuant to this Indenture;
- make any change that would provide any additional rights or benefits to the holders of the notes, that would surrender any right, power or option conferred on us by the indenture or that does not adversely affect in any material respect the legal rights of any holder of the notes;
- comply with requirements of the SEC in order to effect or maintain the qualification of the indenture under the Trust Indenture Act;
- secure or provide guarantees of our obligations under the notes and the indenture;
- evidence and provide for the acceptance of appointment hereunder by a successor trustee with respect to the notes and to add to or change any of the provisions of the indenture as shall be necessary to provide for or facilitate the administration of the trusts thereunder by more than one trustee; or
- issue additional senior debt securities.

We and the trustee may also enter into a supplemental indenture without the consent of holders of the notes in order to conform the indenture or the notes to the Description of Notes contained in this prospectus supplement.

Trustee

The trustee for the notes is U.S. Bank National Association. We have appointed the trustee as the paying agent, and registrar with regard to the notes. The indenture permits the trustee to deal with us and any of our affiliates with the same rights the trustee would have if it were not trustee. However, under the Trust Indenture Act, if the trustee acquires any conflicting interest and there exists a default with respect to the notes, the trustee must eliminate the conflict or resign. The trustee and its affiliates have in the past provided or may from time to time in the future provide banking and other services to us in the ordinary course of their business. U.S. Bancorp Investments, Inc., an affiliate of the Trustee, is one of the underwriters.

The holders of a majority in aggregate principal amount of the notes then outstanding have the right to direct the time, method and place of conducting any proceeding for any remedy available to the trustee, subject to certain exceptions. If an event of default occurs and is continuing, the trustee must exercise its rights and powers under the indenture using the same degree of care and skill as a prudent person would exercise or use under the circumstances in the conduct of his or her own affairs. The indenture does not obligate the trustee to exercise any of its rights or powers at the request or demand of the holders, unless the holders have offered to the trustee security or indemnity that is reasonably satisfactory to the trustee against the costs, expenses and liabilities that the trustee may incur to comply with the request or demand.

Denominations, Interest, Registration and Transfer

The notes will be issued in registered form, without interest coupons, in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof, in the form of global securities. We will not impose a service charge in connection with any transfer or exchange of any note. See Global Notes; Book-Entry Form for a description of transfer restrictions that apply to the notes.

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Global Notes; Book-Entry Form

Global notes will be deposited with the trustee as custodian for The Depository Trust Company (DTC) and registered in the name of DTC or a nominee of DTC.

Beneficial interests in a global note may be held directly through DTC if the holder is a participant in DTC or indirectly through organizations that are participants in DTC.

Except in the limited circumstances described below and in Certificated Securities, holders of notes will not be entitled to receive notes in certificated form. Unless and until it is exchanged in whole or in part for certificated securities, each global note may not be transferred except as a whole by DTC to a nominee of DTC or by a nominee of DTC to DTC or another nominee of DTC.

We will apply to DTC for acceptance of the global securities in its book-entry settlement system. The custodian and DTC will electronically record the principal amount of notes represented by global securities held within DTC. Beneficial interests in the global securities will be shown on records maintained by DTC and its direct and indirect participants, including Euroclear Bank S.A./N.V., as operator of the Euroclear System (Euroclear), and Clearstream Banking, société anonyme (Clearstream). Investors may elect to hold interests in the global notes through either DTC in the U.S. or Clearstream or Euroclear in Europe if they are participants of such systems, or indirectly through organizations which are participants in such systems. Clearstream and Euroclear will hold interests on behalf of their participants through customers securities accounts in Clearstream s and Euroclear s names on the books of their respective depositaries, which in turn will hold such interests in customers securities accounts in the depositaries names on the books of DTC.

So long as DTC or its nominee is the registered owner or holder of a global note, DTC or such nominee will be considered the sole owner or holder of the notes represented by such global note for all purposes under the indenture and the notes. No owner of a beneficial interest in a global note will be able to transfer such interest except in accordance with DTC s applicable procedures and the applicable procedures of its direct and indirect participants. The laws of some jurisdictions may require that certain purchasers of securities take physical delivery of such securities in definitive form. These limitations and requirements may impair the ability to transfer or pledge beneficial interests in a global note.

Payments of principal, premium, if any, and interest under each global note will be made to DTC or its nominee as the registered owner of such global note. We expect that DTC or its nominee, upon receipt of any such payment, will immediately credit DTC participants accounts with payments proportional to their respective beneficial interests in the principal amount of the relevant global note as shown on the records of DTC. We also expect that payments by DTC participants to owners of beneficial interests will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such participants, and none of us, the trustee, the custodian or any paying agent or registrar will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial interests in any global note or for maintaining or reviewing any records relating to such beneficial interests.

DTC has advised us that it is a limited-purpose trust company organized under the New York Banking Law, a banking organization within the meaning of the New York Banking Law, a member of the Federal Reserve System, a clearing corporation within the meaning of the New York Uniform Commercial Code and a clearing agency registered under the Exchange Act. DTC was created to hold the securities of its participants and to facilitate the clearance and settlement of securities transactions among its participants in such securities through electronic book-entry changes in accounts of the participants, which eliminates the need for physical movement of securities certificates. DTC s participants include securities brokers and dealers (including the underwriters), banks, trust companies, clearing corporations and certain other organizations, some of whom (and/or their representatives) own the depository. Access to DTC s book-entry system is also available to others, such as banks, brokers, dealers and trust companies, that clear through or maintain a custodial

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relationship with a participant, either directly or indirectly. The ownership interest and transfer of ownership interests of each beneficial owner or purchaser of each security held by or on behalf of DTC are recorded on the records of the direct and indirect participants.

Clearstream advises that it is incorporated under the laws of Luxembourg as a professional depositary. Clearstream holds securities for its participating organizations (Clearstream Participants) and facilitates the clearance and settlement of securities transactions between Clearstream Participants through electronic book-entry changes in accounts of Clearstream Participants, thereby eliminating the need for physical movement of certificates. Clearstream provides to Clearstream Participants, among other things, services for safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Clearstream interfaces with domestic markets in several countries. As a registered bank in Luxembourg, Clearstream is subject to regulation by the Luxembourg Commission for the Supervision of the Financial Sector (Commission de Surveillance du Secteur Financier). Clearstream Participants are recognized financial institutions around the world, including underwriters, securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations and may include the underwriters. Indirect access to Clearstream is also available to others, such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Clearstream Participant, either directly or indirectly.

