



## **Sterne Agee Business Continuity Plan**

### **Purpose of the Business Continuity Plan**

The Business Recovery Plan at Sterne Agee Group, Inc. is intended to provide a framework for developing plans to ensure the safety of employees and the resumption of operations and services at each of our operating subsidiaries in the event of an emergency. The plan should provide for the continuing operation of the business units and accelerated recovery in the event of a disruption.

### **Objectives of the Business Continuity Plan**

- To reduce confusion by giving a clearly defined course of action, and thus providing for an orderly and timely recovery.
- To identify personnel, resources, and the functions necessary for continued operation in the event of disruption, and provide appropriate client communications.
- To minimize the impact to Sterne Agee's public and industry image.
- To define alternate procedures for ongoing operation of critical functions.
- To identify the locations to be used to continue operations in the event of a disruption.
- To use an established plan to resume normal operation, within redefined limits, after a disruption.

### **Sterne Agee Policy**

Our Firm's policy is to respond to a Significant Business Disruption (SBD) by safeguarding employees' lives and Firm property, making a financial and operational assessment, quickly recovering and resuming operations, protecting all of the Firm's books and records, and allowing our clients to transact business. In the event that we determine that we are unable to continue our business, we will assure clients prompt access to their funds and securities.

### **Significant Business Disruptions**

Our plan anticipates two types of SBD's: internal and external. Internal SBD's are interruptions that deny access to our facilities or resources such as a fire, flood, power outage or hazardous material incident. External SBD's prevent the operation of the securities markets or a number of firms, such as a terrorist attack or a wide-scale, regional disruption. With either type of disruption, if our critical Information Technology systems are disrupted, we will have to rely on our key third party processors, vendors, suppliers and financial institutions. Whether the disruption is internal or external, Sterne Agee's plan is designed to recover our business functionality within four (4) hours and clear all outstanding business.

### **Approval and Execution Authority**

Timothy Vardaman, Managing Director, Financial Services Division, a registered principal, is responsible for approving the plan and for conducting the required annual review. Mr. Vardaman can be reached at 205.380.1776 or tvardaman@sternagee.com. F. Eugene Woodham, COO, who has the authority to execute this BCP, can be reached at 205.949.3547 or at fwoodham@sternagee.com. F. Eugene Woodham, COO, has the authority to execute this BCP.

### **Business Description**

A member of the New York Stock Exchange, Sterne, Agee & Leach, Inc. is a registered broker/dealer, offering clients the advantages of a full-service firm. Our expertise includes retail and institutional brokerage; investment banking and underwriting; secondary trading of corporate, municipal, and government securities; and market making in over-the-counter stocks.

Headquartered in Birmingham, Alabama, we have offices located in Alabama, Arkansas, California, Florida, Georgia, Illinois, Kentucky, Louisiana, Maine, Massachusetts, Minnesota, Mississippi, Missouri, New Jersey, New York, North Carolina, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, and Wisconsin.

### **Alternative Physical Location(s) of Employees**

Sterne Agee Group, Inc. has multiple locations in many states and depending on the severity and duration of a SBD, the Firm has plans to either transfer employees to other branches to continue business or relocate trading functions to alternative branch offices. We have determined that in the event of a significant business disruption, we must initially resume business by having an Initial Response Team from the Birmingham Operations department functioning within the first four (4) hours after the event to clear and settle that day's business and have Equity and Fixed Income trading teams ready to conclude their trading.

### **IT Alternative Processing Site**

The IT department has developed and equipped a disaster recovery processing room on the 5th floor of the 800 Shades Creek Parkway headquarters building. This room will house equipment allowing the following backup capabilities:

- Circuits connected to DTCC, BONY, ILX, Thomson and the Internet
- Servers to run BETA and backup e-mail
- A 3005 concentrator which allows VPN capabilities with 3rd party vendors, i.e. SunGard's
- Advent systems.
- Potential to backup MPLS circuits in the future.

The IT department will also be utilizing the Birmingham headquarters 5th floor training room by setting up work stations designed to mirror the functionality of designated personnel from the Operations, Equity trading, SAAM and SAL Trust Company. This room will serve as a Disaster Recovery site if functionality is impaired at the 813 Shades Creek Parkway office. Should the severity of the disruption dictate that the 813 building be inoperable for an extended period of time, the IT department is prepared to take the open room on the Headquarters 5th floor and setup computers on tables to accommodate critical Operations personnel.

