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Ad 3-17-2004

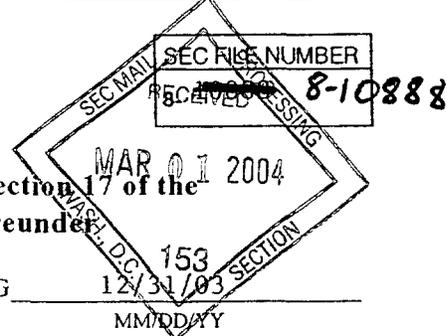
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

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|---|------------------|
| OMB APPROVAL  |                  |
| OMB Number:   | 3235-0123        |
| Expires:  | October 31, 2004 |
| Estimated average burden<br>hours per response..... | 12.00            |

**ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III**

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 01/01/03 AND ENDING 12/31/03  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER:  
Keefe, Bruyette & Woods, Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
787 7th Avenue - 4th Floor

|                   |
|-------------------|
| OFFICIAL USE ONLY |
| FIRM I.D. NO.     |

New York (City) (No. and Street) NY (State) 10019 (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT  
Robert Giambrone (212) 887-6776  
(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)  
345 Park Avenue New York NY 10154  
(Address) (City) (State) (Zip Code)

CHECK ONE:

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

PROCESSED

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FINANCIAL

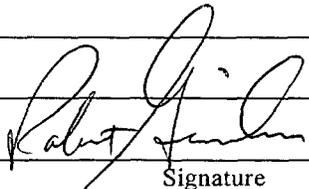
\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

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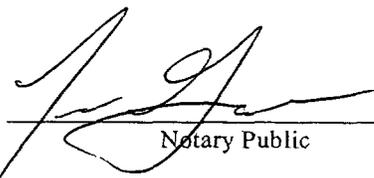
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3-25-2004

OATH OR AFFIRMATION

I, Robert Giambrone, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Keefe, Bruyette & Woods, Inc., as of December 31, 2003, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

  
Signature

Chief Financial Officer  
Title

  
Notary Public

**TODD GATELY**  
**Notary Public, State of New York**  
**No. 01GA6101139**  
**Qualified in New York County**  
**Commission Expires 11/03/20 07**

This report \*\* contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of ~~Changes in Financial Condition~~ XXXXXXXXXXXXXXXXXXXXXXXXXXXX Cash Flows.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) 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.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\*For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

[X] Report on internal control required by SEC Rule 17a-5.



**KEEFE, BRUYETTE & WOODS, INC.  
AND SUBSIDIARIES**

Consolidated Statements of Financial Condition

December 31, 2003 and 2002

(With Independent Auditors' Report Thereon)



KPMG LLP  
345 Park Avenue  
New York, NY 10154

## Independent Auditors' Report

The Board of Directors  
Keefe, Bruyette & Woods, Inc.:

We have audited the accompanying consolidated statements of financial condition of Keefe, Bruyette & Woods, Inc. and subsidiaries (the Company) as of December 31, 2003 and 2002. These consolidated statements of financial condition are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated statements of financial condition based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated statements of financial condition are free of material misstatement. An audit of consolidated statement of financial condition includes examining, on a test basis, evidence supporting the amounts and disclosures in that consolidated statement of financial condition. An audit of a consolidated statement of financial condition also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated statement of financial condition presentation. We believe that our audits of the consolidated statements of financial condition provide a reasonable basis for our opinion.

In our opinion, the consolidated statements of financial condition referred to above present fairly, in all material respects, the financial position of Keefe, Bruyette & Woods, Inc. and subsidiaries at December 31, 2003 and 2002 in conformity with accounting principles generally accepted in the United States of America.

KPMG LLP

February 20, 2004





| <b>Liabilities and Stockholders' Equity</b>               | <u>2003</u>       | <u>2002</u>    |
|---|-------------------|----------------|
| Securities sold but not yet purchased, at market value:   |                   |                |
| Equities  | \$ 15,730         | 18,137         |
| Corporate bonds   | 1,927             | —              |
| U.S. Government and agency securities                     | 53,749            | 12,242         |
|   | <u>71,406</u>     | <u>30,379</u>  |
| Accounts payable, accrued expenses, and other liabilities | 114,195           | 94,835         |
| Securities sold under repurchase agreements               | 33,808            | 7,918          |
| Income taxes payable                                      | 10,872            | 7,602          |
|   | <u>158,875</u>    | <u>110,355</u> |
| Subordinated liabilities                                  | —                 | 686            |
| Total liabilities   | <u>230,281</u>    | <u>141,420</u> |
| Commitments and contingencies                             |                   |                |
| Stockholders' equity:                                     |                   |                |
| Common stock  | 38                | 38             |
| Paid-in capital   | 158,561           | 121,406        |
| Retained earnings   | 309,599           | 271,434        |
| Common stock in treasury, at cost                         | (244,271)         | (235,467)      |
| Notes receivable from stockholders                        | (17,389)          | (8,274)        |
| Total stockholders' equity                                | <u>206,538</u>    | <u>149,137</u> |
| Total liabilities and stockholders' equity                | <u>\$ 436,819</u> | <u>290,557</u> |