Distributions with respect to interests in the notes held beneficially through Clearstream will be credited to cash accounts of Clearstream Participants in accordance with its rules and procedures.

Euroclear advises that it was created in 1968 to hold securities for participants of Euroclear (Euroclear Participants) and to clear and settle transactions between Euroclear Participants through simultaneous electronic book-entry delivery against payment, thereby eliminating the need for physical movement of certificates and any risk from lack of simultaneous transfers of securities and cash. Euroclear includes various other services, including securities lending and borrowing and interfaces with domestic markets in several countries. Euroclear is operated by Euroclear Bank S.A./N.V. (the Euroclear Operator). All operations are conducted by the Euroclear Operator, and all Euroclear securities clearance accounts and Euroclear cash accounts are accounts with the Euroclear Operator. Euroclear Participants include banks (including central banks), securities brokers and dealers and other professional financial intermediaries and may include the underwriters. Indirect access to Euroclear is also available to other firms that clear through or maintain a custodial relationship with a Euroclear Participant, either directly or indirectly.

Securities clearance accounts and cash accounts with the Euroclear Operator are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of Euroclear, and applicable Belgian law (collectively, the Terms and Conditions). The Terms and Conditions govern transfers of securities and cash within Euroclear, withdrawals of securities and cash from Euroclear, and receipts of payments with respect to securities in Euroclear. All securities in Euroclear are held on a fungible basis without attribution of specific certificates to specific securities clearance accounts. The Euroclear Operator acts under the Terms and Conditions only on behalf of Euroclear Participants, and has no records of or relationship with persons holding through Euroclear Participants.

Distributions with respect to the notes held beneficially through Euroclear will be credited to the cash accounts of Euroclear Participants in accordance with the Terms and Conditions.

The information in this section concerning DTC, DTC s book-entry system, Clearstream and Euroclear has been obtained from sources that we believe to be reliable, but we take no responsibility for the accuracy thereof.

Neither we nor the trustee will be liable or responsible for DTC, Euroclear or Clearstream.

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Certificated Securities

The trustee will exchange beneficial interests in a global note for one or more certificated securities registered in the name of the owner of the beneficial interest, as identified by DTC, only if:

- DTC notifies us that it is unwilling or unable to continue as depositary for that global note or ceases to be a clearing agency registered under the Exchange Act and, in either case, we do not appoint a successor depositary within 120 days;
- we, at our option, notify the trustee that we have elected to cause the issuance of notes in definitive form under the indenture; or
- an event of default has occurred and is continuing.

Settlement and Payment

We will make payments in respect of notes represented by global securities by wire transfer of immediately available funds to DTC or its nominee as registered owner of the global securities.

We expect the notes will trade in DTC s Same-Day Funds Settlement System, and DTC will require all permitted secondary market trading activity in the notes to be settled in immediately available funds. We expect that secondary trading in any certificated securities will also be settled in immediately available funds.

Transfers between participants in DTC will be effected in the ordinary way in accordance with DTC rules and will be settled in same-day funds.

Although DTC has agreed to the above procedures to facilitate transfers of interests in the global securities among DTC participants, DTC is under no obligation to perform or to continue those procedures, and those procedures may be discontinued at any time. None of us, the underwriters or the trustee will have any responsibility for the performance by DTC or its direct or indirect participants of their respective obligations under the rules and procedures governing their operations.

Governing Law

The indenture and the notes will be governed by and construed in accordance with the laws of the State of New York.

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UNITED STATES FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the material United States federal income tax consequences of the purchase, ownership, and disposition of the notes. This summary is generally limited to holders that acquire the notes pursuant to this offering at their initial offering price and hold the notes as capital assets (generally, property held for investment) for United States federal income tax purposes. This discussion does not describe all of the United States federal income tax consequences that may be relevant to a holder in light of its particular circumstances or to holders subject to special rules, including, without limitation, tax-exempt organizations, holders subject to the United States federal alternative minimum tax, dealers in securities or currencies, traders in securities that elect the mark-to-market method of accounting, financial institutions, insurance companies, regulated investment companies, real estate investment trusts, certain former citizens or residents of the United States, controlled foreign corporations, passive foreign investment companies, partnerships, S corporations or other pass-through entities, U.S. holders (as defined below) whose functional currency is not the United States dollar, and persons that hold the notes in connection with a straddle, hedging, conversion or other risk-reduction transaction.

The United States federal income tax consequences set forth below are based upon the Internal Revenue Code of 1986, as amended (the Code) and applicable Department of Treasury (Treasury) regulations, court decisions, and rulings and pronouncements of the Internal Revenue Service (IRS), all as in effect on the date hereof, and all of which are subject to change, or differing interpretations at any time with possible retroactive effect. There can be no assurance that the IRS will not challenge one or more of the tax consequences described herein, and we have not sought any ruling from the IRS with respect to statements made and conclusions reached in this discussion, and there can be no assurance that the IRS will agree with such statements and conclusions.

As used herein, the term U.S. holder means a beneficial owner of a note that is for United States federal income tax purposes:

- an individual citizen or resident of the United States;
- a corporation (or other entity taxable as a corporation for United States federal income tax purposes) that is created or organized in or under the laws of the United States, any state thereof or the District of Columbia;
- an estate, the income of which is subject to United States federal income taxation regardless of its source; or
- a trust, if a court within the United States is able to exercise primary jurisdiction over its administration and one or more United States persons have authority to control all of its substantial decisions, or if the trust has a valid election in effect under applicable Treasury regulations to be treated as a United States person.

As used herein, the term non-U.S. holder means a beneficial owner of a note that is neither a U.S. holder nor a partnership or an entity treated as a partnership for United States federal income tax purposes.

If a partnership (including any entity treated as a partnership for United States federal income tax purposes) is a beneficial owner of a note, the tax treatment of a partner in the partnership will generally depend upon the status of the partner and the activities of the partnership. A beneficial owner that is a partnership and partners in such a partnership should consult their tax advisors about the United States federal income tax consequences of the purchase, ownership and disposition of the notes.

This summary does not address the tax consequences arising under any state, local, or foreign law. Furthermore, this summary does not consider the effect of the United States federal estate or gift tax laws.

Investors considering the purchase of the notes should consult their own tax advisors with respect to the application of the United States federal income tax laws to their particular situation, as well as any

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tax consequences arising under the United States federal estate or gift tax rules or under the laws of any state, local, or foreign taxing jurisdiction or under any applicable tax treaty.

U.S. Holders

Payments of Interest

Payments of interest on a note generally will be taxable to a U.S. holder as ordinary interest income at the time such payments are accrued or are received (in accordance with the U.S. holder s regular method of tax accounting).

