

SECURITIES MISSION
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ANNUAL AUDITED REPORT FORM X-17A-5 PART III

SEC FILE NUMBER
8-11754

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 10-1-03 AND ENDING 9-30-04
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **STERNE AGEE & LEACH, INC.**

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

800 SHADES CREEK PARKWAY, SUITE 700

(No. and Street)

BIRMINGHAM

ALABAMA

35209

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

KPMG LLP

(Name - if individual, state last, first, middle name)

420 NORTH 20TH STREET, STE 1800

BIRMINGHAM

ALABAMA

35203

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED
DEC 09 2004
FINANCIAL

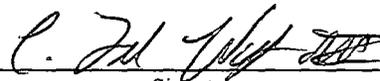
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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

Handwritten initials/signatures

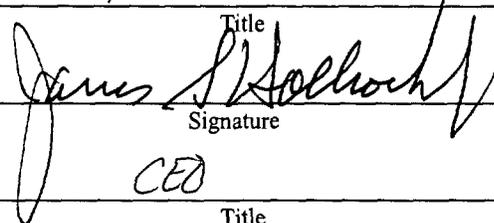
OATH OR AFFIRMATION

We, James S. Holbrook, Jr. and C. Fred Wagstaff, swear (or affirm) that, to the best of our knowledge and belief the accompanying financial statements and supporting schedules pertaining to the firm of Sterne Agee & Leach, Inc., as of September 30, 2004, are true and correct. We further swear (or affirm) that neither the Company nor any partner, proprietor, principal officer, or director has any proprietary interests in any account classified as that of customer except as disclosed in note 4 of the Company's consolidated financial statements as of September 30, 2004. In addition, we confirm that the annual financial statements and operations reports filed with the Securities and Exchange Commission have been made available to all members and allied members of Sterne, Agee & Leach, Inc. as required by NYSE Rule 418.15.



Signature

CFO

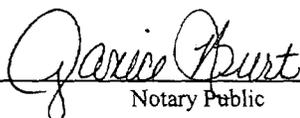


Title

Signature

CEO

Title



Notary Public

CONTENTS OF REPORT

This report contains (check all applicable boxes)

- X (a) Facing page
- X (b) Statement of Financial Condition
- X (c) Statement of Operations
- (d) Statement of Changes in Financial Condition
- X (e) Statement of Changes in Stockholder's Equity
- X (f) Statement of Changes in Liabilities Subordinated to Claims of General Creditors
- X (g) Statement of Cash Flows
- X (h) Computation of Net Capital Under Rule 15c3-1
- X (i) Computation for Determination of Reserve Requirements Under Rule 15c3-3
- X (j) Information Relating to Possession or Control Requirements Under Rule 15c3-3
- X (k) Schedule of Nonallowable Assets
- (l) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3
- (m) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation
- X (n) An Oath or Affirmation
- (o) A copy of the SIPC Supplemental Report
- (p) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

STERNE, AGEE & LEACH, INC.
(A Wholly Owned Subsidiary of Sterne, Agee & Leach Group, Inc.)

Consolidated Statements of Financial Condition

September 30, 2004 and 2003

Assets	<u>2004</u>	<u>2003</u>
Cash and cash equivalents	\$ 5,266,926	4,759,101
Cash segregated and securities on deposit for regulatory purposes	4,352,000	20,894
Receivables:		
Broker dealers and clearing organizations	64,093,057	48,698,669
Customers	140,158,253	92,383,320
Related parties	2,199,639	766,120
Securities owned, at fair value:		
U.S. Government obligations	3,064,728	4,710,454
State and municipal obligations	16,149,259	3,123,897
Corporate obligations	4,670,336	5,888,994
Corporate stocks	405,887	269,546
Bank notes	10,000	179,574
Other	96,476	14,552
	<u>24,396,686</u>	<u>14,187,017</u>
Exchange membership, at cost (fair value, \$1,050,000 in 2004 and \$1,400,000 in 2003)	195,000	195,000
Furniture, equipment, and leasehold improvements (less accumulated depreciation and amortization of \$6,684,922 in 2004 and \$6,011,220 in 2003)	2,486,704	2,014,482
Goodwill	3,000,297	3,000,297
Other assets	7,608,916	7,621,767
Total assets	<u>\$ 253,757,478</u>	<u>173,646,667</u>

See accompanying notes to consolidated financial statements.

Liabilities and Stockholder's Equity	<u>2004</u>	<u>2003</u>
Bank loans	\$ 47,900,000	20,900,000
Payables:		
Broker dealers and clearing organizations	78,060,775	48,361,342
Customers	70,434,115	62,752,746
Related parties	94,942	454,730
Securities sold but not yet purchased, at fair value:		
U.S. Government obligations	6,226,893	2,642,283
State and municipal obligations	91,172	—
Corporate stocks	345,173	149,417
Corporate obligations	398,878	206,740
Bank notes	176,847	—
Options	3,985,873	905,777
Other	17,768	2,075
	<u>11,242,604</u>	<u>3,906,292</u>
Accounts payable and other liabilities	19,683,859	14,003,649
Total liabilities	<u>227,416,295</u>	<u>150,378,759</u>
Commitments and contingencies (note 10)		
Stockholder's equity:		
Common stock, \$5 par value; authorized 350,000 shares, issued and outstanding 254,350 shares in 2004 and 2003	1,271,750	1,271,750
Additional paid-in capital	14,749,611	13,999,611
Retained earnings	10,319,822	7,996,547
Total stockholder's equity	<u>26,341,183</u>	<u>23,267,908</u>
Total liabilities and stockholder's equity	<u>\$ 253,757,478</u>	<u>173,646,667</u>

See accompanying notes to consolidated financial statements.