**KEEFE, BRUYETTE & WOODS, INC.  
AND SUBSIDIARIES**

Notes to Consolidated Statements of Financial Condition

December 31, 2003 and 2002

(Dollars in thousands)

**(1) Organization and Summary of Significant Accounting Policies**

**(a) *Organization and Basis of Presentation***

Keefe, Bruyette & Woods, Inc. and subsidiaries (the Company), a member of the New York Stock Exchange, is principally a broker-dealer in securities and a market-maker in certain financial services' stocks and bonds. The Company's customers are predominantly institutional investors including other brokers and dealers, commercial banks, mutual funds, and other financial institutions.

The consolidated statements of financial condition include the accounts of Keefe, Bruyette & Woods, Inc. and its subsidiaries, KBW Asset Management (KBWAM), a registered investment advisor, and KBW Limited, an entity domiciled in London, United Kingdom, and registered with the Financial Securities Authority.

**(b) *Clearing Arrangements***

The Company has an agreement with Pershing, a division of the Bank of New York Securities Group Co., whereby Pershing clears securities transactions for the Company, carries customers' accounts on a fully disclosed basis, and prepares various records and reports.

**(c) *Cash Equivalents***

For purposes of the consolidated statements of financial condition, the Company considers all money market and time deposits with maturities of three months or less to be cash equivalents. At December 31, 2003 and 2002, cash equivalents totaled \$18,563 and \$66,228, respectively.

**(d) *Securities and Options***

Securities and option transactions, including amounts receivable from clearing brokers, are recorded on a trade-date basis. Securities owned, including options, are valued at quoted market prices and are recorded in securities owned.

**(e) *Investments***

Investments represent not-readily-marketable securities and certain publicly traded securities held for long-term proprietary investment purposes, of financial services companies. Securities not readily marketable include investment securities (a) for which there is no market on a securities exchange or no independent publicly quoted market price, (b) that cannot be publicly offered or sold unless registration has been effected under the Securities Act of 1933, or (c) that cannot be offered or sold because of other arrangements, restrictions, or conditions applicable to the securities or to the Company. Publicly traded investments are valued at market. Securities not readily marketable are valued at fair value as determined by management. The fair value of not-readily-marketable securities included in investments at December 31, 2003 and 2002 was \$39,092 and \$46,349, respectively.

**KEEFE, BRUYETTE & WOODS, INC.  
AND SUBSIDIARIES**

Notes to Consolidated Statements of Financial Condition

December 31, 2003 and 2002

(Dollars in thousands)

**(f) *Securities Purchased under Resale Agreements and Securities Sold under Repurchase Agreements***

Securities purchased under resale agreements and securities sold under repurchase agreements are accounted for as collateralized financing transactions. The liabilities and assets, respectively, which result from these agreements are recorded in the consolidated statement of financial condition at the amounts at which the securities were sold or purchased, respectively. It is the policy of the Company to obtain possession of collateral with a market value equal to or in excess of the principal amount loaned under resale agreements. Collateral is valued daily, and the Company may require counterparties to deposit additional collateral or return collateral pledged when appropriate.

The market value of collateral accepted by the Company under resale agreements was \$48,331 at December 31, 2003, substantially all which has been sold or replighted.

**(g) *Fixed Assets***

Furniture and fixtures are carried at cost and depreciated on a straight-line basis using estimated useful lives of the related assets, generally two to five years. Leasehold improvements are amortized on a straight-line basis over the lesser of the economic useful life of the improvement or the term of the respective leases.

**(h) *Fair Value of Financial Instruments***

Substantially all of the Company's financial assets and liabilities are carried at fair market value or contracted amounts, which approximate fair value.

**(i) *Deferred Income Taxes***

Deferred income taxes are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

**(j) *Use of Estimates***

The preparation of consolidated statements of financial condition in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated statements of financial condition and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**(k) *Reclassification***

Certain prior year balances have been reclassified to conform to current year presentation.

