ENCORE ACQUISITION CO
Form 424B5
November 18, 2005

Table of Contents

Filed pursuant to Rule 424(b)(5)
Registration No. 333-117036

PROSPECTUS SUPPLEMENT
(To Prospectus Dated July 9, 2004)

$150,000,000
Encore Acquisition Company
7.25% Senior Subordinated Notes due 2017

The notes will bear interest at the rate of 7.25% per year. Interest on the notes is payable on June 1 and December 1 of each year, beginning June 1, 2006. The notes will mature on December 1, 2017. We have the option to redeem all or a portion of the notes on and after December 1, 2010 at the redemption prices set forth in this prospectus supplement. In addition, at any time prior to December 1, 2008, we may redeem up to 35% of the original principal amount of the notes at the redemption price set forth in this prospectus supplement using the proceeds of specified equity offerings. We may also redeem the notes, in whole but not in part, at a redemption price equal to the principal amount of the notes plus the Applicable Premium (as defined herein) at any time prior to December 1, 2010. Notes will be issued only in registered book-entry form, in denominations of $1,000 and integral multiples of $1,000.

Our obligations under the notes will be fully and unconditionally guaranteed on a senior subordinated basis by our existing and some of our future restricted subsidiaries.

Investing in the notes involves risks. See Risk Factors beginning on page S-7 of this prospectus supplement and on page 1 of the accompanying prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the related prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriter has agreed to purchase the notes from us at 99.0% of their principal amount for total proceeds to us of approximately $148.5 million, before estimated expenses of the offering. The underwriter proposes to offer the notes from time to time for sale in one or more negotiated transactions, or otherwise, at varying prices to be determined at the time of each sale.

Interest on the notes will accrue from November 23, 2005 to the date of delivery.

The underwriter expects to deliver the notes to purchasers on or about November 23, 2005.

Sole Book-Running Manager
Citigroup

November 16, 2005

You should rely only on the information contained or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information we have included in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date of this prospectus supplement or the accompanying prospectus or that any information we have incorporated by reference is accurate as of any date other than the date of the document incorporated by reference. If the information varies between this prospectus supplement and the accompanying prospectus, the information in this prospectus supplement supersedes the information in the accompanying prospectus.

TABLE OF CONTENTS

	Page
Prospectus Supplement	
Summary	S-1
Risk Factors	S-7
Use Of Proceeds	S-11
Capitalization	S-12
Description Of Other Indebtedness	S-13
Description Of The Notes	S-17
Book-Entry, Delivery And Form	S-65
Certain United States Federal Income Tax Considerations	S-69
Underwriting	S-72
Legal Matters	S-73
Independent Auditors	S-73
Independent Petroleum Engineers	S-74
Prospectus	
About this Prospectus	i
About Encore Acquisition Company	1
Risk Factors	1
Forward-Looking Information	8
Use of Proceeds	10
Ratio of Earnings to Fixed Charges	10
Description of Debt Securities	11
Description of Capital Stock	18
Plan of Distribution	21
Legal Opinions	22
Independent Auditors	23
Independent Petroleum Engineers	23
Where You Can Find More Information	23

Table of Contents

SUMMARY

This summary highlights information contained elsewhere in this prospectus supplement and the accompanying prospectus. It is not complete and may not contain all of the information that you should consider before investing in the notes. We encourage you to read this prospectus supplement, the accompanying prospectus and the documents incorporated by reference in their entirety before making an investment decision, including the information set forth under the heading Risk Factors. References to Encore, we, our, or us refer to Encore Acquisition Company and our subsidiaries. The estimates of proved oil and natural gas reserves at December 31, 2004 included in this prospectus supplement and the accompanying prospectus and in the documents incorporated by reference are based upon the report of Miller and Lents, Ltd., an independent engineering firm.

Encore Acquisition Company

General

We are a growing independent energy company engaged in the acquisition, development, exploitation, exploration and production of onshore North American oil and natural gas reserves. Since our inception in 1998, we have sought to acquire high-quality assets with potential for upside through low-risk development drilling projects. Our properties are currently located in four core areas: the Cedar Creek Anticline, or CCA, in the Williston Basin of Montana and North Dakota; the Permian Basin of western Texas and southeastern New Mexico; the Mid-Continent area, which includes the Arkoma and Anadarko Basins of Oklahoma, the ArkLaTex region of northern Louisiana and eastern Texas and the Barnett Shale of northern Texas; and the Rockies, which includes non-CCA assets in the Williston and Powder River Basins of Montana, and the Paradox Basin of southeastern Utah.

