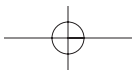
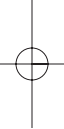
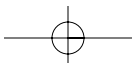
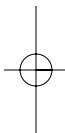
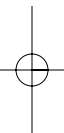


TRAGEDY







LIFE BEFORE 9/11

Keefe, Bruyette & Woods (KBW) is a Wall Street firm specializing in the banking, insurance, and financial services industries. Our corporate culture differs from many Wall Street firms. KBW has very low turnover, often people stay at KBW for 20 or more years. While our obligations to our clients have been a priority, we never forget the needs of our own employees.

September 11, 2001, was particularly painful for many of us when we lost not only employees, but employees who had become close friends—who were like family.

There is a great deal of variation in what KBW does. We're known for our research and pride ourselves on having the best analysts in the areas we cover. Although KBW has long been recognized as a banking industry authority, in recent years, we've expanded our focus to include insurance companies, broker/dealers, mortgage banks, asset-management companies, and specialty finance firms.

In the World Trade Center, we occupied the 88th and 89th floors of the South Tower. Our corporate finance and investment bankers were housed on the 88th floor and our research analysts and traders were on the 89th floor.

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A typical day at KBW began when the first employees arrived on the 89th floor a little after 7 A.M. to prepare for our morning meeting. The meeting generally began between 7:30 and 7:45 with our research people, traders, and salespeople in attendance. Although it is hosted in New York, our regional offices in Hartford, Boston, Columbus, and San Francisco attend via telephone. At the meeting, our research analysts share the latest news, analyses, and related information about the companies that they cover with the traders and salespeople.

The information presented is augmented throughout the day as the analysts uncover additional data that might help the traders and salespeople do their jobs. Not all of the analysts attend each meeting since some of them might be traveling to visit clients, attending conferences, or taking personal time.

After the meeting, which generally lasts from 30 to 45 minutes, the traders and salespeople return to their desks and begin to share information with their contacts via telephone and e-mail. They spend the rest of the day talking with clients, with the salespeople taking orders and the traders executing those orders. The traders' day ends around 4:30 P.M., while the salespeople leave half an hour to an hour later. Since most days start before 7:30 A.M., and often include working lunches and/or working dinners, our employees put in long hours.

Research is the heart of Keefe, Bruyette & Woods. It is what we are known for and the key to the value we bring to our brokerage customers. The integrity of KBW's research enables the firm to build strong relationships with scores of companies. It also gives us the critical perspective we need to work with our corporate finance clients. We have been consistently named the "Best of the Boutiques" for money-center and regional bank research in *Institutional Investor's* annual All American Research Team Poll.

In 2001, we won the title in five areas: Multinational Banks, Regional Banks, Brokers & Asset Managers, Mortgage Finance, and Specialty Finance. Our professionals follow close to 400 financial services companies—more than any other brokerage firm. *KBW's Action List*, our research department's report of the best investment ideas, has outperformed its benchmark in each of the last five years.

We also specialize in understanding credit stories and identifying the best relative values in the financial services corporate bond market. This expertise allows us to provide the highest quality service to institutional investors and issuers, both investment grade and noninvestment grade.

KBW does not try to be all things to all people. We focus on a particular segment of the market. Our equity sales and trading group is particularly adept at this. The salesforce focuses solely on the financial services sector and uniquely guides clients using the perspective gained by KBW's intense research effort.

Many of the world's largest institutional investment firms and most of the best-known investors in the financial services sector are our clients. They value our research and use our trading desk to execute both listed orders and those on the NASDAQ. We execute client orders on the New York Stock Exchange (NYSE) and on all of the regional exchanges. We are market makers in over 350 NASDAQ financial services stocks and are one of the top three market makers in many of those stocks. Our NASDAQ desk often trades more financial stocks than many of the larger firms. KBW plays a significant role in a number of markets. In February 2002, we started providing market-making services in an additional 100 stocks. In addition, we put our own money to work for our clients. Our trading desk often has one of the largest overnight positions—that is, the firm is long the stock after the close—among

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Wall Street's brokers and dealers in the financial stocks that we follow.