Original Issue Discount

It is expected that the notes will not be issued with an issue price that is less than their stated principal amount by more than the statutory *de minimis* amount. As a result, the notes will not be subject to the original issue discount (OID) rules. If, however, the stated principal amount of the notes exceeds their issue price by more than the statutory *de minimis* amount, U.S. holders will be required to include OID in income for United States federal income tax purposes as it accrues under a constant yield method, regardless of such U.S. holders method of accounting. As a result, U.S. holders may be required to include OID in taxable income prior to the receipt of cash by such U.S. holders.

Sale, Redemption, Exchange or Other Taxable Disposition of Notes

A U.S. holder will generally recognize gain or loss on the sale, redemption, exchange or other taxable disposition of a note in an amount equal to the difference between (i) the proceeds received by the holder in exchange for such note (less an amount attributable to any accrued but unpaid interest, which will be treated as a payment of interest for United States federal income tax purposes) and (ii) the U.S. holder s adjusted tax basis in the note. The proceeds received by a U.S. holder will include the amount of any cash and the fair market value of any other property received for the note. In general, a U.S. holder s adjusted tax basis in a note will equal the amount paid for the note. Such gain or loss recognized by a U.S. holder on a disposition of a note will be capital gain or loss and will be long-term capital gain or loss if the holder held the note for more than one year. Under current United States federal income tax law, net long-term capital gains of non-corporate U.S. holders (including individuals) are eligible for taxation at preferential rates. The deductibility of capital losses is subject to certain limitations. Prospective investors should consult with their own tax advisors concerning these tax law provisions.

Medicare Tax

For taxable years beginning after December 31, 2012, Section 1411 of the Code generally imposes a 3.8% Medicare tax on a portion or all of the net investment income of certain individuals with a modified adjusted gross income of over $200,000 (or $250,000 in the case of joint filers or $125,000 in the case of married individuals filing separately) and on the undistributed net investment income of certain estates and trusts. For these purposes, net investment income generally includes interest (including interest paid with respect to a note), dividends, annuities, royalties, rents, net gain attributable to the disposition of property not held in a trade or business (including net gain from the sale, redemption, exchange or other taxable disposition of a note) and certain other income, but will be reduced by any deductions properly allocable to such income or net gain. If you are a U.S. holder that is an individual, estate or trust, you are urged to consult your tax advisors regarding the applicability of the Medicare tax to your income and gains in respect of your investment in the notes.

Information Reporting and Backup Withholding

Unless a U.S. holder is an exempt recipient, such as a corporation, payments made with respect to the notes or proceeds from the disposition of the notes may be subject to information reporting and may also be subject to

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United States federal backup withholding at the applicable rate if a U.S. holder fails to comply with applicable United States information reporting and certification requirements.

Backup withholding is not an additional tax. Any amount withheld from a payment to you under the backup withholding rules generally will be allowed as a refund or a credit against your United States federal income tax liability, provided the required information is furnished timely to the IRS.

Non-U.S. Holders

Payments of Interest

Subject to the discussions below concerning backup withholding and the Foreign Account Tax Compliance Act, interest paid on a note by us or our agent to a non-U.S. holder will qualify for the portfolio interest exemption and will not be subject to United States federal income tax or withholding tax; provided that such interest income is not effectively connected with a United States trade or business of the non-U.S. holder; we or our agent do not have actual knowledge or reason to know that the beneficial owner of the note is a United States person; and provided that the non-U.S. holder:

- does not actually or by attribution own 10% or more of the combined voting power of all classes of our stock entitled to vote;
- is not a controlled foreign corporation for United States federal income tax purposes that is related to us actually or by attribution through stock ownership;
- is not a bank that acquired the note in consideration for an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business; and
- either (a) provides the proper variant of Form W-8 (or a suitable substitute form) signed under penalties of perjury that includes the non-U.S. holder s name and address, and certifies as to non-United States status in compliance with applicable law and regulations; or (b) is a securities clearing organization, bank or other financial institution that holds customers securities in the ordinary course of its trade or business and provides a statement to us or our agent under penalties of perjury in which it certifies that such a Form W-8 (or a suitable substitute form) has been received by it from the non-U.S. holder or qualifying intermediary and furnishes us or our agent with a copy. The Treasury regulations provide special certification rules for notes held by a foreign partnership and other intermediaries.

If such non-U.S. holder cannot satisfy the requirements described above, payments of interest made to the non-U.S. holder will be subject to the 30% United States federal tax withholding unless (i) the interest is effectively connected with a United States trade or business of such non-U.S. holder and such non-U.S. holder satisfies the applicable certification requirements (as discussed below) or (ii) such holder provides us with a properly executed variant of IRS Form W-8 claiming an exemption from (or reduction of) withholding under the benefit of a treaty.

If interest on a note is effectively connected with a United States trade or business of a non-U.S. holder and, if a tax treaty applies, is attributable to a United States permanent establishment or fixed base maintained by the non-U.S. holder within the United States, the non-U.S. holder generally will not be subject to withholding if the non-U.S. holder complies with applicable IRS certification requirements (i.e., by delivering properly executed IRS Forms W-8BEN (or W-8BEN-E), W-8ECI, W-8IMY, or W-8EXP) and generally will be subject to United States federal income tax on a net income basis at regular graduated rates in the same manner as if the holder were a U.S. holder. In the case of a non-U.S. holder that is a corporation, such effectively connected income also may be subject to the additional branch profits tax, which generally is imposed on a foreign corporation on the deemed repatriation from the United States of effectively connected earnings and profits at a 30% rate (or such lower rate as may be prescribed by an applicable tax treaty).

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Sale, Redemption, Exchange or Other Taxable Disposition of Notes

Subject to the discussions below concerning backup withholding and the Foreign Account Tax Compliance Act, any gain recognized by a non-U.S. holder on the disposition of a note (other than amounts attributable to accrued and unpaid interest, which are treated as described under Non-U.S. Holders Payments of Interest) generally will not be subject to United States federal income tax or withholding, unless:

- the gain is effectively connected with the conduct of a United States trade or business of the non-U.S. holder (and, if required by an applicable tax treaty, the gain is attributable to a permanent establishment or fixed base maintained in the United States by the non-U.S. holder);
- the non-U.S. holder is an individual who is present in the United States for 183 days or more during the taxable year of that disposition, and certain other conditions are met; or
- the non-U.S. holder is subject to Code provisions applicable to certain United States expatriates.

A non-U.S. holder should consult his or her tax advisor regarding the tax consequences of the disposition of the notes.