**KEEFE, BRUYETTE & WOODS, INC.  
AND SUBSIDIARIES**

Notes to Consolidated Statements of Financial Condition

December 31, 2003 and 2002

(Dollars in thousands)

**(2) Deferred Income Taxes**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2003 and 2002 are as follows:

|  | 2003     | 2002    |
|--|----------|---------|
| Deferred tax assets (liabilities):     |          |         |
| Other liabilities and accrued expenses | \$ 6,229 | 6,249   |
| Foreign                                | 36       | —       |
| Fixed assets                           | (391)    | (230)   |
| Investments                            | (3,034)  | (1,078) |
| Net deferred tax assets                | \$ 2,840 | 4,941   |

Net deferred tax assets at December 31, 2003 represent the anticipated foreign, Federal, state, and local tax benefits that are expected to be realized in future years upon the utilization of the underlying tax attributes comprising this balance. Management believes it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets. However, there can be no assurances about the level of future earnings.

There are no valuation allowances recorded against deferred tax assets at December 31, 2003, since management has determined that it is more likely than not that the benefits will be realized.

**(3) Net Capital Requirement**

The Company, as a registered broker-dealer in securities, is subject to the net capital requirements of the New York Stock Exchange (the NYSE) and the Securities and Exchange Commission's (the SEC) Uniform Net Capital Rule (Rule 15c3-1). The NYSE and the SEC also provide that equity capital may not be withdrawn or cash dividends paid if certain minimum capital requirements are not met.

At December 31, 2003, the Company's regulatory net capital and excess net capital were \$78,595 and \$70,504, respectively.

**(4) Commitments and Contingencies**

**(a) Leases**

The Company leases its headquarters and other office locations under noncancelable lease agreements which expire in 2016, and between 2003 and 2007, respectively. Such agreements contain escalation clauses and provide that certain operating costs be paid by the Company in addition to the minimum rentals.

**KEEFE, BRUYETTE & WOODS, INC.  
AND SUBSIDIARIES**

Notes to Consolidated Statements of Financial Condition

December 31, 2003 and 2002

(Dollars in thousands)

Future minimum lease payments as of December 31, 2003 are as follows:

| Year:      | <u>Lease<br/>payments</u> |
|------------|---------------------------|
| 2004       | \$ 10,062                 |
| 2005       | 9,649                     |
| 2006       | 9,294                     |
| 2007       | 9,104                     |
| 2008       | 9,082                     |
| Thereafter | <u>79,904</u>             |
|            | <u>\$ 127,095</u>         |

**(b) Litigation**

In the ordinary course of business, the Company may be a defendant or codefendant in legal actions. It is the opinion of management, after consultation with counsel, that the resolution of all known actions will not have a material effect on the consolidated financial position of the Company.

**(5) Notes Receivable from Stockholders**

Notes receivable from stockholders represent full recourse notes issued to employees for their purchases of stock acquired pursuant to the Company book value stock purchase plan. Loans are payable in annual installments and bear interest between 2.7% and 6.5% per annum.

**(6) Financial Instruments with Off-Balance-Sheet Risk**

In the normal course of its proprietary trading activities, the Company enters into transactions in financial instruments with off-balance-sheet risk. These financial instruments, primarily options, contain off-balance-sheet risk inasmuch as ultimate settlement of these transactions may have market and/or credit risk in excess of amounts which are recognized in the consolidated statements of financial condition. Transactions in listed options are conducted through regulated exchanges, which clear and guarantee performance of counterparties.

Also in connection with its proprietary trading activities, the Company has sold securities that it does not currently own and will, therefore, be obligated to purchase such securities at a future date. The Company has recorded this obligation in the consolidated statements of financial condition at market values of the related securities and will incur a trading loss if the market value of the securities increases subsequent to the consolidated statements of financial condition date.

**KEEFE, BRUYETTE & WOODS, INC.  
AND SUBSIDIARIES**

Notes to Consolidated Statements of Financial Condition

December 31, 2003 and 2002

(Dollars in thousands)

**(a) Broker-Dealer Activities**

The Company clears securities transactions on behalf of customers through its clearing brokers. In connection with these activities, customers' unsettled trades may expose the Company to off-balance-sheet credit risk in the event customers are unable to fulfill their contracted obligations. The Company seeks to control the risk associated with its customer activities by monitoring the creditworthiness of its customers.