Our sales group is and was headed up by Tom Michaud. Prior to 9/11, Tom was an executive vice president and a member of KBW's board of directors. Since 9/11, he has been promoted to chief operating officer and vice chairman of the company. Normally, Tom is at his desk long before 9 A.M., leading the morning meeting. However, this was not the case on that fateful Tuesday in September 2001. Tom's enthusiasm for Michael Jackson saved his life. He had attended a Michael Jackson concert the night before. There were probably very few other executive vice presidents and directors of equity sales at that concert on September 10, but luckily for us Tom was there. After arriving home late that evening, he got a late start the next morning, arriving at the office at 8:40—a solid hour and a half after his normal arrival time. He owes his four-year-old son gratitude for surprising him in the shower that morning, causing him to miss his train. This put him on the sidewalk outside the World Trade Center rather than at his desk when the plane hit.

At the time the morning meeting is in full swing, I begin my drive to the office, generally arriving around nine. I joined the company in 1978 as an analyst on our Bank Watch service. After running that department, I moved over to our corporate finance department, eventually heading that group, which advises banks and thrifts on mergers and helps them raise capital. In 1999, along with Joe Berry, I was named co-CEO and president of the firm.

I rarely throw away old memos, articles, or any other paper document that comes my way, so my office is filled with paper (much to the dismay of some of my peers). My associates love telling how, after the World Trade Center bombing in 1993, one of the rescue workers came through the building and after viewing my office, asked if that was where the bomb went off.

Like many in our corporate finance department, Andy Senchak, our recently appointed president, has no typical workday. After driving from his home in New Jersey and taking the water taxi across the Hudson from Liberty Harbor, he would arrive in his office on the 88th floor sometime between 7:30 and 9:30 in the morning. Andy says that he manages by wandering [around the office], and his days vary according to the transactions KBW is working on or particular events at the firm.

Andy joined KBW in 1985 after leaving Rutgers University where he taught economics. Andy explained his thinking on making the move from Rutgers to KBW: "Basically, I packed up my office which was the size of a closet at Rutgers University on a Sunday night and drove with enormously high spirits down the Jersey Turnpike. I went to work at KBW the next morning, a Monday morning in January. At the same time, I realized that I'd turned from two other opportunities—one a postdoctoral fellowship at Harvard Business School and another a job as an economist at Sanford Bernstein, but I was so happy to be at Keefe I'd forgotten about those other two offers." Andy sheepishly admits that he never even thought to tell the other firm and Harvard of his choice. Andy never regretted his decision.

Andy had an office on the 88th floor, as did Michael O'Brien, another survivor, who was the president of KBW Asset Management on 9/11 and has since been promoted to CEO of our asset management subsidiary. Michael, who joined the firm around the same time as Andy, was the only member of our board of directors who was in the building at the time of the attack who managed to escape. Most of our investment bankers have schedules similar to Michael's and Andy's—much depends on the deals they are working on. Even if they manage to leave the office at a respectable hour, many spend their evenings reading analysts'

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reports and other material related to the financial services industries they follow.

Our investment bankers tend to come in later than the trading staff but they also stay later. Our investment banking practice is based on long-term relationships developed by a core group of managing directors. As in other areas in the firm, turnover of employees is very low. Most of our investment bankers have been with us for more than 10 years.

Our investment banking practice is focused broadly on the financial services industry. For us that means many different businesses—all of which are in the “financial” space. We do a lot of work for banks and thrifts, but we are also very active working with insurance companies, broker/dealers, asset management firms, mortgage companies, leasing companies, and a variety of commercial and consumer credit businesses.

In an advisory capacity, we counsel clients on their strategic options and related transactions. This includes a variety of services such as merger and acquisitions advice, takeover defenses, valuations, fairness opinions, corporate restructuring, and investor relations. In this capacity, we have maintained a leading role with our banking industry clients. The banking industry has consolidated at a rapid pace in the past 10 years. Since 1997, we have acted as financial advisor in 178 mergers and acquisitions of banks and thrifts. These transactions had a total deal value of over \$37 billion. During this period, we have also completed 23 advisory assignments for nonbank financial institutions valued at \$1.6 billion.