Information Reporting and Backup Withholding

Non-U.S. holders may be required to comply with certain certification procedures to establish that the holder is not a United States person in order to avoid information reporting and backup withholding with respect to payments on the notes or proceeds from the disposition of the notes. Information returns generally will be filed with the IRS, however, in connection with payments of interest on the notes to non-U.S. holders, other than corporations and other entities that are exempted recipients for information reporting purposes.

Backup withholding is not an additional tax. Any amount withheld from a payment to you under the backup withholding rules generally will be allowed as a refund or a credit against your United States federal income tax liability, provided the required information is furnished timely to the IRS.

Non-U.S. holders should consult their tax advisors regarding the application of information reporting and backup withholding in their particular situations, the availability of an exemption therefrom, and the procedures for obtaining such an exemption, if available.

Foreign Account Tax Compliance Act (FATCA)

The Foreign Account Tax Compliance provisions of the Hiring Incentives to Restore Employment Act (generally referred to as FATCA), when applicable, will impose a U.S. federal withholding tax of 30% on certain withholdable payments (generally certain U.S.-source income, including interest and dividends, and the gross proceeds from the sale or other disposition of assets producing such income) to foreign financial institutions and other non-U.S. entities that fail to comply with certain certification and information reporting requirements. The withholding provisions under FATCA apply to payments on the notes made after July 1, 2014. The withholding provisions of FATCA may also apply with respect to the gross proceeds of a sale or other disposition of our notes on or after January 1, 2017. Under certain circumstances, a non-U.S. holder might be eligible for refunds or credits of such taxes. An intergovernmental agreement between the United States and an applicable foreign country may modify the requirements described in this paragraph. Prospective investors are encouraged to consult with their own tax advisors regarding the possible implications of this legislation on their investment in our notes.

The United States federal income tax summary set forth above is included for general information only and may not be applicable depending upon your particular situation. You should consult your own tax advisors with respect to the tax consequences to you of the purchase, ownership and disposition of the notes, including the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in federal or other tax laws.

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UNDERWRITING (CONFLICTS OF INTEREST)

Merrill Lynch, Pierce, Fenner & Smith Incorporated and Keefe, Bruyette & Woods, Inc. are acting as representatives of each of the underwriters named below. Subject to the terms and conditions set forth in a firm commitment underwriting agreement among us and the underwriters, we have agreed to sell to the underwriters, and each of the underwriters has agreed, severally and not jointly, to purchase from us, the principal amount of notes set forth opposite its name below.

Underwriter	Principal Amount of Notes
Merrill Lynch, Pierce, Fenner & Smith Incorporated	$ 150,000,000
Keefe, Bruyette & Woods, Inc.	150,000,000
Total	300,000,000

Subject to the terms and conditions set forth in the underwriting agreement, the underwriters have agreed, severally and not jointly, to purchase all of the notes sold under the underwriting agreement if any of these notes are purchased. If an underwriter defaults, the underwriting agreement provides that the purchase commitments of the nondefaulting underwriters may be increased or the underwriting agreement may be terminated.

We have agreed to indemnify the underwriters and their controlling persons against certain liabilities in connection with this offering, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of those liabilities.

The underwriters are offering the notes, subject to prior sale, when, as and if issued to and accepted by them, subject to conditions contained in the underwriting agreement, such as the receipt by the underwriters of officer s certificates and legal opinions. The underwriters reserve the right to withdraw, cancel or modify offers to the public and to reject orders in whole or in part.

Commissions and Discounts

The representatives have advised us that the underwriters propose initially to offer the notes to the public at the public offering price set forth on the cover page of this prospectus supplement and to certain dealers at such price less a concession not in excess of 0.40% of the principal amount of the notes. After the initial offering, the public offering price, concession or any other term of the offering may be changed.

The expenses of the offering, not including the underwriting discount, are estimated at $350,000 and are payable by us.

No Listing

There is no existing market for the notes, and we do not intend to list the notes on any securities exchange.

No Sales of Similar Securities

We have agreed that we will not, for a period from the date of this offering memorandum through and including the business day following the date of delivery of the notes, without first obtaining the prior written consent of the representatives, directly or indirectly, issue, sell, offer to contract or grant any option to sell, pledge, transfer or otherwise dispose of, any debt securities or securities exchangeable for or convertible into debt securities, except for the notes sold to the underwriters pursuant to the underwriting agreement.

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Short Positions

In connection with the offering, the underwriters may purchase and sell the notes in the open market. These transactions may include short sales and purchases on the open market to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater principal amount of notes than they are required to purchase in the offering. The underwriters must close out any short position by purchasing notes in the open market. A short position is more likely to be created if the underwriters are concerned that there may be downward pressure on the price of the notes in the open market after pricing that could adversely affect investors who purchase in the offering.

Similar to other purchase transactions, the underwriters purchases to cover the syndicate short sales may have the effect of raising or maintaining the market price of the notes or preventing or retarding a decline in the market price of the notes. As a result, the price of the notes may be higher than the price that might otherwise exist in the open market.

Neither we nor any of the underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the notes. In addition, neither we nor any of the underwriters make any representation that the representatives will engage in these transactions or that these transactions, once commenced, will not be discontinued without notice.

Electronic Distribution

In connection with the offering, certain of the underwriters or securities dealers may distribute this prospectus supplement and the accompanying prospectus by electronic means, such as e-mail.

Conflicts of Interest

Keefe, Bruyette & Woods, Inc. (KBW), our broker-dealer subsidiary, is a member of the FINRA and will participate in the distribution of the notes. Since we own more than 10% of the common equity of KBW, a conflict of interest exists for KBW within the meaning of FINRA Rule 5121(f)(5)(B). Additionally, KBW and one or more of its affiliates, as defined in FINRA Rule 5121, will have a conflict of interest as defined in Rule 5121(f)(5)(c)(ii) due to the receipt of more than 5% of the net offering proceeds. Accordingly, this offering will be conducted pursuant to Rule 5121. In accordance with that rule, no qualified independent underwriter is required because the securities offered are investment grade rated or are securities in the same series that have equal rights and obligations as investment grade rated securities. To comply with Rule 5121, the underwriters will not confirm sales of the securities to any account over which KBW exercises discretionary authority without the prior written approval of the customer.

Other Relationships

Some of the underwriters and their affiliates have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with us or our affiliates. They have received, or may in the future receive, customary fees and commissions for these transactions. An affiliate of Merrill Lynch, Pierce, Fenner & Smith Incorporated is a co-lender under a $100 million unsecured revolving credit facility and secured, short-term lines of credit available to us.