The CCA represented 66% of our total proved reserves as of December 31, 2004. The CCA is our most valuable asset today and in the foreseeable future. A large portion of our future success revolves around future exploitation of and production from this property through primary, secondary, and tertiary recovery techniques.

In 2004, we drilled 168 gross operated productive wells and participated in drilling another 67 gross non-operated productive wells for a total of 235 gross productive wells for the year. On a net basis, we drilled 156.4 operated productive wells and participated in 8.8 non-operated productive wells in 2004. Out of the 168 (156.4 net) operated productive wells, 12 (11.5 net) wells were service wells. We also drilled 5 (4.5 net) non-productive wells in 2004, of which 4 (3.9 net) were exploratory wells.

Recent Developments

On October 14, 2005, we completed the acquisition of Crusader Energy Corporation, a privately held oil and gas company based in Oklahoma City with properties located primarily in the western Anadarko Basin and the Golden Trend area of Oklahoma, as well as in the Texas panhandle and north Texas. The purchase price for Crusader was approximately $93.5 million.

On October 19, 2005, we entered into an agreement with Kerr-McGee Corporation to acquire oil and natural gas properties in the Permian Basin in West Texas and the Anadarko Basin in Oklahoma for $104 million. The transaction is expected to close in November 2005. We plan to finance this acquisition with internally generated cash flow and through borrowings under our revolving credit facility.

Executive Offices; Website

Our executive offices are located at 777 Main Street, Suite 1400, Fort Worth, Texas 76102. Our main telephone number is (817) 877-9955. We maintain a website on the Internet at *http://www.encoreacq.com.* The information on our website is not incorporated by reference into this prospectus supplement.

Table of Contents

The Offering

Issuer	Encore Acquisition Company.
Notes offered	$150.0 million aggregate principal amount of 7.25% senior subordinated notes due 2017.
Interest rate and payment dates	7.25% per annum payable on June 1 and December 1 of each year, commencing on June 1, 2006.
Maturity date	December 1, 2017.
Ranking	The notes will be our senior subordinated unsecured obligations. They will rank equal in right of payment with any of our existing or future Senior Subordinated Indebtedness and subordinated in right of payment to our obligations under our Revolving Credit Facility and any of our other existing and future Senior Indebtedness. As of September 30, 2005, on a pro forma as adjusted basis after giving effect to this offering, the application of the estimated net proceeds from this offering and amounts outstanding under our Revolving Credit Facility as of October 31, 2005, we had approximately $0.8 million of Senior Indebtedness. The terms Revolving Credit Facility, Senior Indebtedness and Senior Subordinated Indebtedness are defined under Description of the Notes Certain Definitions.
Guarantees	The payment of the principal, interest and premium on the notes will be fully and unconditionally guaranteed on a senior subordinated basis by our existing and some of our future restricted subsidiaries. See Description of the Notes Guarantees.
Optional redemption	Prior to December 1, 2008, we are entitled to redeem up to 35% of the aggregate principal amount of the notes issued, including any additional notes we may issue, from the proceeds of certain equity offerings, so long as: we pay to the holders of such notes a redemption price of 107.25% of the principal amount of the notes, plus accrued and unpaid interest to the date of redemption; and at least 65% of the aggregate principal amount of the notes issued, including any additional notes we may issue, remains outstanding after each such redemption, other than notes held by us or our affiliates. Prior to December 1, 2010, we are entitled to redeem the notes as a whole at a redemption price equal to the principal amount of the notes plus the Applicable Premium and accrued and unpaid interest to the date of redemption. The term Applicable Premium is defined under Description of the Notes Certain Definitions. On and after December 1, 2010, we may redeem some or all of the notes at any time at the prices listed under Description of the Notes Optional

Redemption, plus accrued and unpaid interest to the date of redemption.

