

NASD
LETTER OF ACCEPTANCE, WAIVER AND CONSENT
NO. E052003008601

TO: Department of Enforcement
NASD

RE: Sterne, Agee & Leach, Inc., Respondent
[CRD No. 791]

Pursuant to Rule 9216 of the NASD Code of Procedure, Sterne, Agee & Leach, Inc. submits this Letter of Acceptance, Waiver and Consent ("AWC") for the purpose of proposing a settlement of the alleged rule violations described in Part II below. This AWC is submitted on the condition that, if accepted, NASD will *not bring any future actions against us alleging violations based on the same factual findings.*

We understand that:

1. Submission of this AWC is voluntary and will not resolve this matter unless and until it has been reviewed and accepted by NASD's Department of Enforcement and National Adjudicatory Council ("NAC") Review Subcommittee or Office of Disciplinary Affairs ("ODA"), pursuant to NASD Rule 9216;
2. If this AWC is not accepted, its submission will not be used as evidence to prove any of the allegations against us; and
3. If accepted:
 - a. this AWC will become part of our permanent disciplinary record and may be considered in any future actions brought by NASD or any other regulator against us;
 - b. this AWC will be made available through NASD's public disclosure program in response to public inquiries about our disciplinary record;
 - c. NASD may make a public announcement concerning this agreement and the subject matter thereof in accordance with NASD Rule 8310 and IM-8310-2; and
 - d. We may not take any action or make or permit to be made any public statement, including in regulatory filings or otherwise, denying, directly or indirectly, any allegation in this AWC or create the impression that the AWC is without factual basis. Nothing in this provision affects our testimonial obligations or right to take legal or factual positions in litigation or other legal proceedings in which NASD is not a party.

We also understand that our experience in the securities industry and disciplinary history may be factors that will be considered in deciding whether to accept this AWC. That experience and history are as follows:

Sterne, Agee & Leach, Inc. has been a member of NASD since October 16, 1936. During all periods mentioned herein, Sterne, Agee & Leach, Inc. was a registered broker-dealer with the United States Securities and Exchange Commission (the "Commission") and a member of NASD, which registration and membership remain currently in effect. Sterne, Agee & Leach, Inc. has been the subject of four relevant formal disciplinary actions by NASD in the last five years:

1. Sterne, Agee & Leach, Inc. entered into a Letter of Acceptance, Waiver and Consent numbered CLG050023 whereby the firm agreed to a censure and a fine of \$11,000. The violations included submission to the Order Audit Trail System ("OATS") of 1,342 reports with respect to equity securities traded on the Nasdaq Attock Market that were not in the electronic form prescribed by NASD and were repairable. The reports were rejected by the OATS system and notice of the rejection was made available on the OATS website. The firm *did not correct or replace any of the rejected reports. In addition the firm failed to enforce its written supervisory procedures with respect to OATS.*
2. Sterne, Agee & Leach, Inc. entered into a Letter of Acceptance, Waiver, and Consent numbered CMS030282 whereby the firm agreed to a censure and a fine of \$35,000 and undertakings *regarding its written supervisory procedures. The violations included effecting short sale transactions at or below the current inside bid when the current inside bid was below the preceding inside bid, failure to affirmatively determine that the firm could borrow securities for its proprietary account before effecting short sale transactions in that account, failure to report transactions to ACT with a short sale modifier, and failure to provide for supervision reasonably designed to achieve compliance with the short sale rules.*
3. Sterne, Agee & Leach, Inc. entered into a Letter of Acceptance, Waiver, and Consent numbered C05010014 whereby the firm agreed to a censure and a fine of \$12,500. The violations included *failure to accurately report the unit price in NASDAQ NMS securities, failure to execute customer limit orders, failure to timely display customer limit orders, failure to designate transactions as short sales, and failure to timely file MSRB Form G-36 for municipal underwritings.*
4. Sterne, Agee & Leach, Inc. entered into a Letter of Acceptance, Waiver, and Consent numbered CLG050011 whereby the firm agreed to a censure and a fine of \$7500. The violations included

failure to timely report NNM trades and small cap trades.

I.

WAIVER OF PROCEDURAL RIGHTS

We specifically and voluntarily waive the following rights granted under NASD's Code of Procedure:

- A. To have a Formal Complaint issued specifying the allegations against us;
- B. To be notified of the Formal Complaint and have the opportunity to answer the allegations in writing;
- C. To defend against the allegations in a disciplinary hearing before a hearing panel, to have a written record of the hearing made and to have a written decision issued; and
- D. *To appeal any such decision to the NAC and then to the U.S. Securities and Exchange Commission and a U.S. Court of Appeals.*

Further, we specifically and voluntarily waive any right to claim bias or prejudgment of the General Counsel, the NAC, or any member of the NAC, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including acceptance or rejection of this AWC.