In addition, in the ordinary course of their business activities, the underwriters and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of ours or our affiliates. Certain of the underwriters or their affiliates that have a lending relationship with us routinely hedge their credit exposure to us consistent with their customary risk management policies. Typically, such underwriters and their affiliates would hedge such exposure by entering into transactions which consist of either

the purchase of credit default swaps or the creation of short positions in our securities, including potentially the notes offered hereby. Any such short positions could adversely affect future trading prices of the notes offered hereby. The underwriters and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Notice to Prospective Investors in the European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a Relevant Member State), with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the Relevant Implementation Date), no offer of notes may be made to the public in that Relevant Member State other than:

A. to any legal entity which is a qualified investor as defined in the Prospectus Directive;

B. to fewer than 100 or, if the Relevant Member State has implemented the relevant provision of the 2010 PD Amending Directive, 150, natural or legal persons (other than qualified investors as defined in the Prospectus Directive), as permitted under the Prospectus Directive, subject to obtaining the prior consent of the representatives; or

C. in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes shall require the Company or the representatives to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

This prospectus has been prepared on the basis that any offer of notes in any Relevant Member State will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of notes. Accordingly, any person making or intending to make an offer in that Relevant Member State of notes which are the subject of the offering contemplated in this prospectus may only do so in circumstances in which no obligation arises for the Company or any of the underwriters to publish a prospectus pursuant to Article 3 of the Prospectus Directive in relation to such offer. Neither the Company nor the underwriters have authorized, nor do they authorize, the making of any offer of notes in circumstances in which an obligation arises for the Company or the underwriters to publish a prospectus for such offer.

For the purpose of the above provisions, the expression an offer to the public in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in the Relevant Member State by any measure implementing the Prospectus Directive in the Relevant Member State and the expression Prospectus Directive means Directive 2003/71/EC (including the 2010 PD Amending Directive, to the extent implemented in the Relevant Member States) and includes any relevant implementing measure in the Relevant Member State and the expression 2010 PD Amending Directive means Directive 2010/73/EU.

Notice to Prospective Investors in the United Kingdom

In addition, in the United Kingdom, this document is being distributed only to, and is directed only at, and any offer subsequently made may only be directed at persons who are qualified investors (as defined in the Prospectus Directive) (i) who have professional experience in matters relating to investments falling within Article 19 (5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended (the Order) and/or (ii) who are high net worth companies (or persons to whom it may otherwise be lawfully communicated) falling within Article 49(2)(a) to (d) of the Order (all such persons together being referred to as relevant persons). This document must not be acted on or relied on in the United Kingdom by persons who are not relevant persons. In the United Kingdom, any investment or investment activity to which this document relates is only available to, and will be engaged in with, relevant persons.

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WHERE YOU CAN FIND ADDITIONAL INFORMATION

This prospectus supplement is part of a registration statement (File No. 333-178969) we have filed with the SEC under the Securities Act. The registration statement, including the attached exhibits and schedules, contains additional relevant information about us and the securities described in this prospectus supplement. The SEC s rules and regulations allow us to omit certain information included in the registration statement from this prospectus supplement. The registration statement may be inspected by anyone without charge at the SEC s principal office at 100 F Street, N.E., Washington, D.C. 20549.

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy these documents at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference room. Our SEC filings are also available over the Internet at the SEC s website at http://www.sec.gov. The reports and other information we file with the SEC also are available through our website, www.stifel.com. The information contained on our website does not constitute a part of this prospectus supplement or the accompanying prospectus.

The SEC allows incorporation by reference into this prospectus supplement of information that we file with the SEC. This permits us to disclose important information to you by referencing these filed documents. Any information referenced this way is considered to be a part of this prospectus supplement and any information filed by us with the SEC subsequent to the date of this prospectus supplement will automatically be deemed to update and supersede this information.

The following documents, which we filed with the SEC, are incorporated by reference into this prospectus supplement:

- our Annual Report on Form 10-K for the fiscal year ended December 31, 2013, including the information incorporated by reference from our definitive proxy statement relating to our annual meeting of stockholders;
- our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014;
- our Current Report on Form 8-K filed on June 11, 2014 (except, in any such case, the portions furnished and not filed pursuant to Item 2.02, Item 7.01 or otherwise); and
- description of our common stock contained in our registration statement filed pursuant to Section 12 of the Exchange Act.

Any filings made by us with the SEC in accordance with Sections 13(a), 13(c), 14, or 15(d) of the Exchange Act, on or after the date of this prospectus supplement and before the termination of the offering, are also incorporated by reference.

We will provide a copy of the documents we incorporate by reference (other than exhibits attached to those documents, unless such exhibits are specifically incorporated by reference into the information incorporated herein), at no cost, to any person who receives this prospectus. You may request a copy of any or all of these documents, either orally or in writing, by contacting us at the following address and telephone number: Stifel Financial Corp., Attention: Investor Relations, 501 North Broadway, St. Louis, Missouri 63102, (314) 342-2000.

LEGAL MATTERS

Certain legal matters with regard to the notes offered by this prospectus supplement will be passed upon by Bryan Cave LLP, St. Louis, Missouri, counsel to Stifel Financial Corp. The underwriters have been represented by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York.

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EXPERTS

The consolidated financial statements of Stifel Financial Corp. incorporated by reference in Stifel Financial Corp. s Annual Report on Form 10-K for the year ended December 31, 2013 and the effectiveness of Stifel Financial Corp. s internal control over financial reporting as of December 31, 2013 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in its reports thereon, included therein, and incorporated herein by reference. Such consolidated financial statements are incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

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PROSPECTUS

STIFEL FINANCIAL CORP.

Common Stock Preferred Stock Debt Securities Warrants

Depositary Shares Subscription Rights Stock Purchase Contracts

Stock Purchase Units Stock Appreciation Rights

We may offer from time to time shares of our common stock, shares of our preferred stock, senior debt securities, subordinated debt securities, warrants, depositary shares, subscription rights, stock purchase contracts, stock purchase units, or stock appreciation rights covered by this prospectus independently or together in any combination that may include other securities set forth in an accompanying prospectus supplement, for sale directly to purchasers or through underwriters, dealers or agents to be designated at a future time.

We will provide specific terms of any offering of these securities in supplements to this prospectus. The securities may be offered separately or together in any combination and as separate series. You should read this prospectus and any supplement carefully before you invest in any of our securities.