Restrictive covenants	The indenture governing the notes will limit what we and our restricted subsidiaries do. The provisions of the indenture will limit our and such subsidiaries ability, among other things, to: incur additional indebtedness; pay dividends on our capital stock or redeem, repurchase or retire our capital stock or subordinated indebtedness; make investments; incur liens; create any consensual limitation on the ability of our restricted subsidiaries to pay dividends, make loans or transfer property to us; engage in transactions with our affiliates; sell assets, including capital stock of our subsidiaries; and consolidate, merge or transfer assets. During any period that the notes have investment grade ratings from both Moody s Investors Service, Inc. and Standard and Poor s Ratings Services and no default has occurred and is continuing, the foregoing covenants will cease to be in effect with the exception of covenants that contain limitations on liens and on, among other things, certain consolidations, mergers and transfers of assets. These covenants are subject to important exceptions and qualifications described under Description of the Notes Certain Covenants.
Change of control	If we experience a Change of Control, subject to certain conditions, we must give holders of the notes the opportunity to sell to us their notes at 101% of the principal amount, plus accrued and unpaid interest. The term Change of Control is defined under Description of the Notes Change of Control.
Trading	The notes will not be registered on any national securities exchange.
Use of proceeds	The net proceeds from this offering will be approximately $148.2 million, after deducting estimated expenses of the offering. We intend to use the net proceeds from this offering to repay amounts outstanding under our revolving credit facility. An affiliate of the underwriter is a lender under our Revolving Credit Facility and will receive a portion of the net proceeds used to repay indebtedness under such facility. See Use of Proceeds.

Table of Contents

Summary Consolidated Financial and Operating Data

The following table presents summary consolidated financial and operating data as of and for the periods indicated. The summary consolidated financial and operating data as of and for the three years ended December 31, 2004 is derived from our audited consolidated financial statements. The summary consolidated financial and operating data as of and for the nine months ended September 30, 2005 and 2004 is derived from our unaudited consolidated financial statements. Certain amounts of prior periods have been reclassified in order to conform to the current period presentation. You should read this information in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and the related notes thereto contained in our most recent Annual Report on Form 10-K and Quarterly Report on Form 10-Q, which we incorporate by reference.

	Nine Months Ended September 30,		Year Ended December 31,		
	2005	2004	2004	2003	2002
	(unaudited)				
	(Dollars in thousands)				
Consolidated Statement of Operations Data:					
Revenues:(1)					
Oil	$ 222,254	$ 157,892	$ 220,649	$ 176,351	$ 134,854
Natural gas	96,616	50,773	77,884	43,745	25,838
Total revenues	318,870	208,665	298,533	220,096	160,692
Expenses:					
Production					
Lease operations	48,501	33,752	47,142	37,846	30,678
Production, ad valorem, and severance taxes	31,425	21,117	30,313	22,013	15,653
Depletion, depreciation, and amortization	59,943	33,262	48,522	33,530	34,550
Exploration	11,201	2,159	3,907		
General and administrative (excluding non-cash stock based compensation)	11,236	7,616	10,982	8,680	6,150
Non-cash stock based compensation	3,323	1,413	1,770	614	
Derivative fair value (gain) loss	5,713	3,424	5,011	(885)	(900)
Loss on early redemption of debt	19,477				
Other operating	5,822	3,462	5,028	3,481	2,045
Total expenses	196,641	106,205	152,675	105,279	88,176

Operating income	122,229	102,460	145,858	114,817	72,516
Other income (expenses):					
Interest	(23,671)	(16,761)	(23,459)	(16,151)	(12,306)
Other	729	235	240	214	91
Total other income (expenses)	(22,942)	(16,526)	(23,219)	(15,937)	(12,215)
Income before income taxes and cumulative effect of accounting change	99,287	85,934	122,639	98,880	60,301
Current income tax benefit (provision)	1,478	(3,046)	(1,913)	(991)	745
Deferred income tax provision	(34,459)	(26,981)	(38,579)	(35,111)	(23,361)
Income before cumulative effect of accounting change	66,306	55,907	82,147	62,778	37,685
Cumulative effect of accounting change, net of income taxes				863	
Net income	$ 66,306	$ 55,907	$ 82,147	$ 63,641(2)	$ 37,685

Table of Contents

	Nine Months Ended September 30,		Year Ended December 31,		
	2005	2004	2004	2003	2002
	(unaudited)				
	(Dollars in thousands)				
Other Financial Data:					
Ratio of earnings to fixed charges(3)	5.1x	6.1x	6.2x	7.0x	5.8x
Cash provided by (used by):					
Operating activities	$ 204,192	$ 127,100	$ 171,821	$ 123,818	$ 91,509
Investing activities	(297,018)	(365,814)	(433,470)	(153,747)	(159,316)
Financing activities	94,277	239,375	262,321	17,303	80,749

	As of September 30, 2005	As of December 31, 2004	2003	2002
	(unaudited)			
	(Dollars in thousands)			
Consolidated Balance Sheet Data:				
Working capital	$ (54,532)	$ (15,566)	$ (52)	$ 12,489
Total assets	1,422,376	1,123,400	672,138	549,896
Total long-term debt	493,581	379,000	179,000	166,000
Stockholders equity	491,212	473,575	358,975	296,266

(1) For the nine months ended September 30, 2005 and 2004, we reduced revenue for the payments of the net profits interests by $14.4 million and $8.3 million, respectively. For the years ended December 31, 2004, 2003 and 2002, we reduced revenue for the payments of the net profits interests by $12.6 million, $5.8 million and $2.0 million, respectively.

