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A Battered Firm's Long Road Back

Keefe Bruyette Has Strong Revenue and a Wall Street Niche, but It Still Lives With the Painful Memories of Sept. 11

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"I don't want people to forget about the day, since I lost my son," says John Duffy. "But not everybody remembers."

9|11 A Decade After

Ten years after Sept. 11, 2001, the investment-banking firm Keefe, Bruyette & Woods Inc. is strong, with a firmly established niche on Wall Street specializing in banks and financial services. Under Mr. Duffy, the chief executive, the company has grown despite the stress of the financial crisis. Last year, parent company **KBW** Inc. posted $425 million in revenue, nearly triple its highest pre-2001 number. It has about 260 more employees in New York—and 440 more globally—than it did just after 9/11.

But it has been a challenging journey. Painful recollections remain. Awkward moments lurk. Newer traders and analysts avoid asking veteran colleagues about 9/11, worried it will stir bad memories.

"It's a little like walking on eggshells," says Linda Orlando, a former J.P. Morgan Chase & Co. official who was hired at KBW in September 2002 to run the firm's technology. "Being a post-9/11 person, you didn't have that relationship with the people who were here." She says she asks prospective hires whether they understand "the mindset" they'd need to work at KBW.

Even in 2011, KBW is in many ways defined by the events of 9/11. On that day, the firm was

Above, Andrew Senchak, vice chairman and president of Keefe, Bruyette & Woods, was away from the office when the firm's offices were struck during the World Trade Center attacks.

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on the 88th and 89th floors of the south tower of the World Trade Center. Mr. Duffy, then co-CEO, was driving from his Westchester County home when he heard radio reports of a plane striking the World Trade Center.

A little more than an hour later, both towers had collapsed. Mr. Duffy realized that many of his colleagues were probably dead.

It turned out that several dozen KBW employees had escaped from the office after the first plane hit the north tower. But many had stayed at their desks after building officials said to stay put.

More than one-third of the firm's 171 New York employees were gone. Among them were KBW's chairman and Mr. Duffy's co-CEO, Joseph Berry. The firm had lost well-known bank analysts, including Thomas Theurkauf, David Berry and Dean Eberling.

Also dead was Mr. Duffy's 23-year-old son, Christopher, who had started out three months earlier as an assistant stock trader. "It's the worst thing that can happen to a parent," says Mr. Duffy.

The firm retreated into survival mode. Mr. Duffy spent two weeks at home, grieving with his wife and four remaining children. Two lieutenants who also were away from the office that morning—Andrew Senchak, who led the firm's investment bankers, and Thomas Michaud, the top salesman under Mr. Berry on the stock-trading desk—kept the firm together. Grief-stricken employees trickled into temporary space that KBW secured in BNP Paribas SA's offices and at the investment bank's midtown Manhattan law firm, Wachtell, Lipton, Rosen & Katz.

KBW's offices were gone, along with much of its records and many of its key staffers, from the chairman to its star analysts and most of its traders. "There was a distinct possibility that the firm would fold," says co-founder Gene Bruyette, who retired from the firm in 1991 but still comes to the annual Sept. 11 memorial services.

After returning to work on Sept. 24, Mr. Duffy called top employees and shareholders together at a Morton's restaurant in Stamford, Conn. The main topic was whether to proceed as an independent company.

Before the terrorist attacks, the firm, started in 1962 with eight workers and $50,000 in capital, had been entertaining an acquisition by BNP, a French bank. Mr. Duffy had believed that focusing on one sector—financial services—and having little business outside the U.S. were beginning to look like potential disadvantages. The recent repeal of Depression-era banking laws had spurred competition from commercial banks that could use their big balance sheets to elbow boutiques like KBW out of the investment-banking business.

The closely knit firm also had been shaken when plans to sell shares in an initial public offering were derailed by a market downturn and the resignation of CEO James McDermott in an insider-trading scandal. He ultimately spent five months in jail for passing a tip about a potential merger to a Canadian adult-film actress.