### **Operations Response**

Management of the Operations department has determined that they will designate six (6) people to be the Initial Response group to clear and settle transactions in the 5th floor Disaster Recovery site in the event of a disruption at 813 Shades Creek Parkway. Six (6) work stations in the Disaster Recovery room will be setup to mirror the functionality of these employees, to give them immediate access to all necessary functions. If the duration of the disruption exceeds four (4) hours, additional work stations will be setup for Operations personnel. If it is determined that the disruption should exceed forty eight (48) hours, Operations management will deploy their remaining personnel in designated areas throughout 800 Shades Creek Parkway.

### **Fixed Income Trading Response**

- Birmingham - If the event reaches a certain level of severity and duration, Birmingham's Retail and Municipal Underwriting function will be taken over by Fixed Income traders in New York; as well as Agency Trading and the Floater Desk duties. If the disruption only affects Birmingham's computer capabilities, Birmingham traders will communicate their trading activity by phone to their counterparts in New York. If the Birmingham office is totally shut down, management in New York will direct all trading efforts and the Birmingham personnel will be transported to the New York office.

- New York - Should the New York office become impaired for a sufficient period of time, Corporate Trading will be transferred to traders in Philadelphia. A trader in the Chicago office will handle the Mortgaged Backed trading. Trading personnel of the Birmingham Office will assume the Municipal trading activity. A total shutdown of the New York office will prompt moving all trading personnel to Bernardsville or Birmingham.
- Fixed Income traders can function out of any office where they can access a Bloomberg terminal, so trading could occur in Birmingham, New York, Little Rock or Atlanta; and with the opening of the new office in Bernardsville, New Jersey, this provides adequate geographic separation to relocate all New York personnel.
- Management will make the determination, based on projected severity and duration of a significant business disruption, as to the relocation point for each Fixed Income Trading office.

### **Capital Markets Trading Response**

- Boca Raton - Should the Boca office be incapacitated, the Firm would close our markets in OTCBB stocks. We would reject all in bound broker dealer orders and management would route all retail orders in OTCBB and Pink Sheet stocks. If the event exceeds forty eight (48) hours, the Boca traders will drive to Birmingham to trade.
- Birmingham - In the event of a disruption, two (2) traders, Scott Hughen and Claude Preston, will be relocated to our Disaster Recovery room to complete the current days open trades. If the duration is assessed to be long term, the Birmingham traders will be transported to New York.
- New York - If the New York desk should go down, the Birmingham desk can filter in the New York traders and immediately assume their roles.

The severity and duration of the disruption will dictate where critical employees are to be transferred.

*Rule: NASD Rule 3510(c)(6)*

### **Clients' Access to Funds and Securities**

In the event of a SBD wherein Sterne Agee operations is caused to relocate to an alternate site, clients have a uninterrupted access to their funds by identifying balances via internet access, contacting their broker or introducing broker dealer or telephoning the Sterne Agee operations center location. (See numbers below.)

- Operations: 888.678.3763
- Clearing Liaison: 800.778.6257
- Corporate Administration: 800.240.1438

Clients may withdraw funds from their accounts by using the check writing feature of all money market instruments offered through Sterne Agee or by contacting Sterne Agee directly or through their introducing broker dealer requesting that a wire or check be sent to their bank or address of record. If for any reason we are unable to cut checks through our system, the Firm can wire transfer funds to the client from either Regions Bank or Bank of New York. For securities delivered to our client's DTCC counter-parties, the Firm would take instruction via phone or fax at our alternate site locations (whose contact information would be posted on our website, [www.sterneagee.com](http://www.sterneagee.com)), utilize our DTCC PC wireless connection to access our account and make deliveries free to our client's DTCC participants. For securities purchased with automatic transfer, the Firm would continue to work automatically through our network generating the instructions to DTCC, who in turn would pass these instructions to transfer agents to make delivery to the client direct. In the event that a disaster of such magnitude mandates the discontinuance of operations, Sterne Agee would perform an orderly discontinuance of business under its present BCP, properly notify regulatory authorities including the Securities Investor Protection Corporation (SIPC). (Sterne, Agee & Leach, Inc. is a member of SIPC. As such, our clients' accounts are protected up to a maximum of \$500,000.00 per

client, including up to \$100,000.00 in cash balances (explanatory brochure available upon request or at [www.sipc.org](http://www.sipc.org) or call 202.371.8300). Sterne Agee also has additional coverage provided by Lloyd's of London in the amount of \$24.5 million in securities per client with an aggregate limit of \$100 million.) Executive Officers of Sterne Agee would coordinate this procedure.