(2) Net income for the year ended December 31, 2003 includes a $0.9 million gain from the cumulative effect of accounting change related to the adoption of SFAS No. 143, *Asset Retirement Obligations*, which affects its comparability with other periods presented.

(3) For purposes of computing the ratio of earnings to fixed charges, earnings consist of the sum of income from continuing operations before income taxes and the cumulative effect of change in accounting change, interest expense and the portion of the rent expense deemed to represent interest. Fixed charges consist of interest incurred, whether expensed or capitalized, including amortization of debt issuance costs, if applicable, and the portion of rent expense deemed to represent interest. The pro forma ratio of earnings to fixed charges after giving effect to the issuance of the notes and the application of the net proceeds therefrom would have been 4.0x for the nine months ended September 30, 2005 and 4.5x for the year ended December 31, 2004.

S-5

Table of Contents

Summary Oil and Gas Reserve Information

The following table sets forth summary information data with respect to our estimated proved oil and natural gas reserves as of the dates indicated. The following estimates of our net proved oil and natural gas reserves are based on estimates prepared by Miller and Lents, Ltd., independent petroleum consultants. Guidelines established by the SEC regarding the present value of future net revenues were used to prepare these reserve estimates. Reserve engineering is a subjective process of estimating underground accumulations of oil and natural gas that cannot be measured in an exact way. The accuracy of any reserve estimate depends on the quality of available data and the interpretation of that data by petroleum engineers. In addition, the results of drilling, testing and production activities may require revisions of estimates that were made previously. Accordingly, estimates of reserves and their value are inherently imprecise and are subject to constant revision and change, and they should not be construed as representing the actual quantities of future production or cash flows to be realized from oil and gas properties or the fair market value of such properties.

	As of December 31,		
	2004	**2003**	**2002**
Proved Reserves:			
Oil (MBbls)	134,048	117,732	111,674
Natural Gas (MMcf)	234,030	138,950	99,818
Combined (MBOE)	173,053	140,890	128,310
Proved developed reserves (MBOE)	123,267	109,838	107,648

Summary Operating Data

The following table sets forth summary operating data for the periods indicated.

	Nine Months Ended September 30,		Year Ended December 31,		
	2005	**2004**	**2004**	**2003**	**2002**
Production Volume:					
Oil (MBbls)	5,082	4,994	6,679	6,601	6,037
Natural gas (MMcf)	14,874	9,796	14,089	9,051	8,175
Combined (MBOE)	7,561	6,626	9,027	8,110	7,399
Average Realized Prices(1):					
Oil ($/Bbl)	$ 43.73	$ 31.62	$ 33.04	$ 26.72	$ 22.34
Natural gas ($/Mcf)	6.50	5.18	5.53	4.83	3.16
Combined ($/BOE)	42.17	31.49	33.07	27.14	21.72
Average Wellhead Prices(2):					
Oil ($/Bbl)	$ 50.07	$ 36.35	$ 38.24	$ 28.82	$ 23.38
Natural gas ($/Mcf)	7.04	5.35			

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

I can't answer that question for you, but from my perspective, we are better together, and I look forward to that.

Chris Harris - Wells Fargo Securities - Analyst

OK, guys, thanks.

Operator:

Your next question comes from the line of Patrick O'Shaughnessy from Raymond James.

Your line is open.

11

Patrick O'Shaughnessy - Raymond James - Analyst

Hey good morning guys.

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Morning.

Thomas B. Michaud - KBW, Inc. - President and CEO

Morning.

Patrick O'Shaughnessy - Raymond James - Analyst

Can you kind of walk me through the process if you're able to talk about it, about how the merger came to be? Have you guys been talking about this for a few quarters? Did it just come up recently? And if you can, if there is any sort of competitive bidding process?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Look, I mean at this point, that'll all be disclosed in the proxy. I don't think we're in a position to talk about that now. Fair enough?

Patrick O'Shaughnessy - Raymond James - Analyst

OK, fair enough.

A second question I have is, Ron, for the cash component that you guys are paying for the deal, I think from slide 16, it suggests that some of it's coming from cash borrowance.