Our common stock is traded on the New York Stock Exchange (NYSE) and the Chicago Stock Exchange (CSX) under the symbol SF. Unless we state otherwise in a prospectus supplement, we will not list any of the preferred stock, debt securities, warrants, depositary shares, subscription rights, stock purchase contracts, stock purchase units, or stock appreciation rights on any securities exchange.

Our principal executive offices are located at 501 North Broadway, St. Louis, Missouri, 63102 and our telephone number is (314) 342-2000.

Investing in these securities involves certain risks. See Risk Factors beginning on page 4 of this prospectus and in our most recent Annual Report on Form 10-K, which is incorporated herein by reference, as well as in any of our subsequently filed quarterly or current reports that are incorporated herein by reference and in any accompanying prospectus supplement.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities, or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

We or any selling security holder may offer and sell these securities on a continuous or delayed basis directly, through agents, dealers or underwriters as designated from time to time, or through a combination of these methods. We reserve the sole right to accept, and together with any agents, dealers and underwriters, reserve the right to reject, in whole or in part, any proposed purchase of securities. If any agents, dealers or underwriters are involved in the sale of any securities, the applicable prospectus supplement will set forth any applicable commissions or discounts. Our net proceeds from the sale of securities also will be set forth in the applicable prospectus supplement.

The date of this prospectus is January 11, 2012.

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You should rely only on the information contained in or incorporated by reference in this prospectus and any applicable prospectus supplement. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in or incorporated by reference in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front cover of such documents.

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ABOUT THIS PROSPECTUS

This prospectus is part of a registration statement that we filed with the Securities and Exchange Commission (SEC) utilizing a shelf registration process. Under this shelf process, we may sell any combination of the securities described in this prospectus and applicable prospectus supplements in one or more offerings. This prospectus provides you with a general description of the securities that we may offer. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. Each prospectus supplement may also add, update or change information contained in this prospectus.

Before purchasing any securities, you should carefully read both this prospectus and any applicable prospectus supplement and any free writing prospectus prepared by or on behalf of us, together with additional information described under the heading Where You Can Find Additional Information.

Unless the context indicates otherwise, all references in this prospectus to Stifel, the Company, our company, us, we and our refer t Financial Corp. and its wholly-owned subsidiaries, including Stifel Bank & Trust (Stifel Bank).

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site at http://www.sec.gov, from which interested persons can electronically access our SEC filings, including the registration statement and the exhibits and schedules thereto.

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is an important part of this prospectus, and information that we file later with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and all documents subsequently filed with the SEC pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities and Exchange Act of 1934, as amended (other than the portions provided pursuant to Item 2.02 or Item 7.01 of Form 8-K or other information furnished to the SEC) after the date of this prospectus and prior to the termination of the offering under this prospectus:

- our Annual Report on Form 10-K for the year ended December 31, 2010, filed with the SEC on February 28, 2010;

- our Definitive Proxy Statement for the 2011 Annual Meeting of Stockholders filed with the SEC on April 18, 2011;

- our Quarterly Report on Form 10-Q for the three months ended March 31, 2011, filed with the SEC on May 10, 2011, our Quarterly Report on Form 10-Q for the three months ended June 30, 2011, filed with the SEC on August 9, 2011, our Quarterly Report on Form 10-Q/A for the three months ended June 30, 2011, filed with the SEC on August 10, 2011, and our Quarterly Report on Form 10-Q for the three months ended September 30, 2011, filed with the SEC on November 9, 2011; and

- our Current Reports on Form 8-K filed with the SEC on January 18, 2011, March 8, 2011, April 1, 2011, April 7, 2011, June 3, 2011, June 9, 2011, June 22, 2011, June 27, 2011, July 25, 2011, August 11, 2011, September 23, 2011 and October 3, 2011 (except, in any such case, the portions furnished and not filed pursuant to Item 2.02, Item 7.01 or otherwise).

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We maintain a website at www.stifel.com where general information about us is available. We are not incorporating the contents of the website into this prospectus.

Upon written or oral request, we will provide without charge to each person, including any beneficial owner, to whom this prospectus is delivered a copy of any and all of the documents that have been or may be incorporated by reference in this prospectus. You should direct requests for documents by telephone to (314) 342-2000 or by mail to Stifel Financial Corp., 501 North Broadway, St. Louis, Missouri 63102, attention: Corporate Secretary.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the information incorporated by reference herein contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Securities Exchange Act, that are based upon our current expectations and projections about future events. We intend for these forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of these safe harbor provisions. You can identify these statements from our use of the words may, will, should, could, would, plan, potential, estimate, project, believe, intend, similar expressions. All statements in this prospectus and the information incorporated by reference herein not dealing with historical results are forward-looking and are based on various assumptions. The forward-looking statements in this prospectus and the information incorporated by reference herein are subject to risks and uncertainties that could cause actual results to differ materially from those expressed in or implied by the statements. Factors that may cause actual results to differ materially from those contemplated by such forward-looking statements include: our ability to successfully integrate acquired companies; a material adverse change in our financial condition; the risk of borrower, depositor and other customer attrition; a change in general business and economic conditions; changes in the interest rate environment, deposit flows, loan demand, real estate values and competition; changes in accounting principles, policies or guidelines; changes in legislation and regulation; the outcome of various governmental investigations and third-party litigation; other economic, competitive, governmental, regulatory, geopolitical and technological factors affecting our operations, pricing and services; and the risks and other factors set forth in the Risk Factors section of this prospectus, including those risks and other factors that are incorporated by reference herein. Forward-looking statements speak only as to the date they are made. We do not undertake to update forward-looking statements to reflect circumstances or events that occur after the date the forward-looking statements are made. We disclaim any intent or obligation to update these forward-looking statements.

THE COMPANY

We are a financial holding company headquartered in St. Louis. Our principal subsidiary is Stifel, Nicolaus & Company, Incorporated, a full-service retail and institutional brokerage and investment banking firm. Our other subsidiaries include Thomas Weisel Partners LLC, a registered broker-dealer firm; Century Securities Associates, Inc., an independent contractor broker-dealer firm; Stifel Nicolaus Europe Limited, our European subsidiary; Stifel Nicolaus Canada, Inc., our registered Canadian broker-dealer subsidiary; and Stifel Bank & Trust, a retail and commercial bank.

With our century-old operating history, we have built a diversified business serving private clients, investment banking clients and institutional investors. Our principal activities are:

- Private client services, including securities transaction and financial planning services;
- Institutional equity and fixed income sales, trading and research, and municipal finance;
- Investment banking services, including mergers and acquisitions, public offerings and private placements; and
- Retail and commercial banking, including personal and commercial lending programs.