**(b) Derivative Financial Instruments**

The Company's derivative activities consist of writing and purchasing options for trading purposes. As a writer of options, the Company receives a cash premium at the beginning of the contract period and bears the risk of unfavorable changes in the value of the financial instruments underlying the options. Options written do not expose the Company to credit risk since they obligate the Company (not its counterparty) to perform.

In order to measure derivative activity, notional or contract amounts are frequently utilized. Notional/contract amounts, which are not included on the consolidated statements of financial condition, are used as a basis to calculate contractual cash flows to be exchanged and generally are not actually paid or received.

A summary of the Company's listed options contracts is as follows:

|                    | Contract<br>notional<br>amount | Average<br>fair value | End of period<br>fair value |
|--------------------|--------------------------------|-----------------------|-----------------------------|
| December 31, 2003: |                                |                       |                             |
| Purchased options  | \$ 125                         | 34                    | 69                          |
| Written options    | —                              | 17                    | —                           |
| December 31, 2002: |                                |                       |                             |
| Purchased options  | —                              | 6                     | —                           |
| Written options    | 1,850                          | 56                    | 37                          |

**(7) Concentrations of Credit Risk**

As a securities broker and dealer, the Company is engaged in various securities trading and brokerage activities servicing primarily domestic and foreign institutional investors and, to a lesser extent, individual investors. Nearly all of the Company's transactions are executed with and on behalf of institutional investors, including other brokers and dealers, commercial banks, mutual funds, and other financial institutions. The Company's exposure to credit risk associated with the nonperformance of these customers in fulfilling their contractual obligations pursuant to securities transactions can be directly impacted by volatile securities markets.

**KEEFE, BRUYETTE & WOODS, INC.  
AND SUBSIDIARIES**

Notes to Consolidated Statements of Financial Condition

December 31, 2003 and 2002

(Dollars in thousands)

A substantial portion of the Company's marketable securities are common stock and debt of financial institutions. The credit and/or market risk associated with these holdings can be directly impacted by factors that affect this industry such as volatile equity and credit markets and actions of regulatory authorities.

**(8) Book Value Stock Purchase Plan**

The Company maintains a book value stock purchase plan whereby employees may purchase shares of the Company's stock at book value as calculated in accordance with a stockholders' agreement (the Agreement). The Agreement requires stockholders leaving the Company's employ to sell their stock back to the Company at the then-book value as calculated under the Agreement.

**(9) Employee Profit-Sharing Retirement Plan**

The Company has a defined contribution profit-sharing retirement plan (the Plan) in which all employees are entitled to participate based upon certain eligibility requirements. Investment decisions for the Plan are managed by officers of the Company. The Plan has a 401(k) feature.

**(10) Restricted Stock Units**

During 2003 and 2002, the Company granted 6,617 and 9,417 of restricted stock units (Units) at a total value of \$2,577 and \$2,899, respectively, pursuant to commitments made in connection with employment of certain employees. The Units each represent one share of common stock and generally vest in equal amounts annually over a three-year period, from date of employment. Upon vesting, Units can be converted into common stock when requested by the employee. Compensation expense equivalent to the grant date book value per share will be recognized by the Company over the vesting period.

**(11) Membership in Exchanges**

Membership in exchanges are valued at cost and included in other assets on the consolidated statements of financial condition. At December 31, 2003 and 2002, the Company held one seat on the NYSE at a cost of \$100. The last reported sale price at December 31, 2003 and 2002 was \$1,500 and \$2,000, respectively.



KPMG LLP  
345 Park Avenue  
New York, NY 10154

**Independent Auditors' Report on Internal Control  
Required by SEC Rule 17a-5**

The Board of Directors  
Keefe, Bruyette & Woods, Inc.:

In planning and performing our audit of the consolidated financial statements and supplemental schedules of Keefe, Bruyette & Woods, Inc. and subsidiaries (the Company) for the year ended December 31, 2003, we considered its internal control, including control activities for safeguarding securities, in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements and not to provide assurance on internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company, including tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate indebtedness and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons;
2. Recordation of differences required by Rule 17a-13; and
3. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraph. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraph and to assess whether those practices and procedures can be expected to achieve the SEC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with accounting principles generally accepted in the United States of America. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.



Because of the inherent limitations in internal control or the practices and procedures referred to above, errors or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a condition in which the design or operation of the specific internal control components does not reduce to a relatively low level the risk that error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. However, we noted no matters involving internal control, including control activities for safeguarding securities, that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures were adequate at December 31, 2003 to meet the SEC's objectives.

This report is intended solely for the use of the board of directors, management, the SEC, the New York Stock Exchange, Inc., and any other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 20, 2004