*Rule: NASD Rule 3510(a); Securities Exchange Act Rule 15c3-1; 15 U.S.C. 78eee*

### **Data Back-Up and Recovery (Hard Copy and Electronic)**

The Firm has contracted with Regions Bank to provide off-site storage of the company's electronic data back-up files. Data from our server platforms are copied to tape and transported offsite to Regions Bank the following day by our mailroom couriers. We retain five (5) daily sets of backups offsite. In addition, we store twelve (12) month end tapes (rolling 12 months) and each year end tape locally in a fireproof safe in the computer room. Duplicate platters and backup tapes from Spyview, our books and records system, are also stored at Regions Bank. The facility stores the platters in fireproof vaults. The facility is located in the basement of the Regions - Harbert Plaza building, located at 1901 6th Avenue North, Birmingham, AL 35203; providing an acceptable geographic distance from the Firm's Operations center.

Back-up for trade documentation is available through the service bureau utilized by Sterne Agee.

The Firm is working to insure that all firm documentation not covered above (such as employee records, administrative contracts and system generated reports for reconciliation, etc.) is scanned for archiving on the Firm's optical storage system. The documents will then be backed up as described in the first paragraph.

*Rule: NASD Rule 3510(c)(1)*

### **Financial and Operational Assessments**

#### **Operational, Financial and Credit Risk**

Operational risk focuses on the Firm's ability to maintain communications with clients and to retrieve key activity records through its "mission critical systems." Sterne Agee has fully documented our communication capabilities and has procedures in place to notify our clients of all available means of communication. Financial risk relates to the Firm's ability to continue to generate revenue, and obtain new or retain adequate financing and sufficient equity. In addition to the possibility of experiencing operating losses, the value of the Firm's investments may deteriorate due to the lack of liquidity in the broader market, which would also hinder the ability of the Firm's counter-parties to fulfill their obligations. Sterne Agee has procedures in place to assess our exposure to client and counterparty risk, such as:

- Review unsecured debits, margin debit balances in excess of amounts established by the Credit Committee, concentrated position and credit problems.
- Evaluate counterparty credit limits and types of transactions and monitor collateral for leveraged high-risk positions where the account is leveraged.
- Widely held positions are reviewed to determine whether higher special maintenance requirements are required.
- Monitoring the valuation of proprietary securities positions daily and adherence to established limits on trading account inventories.

The Firm has acquired multiple lines of credit that are well in excess of the needs our daily operations require. These lines of credit are with such institutions as Regions Bank, Bank of New York and Wachovia and these lines have both secured and unsecured elements. These lines of credit allow us to finance fails to deliver with our counterparties, which can be a potential risk in the event of a significant business disruption.

*Rule: NASD Rule 3510(c)(3) & (c)(8) & (f)(2)*

## **Mission Critical Systems**

Sterne Agee's "mission critical systems" are those that ensure prompt and accurate processing of securities transactions, including order taking, entry, execution, comparison, allocation, clearance and settlement of securities transactions, the maintenance of client accounts, access to client accounts, and the delivery of funds and securities. We have identified the following functions as critical to our daily business and will be supported during a SBD.

- Order Taking/Order Entry - Beta provides the mechanism for order entry from our branch locations.
- Trading - Equity - the Firm currently operates multiple trading sites geographically dispersed. Depending on the nature of the SBD, Equity trading will operate in Birmingham, Boca Raton or New Orleans. All Equity trading can operate at any or all of these sites.
- Trading - Fixed Income - the Firm currently operates Fixed Income trading sites geographically dispersed. Depending on the nature of the SBD, Fixed Income trading will operate in Birmingham or New York with certain functions to be performed in Chicago or Philadelphia.
- Execution - order acceptance and routing of orders to an executing agent will be virtually uninterrupted by use of Internet access, telephone and fax transmission between branch, clients and executing agents. The Firm's BCP envisions remote switching of incoming communication lines to any alternate location where Equity and Fixed Income trading personnel will be domiciled in the event of an interruption at their present location.
- Comparison - If the SBD created inaccessibility to the AS400 report printing, our P & S staff would be required to relocate to our service bureau in Brookfield, WI. At that site Beta systems could print the necessary street side comparisons and break reports and also provide the Firm phone, fax and Beta back office capabilities that would allow us to compare our street side business. If the outage is less than 24 hours, we will hold the comparison and break reconciliations process until the next business day when we had re-established full access to AS400 reports and our operations center. In both, we would update the trading group and correspondents with the new site location, telephone numbers and fax numbers and when we would be available at that site.
- Allocation - allocation of bunched or average priced trade executions is assigned to the respective accounts by trading desk personnel in lieu of electronic allocation performed by Beta systems or other order management systems pending restoration of the Beta system outage.
- Clearance and Settlement - the Firm has direct connections to DTCC, NSCC, SIAC, BONY and Regions to clear and settle all trades on a daily basis. In case of a SBD, the Firm has the ability to communicate to all of these institutions via landline, cell phone or Internet utilizing secure passwords and settle all trades on a timely basis.
- Access to Client Accounts - the Firm maintains all client accounts and records on the Beta system in Brookfield, Wisconsin and alternate sites in New York and California. This information resides on duplicate AS400 computers in our offices in Birmingham. Our branch locations have access to this information through the Firm's WAN and through thin-client terminals at other locations. In addition, our system can allow access to Beta through the Internet by reconfiguring the router with Beta. If communication is lost to our AS400 or backup AS400, then direct Internet access with Beta from any or all of our branch locations can be effected.
- Delivery of Funds and Securities - The Firm maintains custody of client securities in book-entry form at DTCC and Bank of New York, various mutual fund companies, insurance companies and physical securities in its vault in Birmingham. In the case of a SBD, the Firm can access client securities through its direct link to DTCC and/or Bank of New York. If this communication access is not available then communication to DTCC and BONY can be accomplished through wireless communication utilizing ID's and passwords to effect delivery in and out of securities. These securities can be transmitted through book entry or in the case of physical securities can be shipped to the appropriate office.