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Our core philosophy is based upon a tradition of trust, understanding, and studied advice. We attract and retain experienced professionals by fostering a culture of entrepreneurial, long-term thinking. We provide our private, institutional and corporate clients quality, personalized service, with the theory that if we place clients needs first, both our clients and our company will prosper. Our unwavering client and employee focus have earned us a reputation as one of the leading brokerage and investment banking firms off Wall Street.

We have grown our business both organically and through opportunistic acquisitions, including our acquisition of the capital markets business of Legg Mason from Citigroup in 2005; our acquisitions of Ryan Beck & Co., Inc. in February 2007 and FirstService Bank in April 2007; our acquisition of ButlerWick & Co., Inc. in 2008; our acquisition of 56 branches from the UBS Wealth Management Americas branch network in 2009; our acquisition of Thomas Weisel Partners Group, Inc. in July 2010; and our acquisition of Stone & Youngberg in October 2011. Throughout the course of these integrations, our highly variable cost structure has enabled us to achieve consistent core earnings profitability while growing net revenue for 15 consecutive years.

We primarily operate our business through two segments, Global Wealth Management and Institutional Group. Our Global Wealth Management segment consists of two businesses, the Private Client Group and Stifel Bank. The Private Client Group provides securities brokerage services, including the sale of equities, mutual funds, fixed income products, and insurance, as well as offering banking products to our clients through Stifel Bank. Stifel Bank provides residential, consumer, and commercial lending, as well as FDIC-insured deposit accounts to customers of our broker-dealer subsidiaries and to the general public.

Our Institutional Group segment includes institutional sales and trading. It provides securities brokerage, trading, and research services to institutions, with an emphasis on the sale of equity and fixed income products. This segment also includes the management of and participation in underwritings for both corporate and public finance (exclusive of sales credits generated through the private client group, which are included in the Global Wealth Management segment), merger and acquisition, and financial advisory services.

For the year ended December 31, 2010, Global Wealth Management net revenues increased 41.5% to $843.3 million from $596.0 million in 2009. For the nine months ended September 30, 2011, Global Wealth Management net revenues increased 12.6% to a record $683.6 million from $606.8 million for the comparable period in 2010. For the year ended December 31, 2010, Institutional Group net revenues increased 9.8% to $541.8 million from $494.1 million in 2009. For the nine months ended September 30, 2011, Institutional Group net revenues decreased 0.7% to $373.2 million from $375.9 million for the comparable period in 2010.

We believe that our Global Wealth Management segment provides balance with respect to our Institutional Group segment and creates a stable base of revenue that helps us achieve consistent profitability through market cycles.

Our customers include individuals, corporations, municipalities, and institutions. Although we have customers throughout the United States, our major geographic areas of concentration are in the Midwest and Mid-Atlantic regions, with a growing presence in the Northeast, Southeast, and Western United States. No single client accounts for a material percentage of any segment of our business. Our inventory, which we believe is of modest size and intended to turn over quickly, exists to facilitate order flow and support the investment strategies of our clients. Although we do not engage in significant proprietary trading for our own account, the inventory of securities held to facilitate customer trades and our market-making activities are sensitive to market movements. Furthermore, our balance sheet is highly liquid, without material holdings of securities that are difficult to value or remarket. We believe that our broad platform, fee-based revenues, and strong distribution network position us well to take advantage of current trends within the financial services sector.

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RISK FACTORS

An investment in our securities involves risks. We urge you to consider carefully the risks described in the documents incorporated by reference in this prospectus and, if applicable, in any prospectus supplement used in connection with an offering of our securities, before making an investment decision, including those risks identified under Risk Factors in Item 1A of Part I in our Annual Report on Form 10-K for the year ended December 31, 2010, which is incorporated by reference in this prospectus and which may be amended, supplemented or superseded from time to time by other reports that we subsequently file with the SEC. Additional risks, including those that relate to any particular securities we offer, may be included in a prospectus supplement or free writing prospectus that we authorize from time to time, or that are incorporated by reference into this prospectus or a prospectus supplement.

Our business, financial condition, results of operations and cash flows could be materially adversely affected by any of these risks. The market or trading price of our securities could decline due to any of these risks. Additional risks not presently known to us or that we currently deem immaterial also may impair our business and operations or cause the price of our securities to decline.

USE OF PROCEEDS

Unless otherwise indicated in a prospectus supplement, we intend to use the net proceeds of any offering of securities sold by us for general corporate purposes. Unless otherwise set forth in a prospectus supplement, we will not receive any proceeds in the event that the securities are sold by a selling security holder.

RATIO OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges presented below should be read together with the consolidated financial statements and the notes accompanying them and Management s Discussion and Analysis of Financial Condition and Results of Operations included in our Quarterly Report on Form 10-Q for the period ended September 30, 2011 and our Annual Report on Form 10-K for the year ended December 31, 2010, incorporated by reference into this prospectus. For purposes of the computation of the ratio of earnings to fixed charges, earnings consist of earnings from continuing operations before income taxes plus fixed charges. Fixed charges consist of interest expense plus the interest component of lease rental expense.

	Year Ended December 31,					Nine Months Ended September 30,	
	2006[(1)]	2007[(1)]	2008[(1)]	2009	2010[(2)]	2010	2011[(4)]
Ratio of earnings to fixed charges	2.08x	2.35x	4.16x	5.56x	0.99x	__(3)	3.84x

(1) For the years ended December 31, 2006, 2007 and 2008, we recorded merger-related after-tax expenses of $24.2 million, $34.6 million and $15.9 million, respectively.

(2) For the year ended December 31, 2010, we recorded a non-cash charge of $106.4 million after-tax related to the acceleration of deferred compensation in the third quarter of 2010 as a result of a modification of our deferred compensation plan and merger-related after-tax expenses of $16.5 million related to the merger with Thomas Weisel Partners Group, Inc.

(3) For the nine months ended September 30, 2010, we recorded merger-related after-tax expenses of $116.9 million. Our earnings were insufficient to cover fixed charges by $67 million for the nine months ended September 30, 2010.

(4) For the nine months ended September 30, 2011, we recorded litigation-related and certain merger-related after-tax expenses of $29.4 million.

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DESCRIPTION OF THE SECURITIES

We may issue from time to time, in one or more offerings, the following securities:

- shares of common stock, which may be voting or non-voting;
- shares of preferred stock, which may be voting or non-voting;
- debt securities, which may be senior or subordinated, convertible into shares or our capital stock and secured or unsecured;
- warrants;
- depositary shares;
- subscription rights;
- stock purchase contracts;
- stock purchase units; or
- stock appreciation rights.