Mergers and acquisitions (M&A) in the bank arena are our bread and butter. Thompson Financial/First Call publishes benchmark “league tables” ranking firms by the dollar value of their annual deal activity in bank M&A. In 2001, despite the

challenges we faced as a firm, we ranked fifth, up from our ranking in 2000, where we were ninth. Our 2001 accomplishments put us ahead of a number of bigger firms, such as J.P. Morgan Chase, Morgan Stanley, and Salomon, Smith Barney. In terms of sheer number of deals, we were ranked #1 in 2001. The 37 deals we advised on had a total deal value of over \$6 billion. This put us well ahead of the #2 firm which had completed 16 transactions. In 2000, we placed ninth on the list, completing 19 deals valued at over \$3 billion. Our 2001 results are especially noteworthy when you consider the fact that overall, it was not a banner year for deal flow in the investment banking industry. Moreover, we did remarkably well in that we closed nine of those deals after September 11 and we have already announced 12 transactions in 2002 (an even "slower" year for the industry).

The American Banker also ranks participants in the financial markets each year. Based on their analysis, we ranked first among leading financial advisors based on number of transactions in 1996, 1997, 1999, and 2001. In 1998 and 2000, we ranked second. Overall, I believe these accomplishments underscore the fact that for a relatively small firm, KBW's mergers and acquisitions practice has stacked up quite nicely against the bigger Wall Street firms.

The other part of our corporate finance effort involves the managing, placement, and sales of both public and private market financing activity for our financial institution clients. We manage offerings of a variety of capital markets products, including both underwritten public transactions as well as private placements of common stock, preferred stock, and fixed income securities. Our reputation for excellence in research carries into this arena. It enables us to build strong relationships with scores of investors seeking access to the capital markets, as well as the institutional investors who seek value in this sector.

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One of our more significant accomplishments in the capital markets involves the pioneering work we have done in helping smaller community banks and thrifts access the market for a specific capital product—trust preferred stock—which, heretofore, has been available predominately to larger banking companies. Through our work with the rating agencies and investors, we have been able to place over \$3 billion of this product since the summer of 2000. Since September 11 alone, we have placed \$2 billion, making KBW the market leader for this innovative product. It's this type of industry knowledge and creativity that gains us the respect of both issuing companies and the institutional investors we service.

In the equity markets, we maintain a leading position as market maker. This has been an important factor in helping us obtain capital raising assignments. Since 1997, we managed or co-managed over \$20 billion in offerings for our clients.

Our corporate finance group has also played a role in one of the hottest areas for thrifts and insurance companies—the process of converting from mutual ownership (e.g., where the depositors or policy holders effectively own the company) to stock ownership—whereby public investors now own shares in the company. We started a group that focused on this in the late 1980s and it grew rapidly when in 1996 we acquired Charles Webb & Company, a firm that specialized in that market. We've completed over 125 conversions and actually led the investment banking community in 1999 in the number of completed conversions as well as the amount of gross proceeds raised.

Our affiliate, KBW Asset Management, is a registered investment advisor offering investment management services to institutions and high net-worth individuals. We use a research-intensive approach to investing and have had a long history of successful

investment in the financial services sector. Our success in this area is based on intimate knowledge of specific management teams, their business practices, and their franchise values. This group also serves as portfolio manager for several privately managed accounts in excess of \$10 million each and offers two private limited partnerships, a general financial services fund, and a small-cap financial services fund.

The 2001 numbers for the firm were strong with revenues of more than \$150 million, up \$25 million from the prior year. Going into September, with sales and trading rolling and our investment banking team setting an all-time KBW record for number of deals, we really had the company well positioned.

On the lighter side, we are known for our lunches. We bring in lunch for all of our employees, not just the traders, as is the custom at some other Wall Street firms. Most of the time, our caterer supplies the meals. However, Fridays are a little different. We bring in food from all the fast-food restaurants in the area. Although we went back to our lunchtime catering almost immediately after September 11, it was a while before we reinstated "Junk Food Friday." Resuming this tradition, became a statement about our firm's desire and readiness to rebuild after our losses on September 11.

Chapter 2 reflects the thoughts and perspectives of Gene Bruyette, one of KBW's founding partners, on the creation and emergence of his firm as a premier boutique investment bank and on the future of the firm after September 11. The remaining chapters in Part I tell the story of those individuals who survived the violence that day and how they have gone on to help KBW rebuild.