*Rule: NASD Rule3510(c) & (f)(1)*

## **Alternate Communications Between Sterne Agee and Clients, Employees, and Regulators**

### **Clients**

The Firm maintains the home office and operations center in Birmingham. If a SBD occurs in one or more branch locations, all calls into that location, or locations, will be re-routed to Birmingham or such branch as to best serve the client's needs. If all telecommunications to a branch or branches are inoperative, then clients can call 1.800.240.9220 or 1.800.240.1438 for service. Information will be posted on Sterne Agee's website to keep our clients informed of all available means to communicate with the Firm and alternate phone numbers to transact business.

### **Employees**

Sterne Agee has signed a contract with a national emergency contact system provider and has set up a database of all employees to allow management immediate capabilities in communicating quickly, accurately and efficiently with all employees to disseminate information and to determine their immediate well being.

### **Regulators**

The Compliance area of the firm has the responsibility to notify and communicate with the Regulators upon the occurrence of a SBD. This communication would be by telephone, cell phone, fax or through the Internet. The Chief Compliance Officer will continue to keep the Regulators apprised of our SBD.

*Rule: NASD Rule3510(c)(9)*

### **Critical Business Constituents, Banks, and Counter-Parties**

We have contacted our critical business constituents and determined the extent to which we can continue our business relationships with them in the event of a significant business disruption. We will quickly establish alternative arrangements if one of these entities can no longer provide the needed goods or services when we need them because of a SBD to them or our Firm. The Firm will continue to evaluate our business partners to ensure that we have the flexibility, in the event of a SBD, to service our client's needs.

*Rules: NASD Rule3510(a) & (c)(7)*

### **Regulatory Reporting**

Sterne Agee is subject to regulation by multiple regulatory bodies. We now file reports with our regulators using paper copies in the U.S. mail and electronically using fax, e-mail and the Internet. In the event of an SBD, we will check with the SEC, FINRA, and other regulators to determine which means of filing are still available to us, and use the means closest in speed and form to our previous filing method. In the event that we can not contact our regulators, we will continue to file required reports using the communication means available to us.

*Rule: NASD Rule3510(c)(8)*

### **Disclosure of Business Continuity Plan**

Sterne Agee provides in writing a BCP disclosure statement to clients at account opening in the Sterne Agee New Account Information brochure and periodically mails copies of the disclosure in clients' monthly statements. We also post the disclosure statement on our web site, [www.sterneagee.com](http://www.sterneagee.com), within each operating companies link and mail the statement to clients upon request. If additional copies are needed or if clients have questions regarding Sterne Agee's BCP, they should contact Business Continuity Officer Woody Woodward at 205.414.3376 or at [nwoodward@sterneagee.com](mailto:nwoodward@sterneagee.com).

*Rule: NASD Rule3510(e)*

### **Updates and Annual Review**

The Sterne Agee Business Continuity Plan will be updated whenever we have a material change to our operations, structure, business or locations. The Business Continuity Officer (BCO) will conduct a review of the plan within 17 days following the end of each quarter; with findings presented to Timothy Vardaman, Plan Administrator. The review will be conducted by having various departmental business leaders review sections for accuracy and feasibility. In addition to the quarterly review, Sterne Agee's Internal Audit staff will audit the plan annually, while Senior Business Continuity Leaders will review the Firm's plan annually, on or near August 31, and will modify it if necessary. All changes made to the plan will be communicated to the affected parties, and any changes in the Plan Administration reporting structure will be communicated to the Compliance department to be reported to the appropriate regulatory bodies.

*Rule: NASD Rule3510(b)*

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