In early September 2001, KBW executives believed they were weeks away from a deal with BNP. The suitors had tentatively agreed on a price and were drawing up employment contracts for key employees. On Sept. 10, a BNP executive had spent the day kicking the tires at KBW's newly refurbished World Trade Center offices.

Now, everything felt different. Mr. Duffy told the group that the BNP offer was still on the table—at a reduced price. Then he asked whether it would be easier to rebuild with or without a new parent. "We want to do this on our own," Mr. Michaud, the stock trader, responded. "It's the best way to remember those who passed away."

The firm's leaders decided to try to rebuild KBW into a larger version of what it was before. So they got to work. "None of us wanted 9/11 to be the last day in the firm's history," says Mr. Duffy. "We didn't want the bad guys to win."

Executives, accustomed to adding only a few new people a year, interviewed more than a dozen job candidates some days. Mr. Duffy and his team picked their new colleagues in a makeshift conference room that also housed computers. Within four months, the firm had hired 64 people.

One early preoccupation was finding a new home. Like other firms that lost employees in the World Trade Center, KBW didn't want to be anywhere near the site. In late 2001, it moved onto the fourth floor of a building in midtown, about four miles away—ironically, the same building that housed BNP.

A few weeks after moving in, KBW hung a picture of the American flag painted by the wife of one of its surviving employees. The 67 World Trade Center victims from KBW are listed in red and white type to form the 13 stripes on the flag.

When the Federal Bureau of Investigation visited KBW in preparation for the trial of Sept. 11 mastermind Khalid Sheikh Mohammed, one employee said she couldn't answer investigators' questions about their building and what survivors saw that day. "It was too painful," says Will DeRiso, a KBW salesman who did speak to investigators about his 2001 escape from the 89th floor.

Five years after the attacks, in a booming market, the company held a $160 million IPO. "We're the ones that got bombed out, but we're the ones that survived," says Mr. Senchak, now Keefe, Bruyette & Woods's vice chairman and president.

But challenges persist. The intractable market for financial stocks, set off by the crash in 2008, currently threatens the industry that KBW specializes in. The firm laid off about 7% of its

A Sept. 11 memorial flag hangs on a desk on the trading floor of KBW at its offices in New York. Sixty-seven KBW employees were killed on 9/11.

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employees in 2009 and is studying another round of layoffs that could be announced as soon as next month.

"We're holding our own, but as the pie has gotten smaller, it's made life more difficult," says Mr. Duffy, now 62 years old. But it's a struggle to let people go. "We're more sensitive to the issue" and "understand the impact that losing a breadwinner has on a family," he says.

Ties to the old days remain. Nearly three-quarters of the 104 survivors have stayed with the firm, high in an industry known for heavy turnover. KBW also maintains the charitable fund it set up to help victims' families. The firm pays health-care costs for the children and spouses of about two dozen victims, and it plans to continue that support for at least two more years.

Many of the veterans say strong memories of colleagues are laced through their days. Cliff Gallant, who was hired in 2000 to cover insurance and who made it out of the tower, says he thinks often of how former bank analyst Mr. Eberling taught him to make a forceful stock call when dealing with KBW's aggressive traders.

"You should probably sound like you're angry," the mild-mannered Mr. Gallant recalls Mr. Eberling telling him at a Newark airport burger joint in early 2001. "And make them feel that if they challenge you, you'll embarrass them."

And Frederick Cannon, who worked at Bank of America before being hired by KBW in 2003 and who is now research director, says he can still picture analyst Mr. Theurkauf "with a smile on his face and a tough question." One lesson he passes along to newer analysts: Mr. Theurkauf didn't shy away from informing companies directly when he had downgraded their stock.

Some newcomers have brought their own ties. In 2009, Kristen Ryan, whose father, John J. Ryan, was a sales trader at KBW, started working among some of the same traders that her dad worked with before he died on Sept. 11. "Part of me being drawn to KBW was trying to learn more about what he did for a living," she says.

Some of John Ryan's former clients now deal with his younger brother, Patrick Ryan, who joined KBW in 2008. "When I call Turner Funds or look at the Delaware Funds light" on the telephone, "I immediately think of him," Mr. Ryan says.