We further specifically and voluntarily waive any right to claim that a person violated the ex parte prohibitions of Rule 9143 or the separation of functions prohibitions of Rule 9144, in connection with such person's or body's participation in discussions regarding the terms and conditions of this AWC, or other consideration of this AWC, including its acceptance or rejection.

II.

ACCEPTANCE AND CONSENT

- A. We hereby accept and consent, without admitting or denying the allegations or findings, and solely for the purposes of this proceeding and any other proceeding in which NASD is a party, prior to a hearing and without an adjudication of any issue of law or fact, to the entry of the following findings by NASD:

1. During the period on or about July 28, 2003, through on or about July 31, 2003, Sterne, Agee & Leach, Inc. failed to promptly and/or correctly display customer limit orders in 12 of 38 (31.6%) instances.

Such acts, practices, and conduct constitute separate and distinct violations of SEC Rule 11Ac-1-4(b)(2) and NASD Conduct Rule 2110 by Sterne, Agee & Leach, Inc.

2. During the period on or about July 28, 2003, through on or about July 31, 2003, Sterne, Agee & Leach, Inc. failed to accurately report eight municipal transactions of correspondent firms by reporting the trades under the symbol "SALI" rather than reporting the trade under the symbol for the correspondent firm.

Such acts, practices, and conduct constitute separate and distinct violations of MSRB Rule G-14 by Sterne, Agee & Leach, Inc.

3. During the period on or about July 15, 2002, through on or about September 19, 2003, Sterne, Agee & Leach, Inc. failed on five occasions to timely update the *Uniform Application for Securities Industry Registration or Transfer* ("Form U-4") to disclose customer complaints against registered representatives.

Such acts, practices, and conduct constitute separate and distinct violations of Article V, Section 2 of NASD Bylaws and NASD Conduct Rule 2110 by Sterne, Agee & Leach, Inc.

4. During the period on or about July 15, 2002, through on or about September 19, 2003, Sterne, Agee & Leach, Inc. failed to establish, maintain, and enforce a supervisory system reasonably designed to achieve compliance with the Rules of NASD. Specifically, the procedures of Sterne, Agee & Leach, Inc. failed to identify a particular person responsible for updating Form U-4 to disclose customer complaints and failed to designate a deadline for the updating of Form U-4.

Such acts, practices, and conduct constitute separate and distinct violations of NASD Conduct Rules 3010 (a) and (b) and 2110 by Sterne, Agee & Leach, Inc.

B. We also consent to the imposition, at a maximum, of the following sanctions:

A censure and a monetary fine in the amount of \$25,000 against Sterne, Agee & Leach, Inc.

The sanctions imposed herein shall be effective on a date set by NASD staff.

III.

OTHER MATTERS

- A. We understand that we may attach a Corrective Action Statement to this AWC that is a statement of demonstrable corrective steps taken to prevent future misconduct. We understand that we may not deny the charges or make any statement that is inconsistent with the AWC in this Statement. This Statement does not constitute factual or legal findings by NASD, nor does it reflect the views of NASD or its staff.
- B. We agree to pay any monetary sanctions imposed on us upon notice that this AWC has been accepted and that such payments are due and payable as noted above and have attached an Election of Payment form showing the method by which we propose to pay any fine imposed.
- C. We specifically and voluntarily waive any right to claim that we are unable to pay, now or at any time hereafter, any monetary sanction imposed in this matter.

We certify that we have read and understand all of the provisions of this AWC and have been given a full opportunity to ask questions about it, and that no offer, threat, inducement, or promise of any kind, other than the terms set forth herein, has been made to induce us to submit it.

6-24-05
Date

Sterne, Agee & Leach, Inc.

By: Ronald G. DeLuca
RONALD G. DELUCA
Chief Counsel / CEO
[Name and title]

Reviewed by:

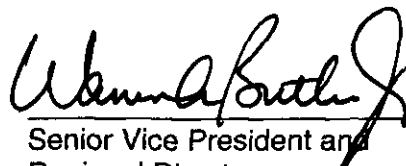
Counsel for Respondent

Letter of Acceptance, Waiver,
and Consent
Sterne, Agee & Leach, Inc.,
Case No. E052003008601
Page No. 6

Accepted by NASD:

July 18, 2005

Date


Senior Vice President and
Regional Director

Signed on behalf of the director of
ODA, by delegated authority

Attachment: Election of Payment Form