We will set forth in the applicable prospectus supplement a description of the common stock, preferred stock, debt securities, warrants, depositary shares, subscription rights, stock purchase contracts, stock purchase units or stock appreciation rights that may be offered under this prospectus. The terms of the offering of securities, the initial offering price and net proceeds to us will be contained in the prospectus supplement and other filings relating to such offering.

PLAN OF DISTRIBUTION

General

We may sell the securities covered by this prospectus in one or more of the following ways from time to time, including without limitation:

- to or through underwriters for resale to the purchasers, which underwriters may act directly or through a syndicate represented by one or more managing underwriters;
- directly to one or more purchasers, through a specific bidding, auction or other process;
- through agents or dealers;

through a block trade in which the broker or dealer engaged to handle the block trade will attempt to sell the securities as agent, but may position and resell a portion of the block as principal to facilitate the transaction;

in exchange for outstanding indebtedness; or

through a combination of any of these methods of sale.

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A prospectus supplement with respect to each series of securities will state the terms of the offering of the securities, including:

- the terms of the offering;
- the name or names of any underwriters or agents and the amounts of securities underwritten or purchased by each of them, if any;
- the public offering price or purchase price of the securities and the net proceeds to be received by us from the sale;
- any underwriting discounts or agency fees and other items constituting underwriters or agents compensation;
- any delayed delivery arrangements;
- any discounts or concessions allowed or reallowed or paid to dealers; and
- any securities exchange on which the securities may be listed.

If we use underwriters or dealers in the sale, the securities will be acquired by the underwriters or dealers for their own account and may be resold from time to time in one or more transactions, including:

- privately negotiated transactions;
- at a fixed public offering price or prices, which may be changed;
- in at the market offerings within the meaning of Rule 415(a)(4) of the Securities Act;
- at prices related to prevailing market prices; or
- at negotiated prices.

We may directly solicit offers to purchase securities, or agents may be designated to solicit such offers. We will, in the prospectus supplement relating to such offering, name any agent that could be viewed as an underwriter under the Securities Act and describe any commissions that we must pay. Any such agent will be acting on a best efforts basis for the period of its appointment or, if indicated in the applicable prospectus supplement, on a firm commitment basis. Agents, dealers and underwriters may be customers of, engage in transactions with, or perform services for us in the ordinary course of business.

If any underwriters or agents are utilized in the sale of the securities in respect of which this prospectus is delivered, we will enter into an underwriting agreement or other agreement with them at the time of sale to them, and we will set forth in the prospectus supplement relating to such offering the names of the underwriters or agents and the terms of the related agreement with them.

If a dealer is utilized in the sale of the securities in respect of which the prospectus is delivered, we will sell such securities to the dealer, as principal. The dealer may then resell such securities to the public at varying prices to be determined by such dealer at the time of resale.

Remarketing firms, agents, underwriters and dealers may be entitled under agreements which they may enter into with us to indemnification by us against certain civil liabilities, including liabilities under the Securities Act, and may be customers of, engage in transactions with or perform services for us in the ordinary course of business.

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Market-Making, Stabilization and Other Transactions

In order to facilitate the offering of the securities, any underwriters may engage in transactions that stabilize, maintain or otherwise affect the price of the securities or any other securities the prices of which may be used to determine payments on such securities. Specifically, any underwriters may overallot in connection with the offering, creating a short position for their own accounts. In addition, to cover overallotments or to stabilize the price of the securities or of any such other securities, the underwriters may bid for, and purchase, the securities or any such other securities in the open market. Finally, in any offering of the securities through a syndicate of underwriters, the underwriting syndicate may reclaim selling concessions allowed to an underwriter or a dealer for distributing the securities in the offering if the syndicate repurchases previously distributed securities in transactions to cover syndicate short positions, in stabilization transactions or otherwise. Any of these activities may stabilize or maintain the market price of the securities above independent market levels. Any such underwriters are not required to engage in these activities and may end any of these activities at any time.

There is currently no market for any of the offered securities, other than the common stock which is listed on the NYSE and the CSX. If the offered securities are traded after their initial issuance, they may trade at a discount from their initial offering price, depending upon prevailing interest rates, the market for similar securities and other factors. While it is possible that an underwriter could inform us that it intends to make a market in the offered securities, such underwriter would not be obligated to do so, and any such market-making could be discontinued at any time without notice. Therefore, no assurance can be given as to whether an active trading market will develop for the offered securities. We have no current plans for listing of any of the preferred stock, debt securities, warrants, depositary shares, subscription rights, stock purchase contracts, stock purchase units, or stock appreciation rights on any securities exchange; any such listing with respect to any particular security will be described in the applicable prospectus supplement or pricing supplement, as the case may be.

SELLING SECURITY HOLDERS

Selling security holders are persons or entities that, directly or indirectly, have acquired or will from time to time acquire from us, preferred stock, debt securities, warrants, depositary shares, subscription rights, stock purchase contracts, stock purchase units, or stock appreciation rights in various private transactions. Such selling security holders may be parties to registration rights agreements with us, or we otherwise may have agreed or will agree to register their securities for resale. The initial purchasers of our securities, as well as their transferees, pledges, donees or successors, all of whom we refer to as selling security holders, may from time to time offer and sell the securities pursuant to this prospectus and any applicable prospectus supplement.

Information about selling security holders, where applicable, will be set forth in a prospectus supplement, in a post-effective amendment, and in filings we make with the SEC under the Securities Exchange Act of 1934, as amended, which we incorporate by reference into this registration statement.

LEGAL MATTERS

In connection with particular offerings of our securities in the future, and unless otherwise indicated in the applicable prospectus supplement, the validity of such securities will be passed upon for Stifel Financial Corp. by Bryan Cave LLP, St. Louis, Missouri.

EXPERTS

The consolidated financial statements of Stifel Financial Corp. appearing in Stifel Financial Corp. s Annual Report on Form 10-K for the year ended December 31, 2010, and the effectiveness of Stifel Financial Corp. s internal control over financial reporting as of December 31, 2010 have been audited by Ernst & Young LLP, independent registered public accounting firm, as set forth in their reports thereon, and incorporated herein by reference. Such consolidated financial statements incorporated herein by reference in reliance upon such reports given on the authority of such firm as experts in accounting and auditing.

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$300,000,000

STIFEL FINANCIAL CORP.

4.25% Senior Notes due July 2024

PROSPECTUS SUPPLEMENT

BofA Merrill Lynch

Keefe, Bruyette & Woods

A Stifel Company

July 15, 2014