About five years ago, one of Mr. Duffy's two remaining sons joined KBW's bond division. In May, one of his two daughters married a KBW salesman. "We still have some KBW going into the next generation," Mr. Duffy says.

Last month, Mr. Duffy traveled with two colleagues to pitch an Ohio bank to use KBW for its coming capital raise. One of the investment bankers with him was Joseph Berry Jr., the son of KBW's former co-CEO.

Today, Mr. Berry says the firm doesn't discuss the event in its day-to-day business. The daughter of a 9/11 victim from another firm recently joined KBW without the topic even coming up in interviews. "There's an appropriate time and place to remember," says Mr. Berry.

On Sunday, Mr. Berry will be among those reading names of victims at the World Trade Center site. Later in the day, KBW officials will reread the names of their 67 colleagues at a quiet site in the Central Park Zoo.

The zoo was a favorite charity for firm co-founder Harry Keefe. It seemed fitting, executives say, to remember lost friends and family in a setting more serene than grim. Mr. Duffy says the memorial service will continue as long as his colleagues and their families want to keep coming.

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Wall Street Is Unrecognizable Now, But Not Just Because of the Attack

It is an image that is hard to forget: The New York Stock Exchange not trading for the four business days starting with the Sept. 11 terrorist attacks, as fires raged in what was left of the nearby World Trade Center.

The NYSE was a not-for-profit company that in one way had changed little since 1792: Thousands of traders shouted orders to buy or sell. With Lower Manhattan caked in dust and officials barring nonessential workers from the area, opening wasn't an option until the next Monday.

Today, the exchange is part of publicly traded, for-profit **NYSE Euronext**, most transactions take place electronically, and buildings outside New York can seamlessly handle trading in an emergency. The transformation wasn't wholly driven by Sept. 11, but it is part of the many changes that have reshaped Wall Street.

The NYSE has become much less dependent on its trading floor, yet has taken on a bigger profile globally with its 2006 acquisition of electronic trader Archipelago and a pending deal to combine with **Deutsche Börse** AG. "Wall Street today is much more a state of mind than a physical location," said Roy Smith, a professor at New York University's Stern School of Business.

After 9/11, some predicted the financial elite would flee from the southern tip of Manhattan and perhaps shrink as well. The Street is indeed smaller and more far-flung. The city's securities employment has dropped to 168,000 jobs from 190,000. The collapse of the twin towers accelerated the exodus from Lower Manhattan. **Morgan Stanley**, the biggest World Trade Center tenant, had already moved its headquarters to midtown and moved some other operations outside the city.

Wall Street is far from deserted. The NYSE, **Deutsche Bank** AG and **Bank of New York Mellon** Corp. are among those that retain major presences. A half dozen blocks across Lower Manhattan, **Goldman Sachs Group** Inc. has opened a new headquarters building, just north of a financial-industry giant that never left—**American Express** Co.

The rise in competition among exchanges means "there is no one place to target," said Lou Pastina, an executive vice president of operations for the NYSE. "There is enough capacity among all of our competitors to continue trading if anything happened again." After the attacks, the NYSE relocated two data centers—one in Manhattan and one in Brooklyn—to Mahwah, N.J.

As the rise of computerized trading cut down on commissions, major firms turned to other areas, such as fixed income—including, during the economic boom of the middle of the decade, the sale of securities backed by home loans.

While that business boosted Wall Street profits from 2005-07, it also helped pave the way for the financial crisis of 2008.

With investors fleeing from risk, firms such as Bear Stearns and Lehman Brothers—which had been a tenant at the trade center and adjacent World Financial Center before it relocated to midtown after 9/11—succumbed when they weren't able to get funding. Lehman's bankruptcy three years ago this month forced governments to offer trillions of dollars of guarantees to support banking systems and markets, setting the stage for today's nervous markets.

Some say concern about the sector is overdone. Yet it isn't known when banks' outlook will clear. "As bad as 9/11 was, it was not as bad for the financial world as the boom and bust that followed," Mr. Smith said.

—Suzanne Kapner, Randall Smith and Aaron Lucchetti