Can you just walk me though, you know, how much of that cash is coming from your balance sheet, if you're gonna have to take out additional debt to pay for this, or how you think about that?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Yeah, look, I think we are well capitalized. And we believe that between the cash on KBW's balance sheet, and our excess liquidity that we have on Stifel, we don't think we really have to do anything to fund this deal in terms of accessing the capital market.

Patrick O'Shaughnessy - Raymond James - Analyst

OK, that's helpful, thanks.

And then a last one if I could. So, Ron, you talked about your kind of ideal business mix is probably 55 percent retail, 45 percent institutional. And you're kind of at that with this deal in a pro forma basis. You know, do we expect that you guys will still look for M&A after this, or do you kind of say, "You know what, this is what we want to look like, and now we're just going to try to execute?"

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Well look, this is what we look like, and we are gonna execute. And I've always said that at 60-40 what tends to happen is opportunities come along and it changes that mix.

So, you know, we have a vision to build and I think we're getting there, the premier middle-market investment bank. This was an opportunity that we felt we had to do if we're going to achieve that goal. We're going to make this work. The integration will obviously consume some of our time and energy and maybe our looking around for the next opportunity, but we expect to get this done.

I don't think this integration is really that difficult at all, especially considering how we're approaching it. And, you know, we'll either do something or we'll do nothing depending on the next opportunity, how it presents itself and how it fits into our goal of doing this.

I've always said we are not looking to just get larger, we are looking to get better. This deal makes us better.

12

Patrick O'Shaughnessy - Raymond James - Analyst

Great. Thank you.

Operator:

Your next question comes from the line of Alex Blostein from Goldman Sachs. Your line is open.

Alex Blostein - Goldman Sachs - Analyst

Thanks. Good morning, everybody.

Ron, I wanted to follow up just one more on expenses because it just feels like there's just still some outstanding questions here. On the comp rate that you provided, 57% to 58&, you're talking about the overall firm comp rate? That includes wealth management business?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

No, I was trying to answer the question that if you look at how I looked at KBW across the revenue spectrum and you applied that comp ratio and $64 million of OpEx you can figure out how I get to 10 percent to 16 percent ROE. And that should allow you, based on whatever your models are to determine what's the level of assumed cost saves are both in comp and in non-comp. It's just approaching bottoms up instead of top down.

Alex Blostein - Goldman Sachs - Analyst

Got it. OK, yeah, because you guys in capital markets are right now running, you know, a little bit north of 60 percent comp rate; KBW is 65 percent, 66 percent, so I guess that answers the question.

Second point is on the strategy part, you guys have been quite successful growing the bank, and that has been a very accretive way for your guys to add to earnings. What does this deal do, I guess, to your ability to deploy capital into the growth of the bank? Do you think it's going to slow over time, or what's kind of the decent loan rates for growth there now?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

I don't think that does anything to the balanced approach that we've done with building the bank. We have a capital plan. We're generating earnings. We create capital and earnings. And looking forward we, even with this transaction, we are well capitalized.

And so, this certainly doesn't make me think we can't, you know, continue to build the bank, but we've built the bank in a balanced fashion and that will continue.

Alex Blostein - Goldman Sachs - Analyst

OK. And then I guess, going along the lines of strategy here, this deal certainly puts you, I guess, a little bit more in the institutional investment banking camp versus more of a wealth management camp -- great business but clearly a more volatile business.

So from a multiple perspective, the way you guys think about the stock, how did that, I guess, play into your decision to do this deal, since it feels like the blended multiple in the business probably should be a little less than the Stifel multiple pre-deal?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Well, that's your opinion, and I respect that. But you know, we're building a firm that we'll look back and -- we want to be a firm that emerged from the meltdown in financial services in 2008 and 2009 and that firm is a balanced investment bank with private clients and investment banking.

And this deal, and this ability to partner with the premier financial institution boutique is, you know, what's compelling. And I think institutional business is poised to rebound, and when it rebounds, I think you're gonna see significant additions to our earnings and to our margins. Business is cyclical, but when it's good it's very good.

So, we just looked at it and said this fits the vision of the firm we're trying to build and therefore we execute it. I think it adds value, and I don't think -- I don't necessarily agree with the fact that it's a lower multiple.

Alex Blostein - Goldman Sachs - Analyst

Got it, fair enough.

And then sorry, just the last one on the timing I guess you guys don't have the certain date for closing, but do you have an expected date just so that we can start thinking about these numbers flowing through the models?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Yeah, look, I'd like to think it'd be early 2013

Alex Blostein - Goldman Sachs - Analyst

Gotcha . Great, thanks so much.

Operator:

Your next question.

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

I kind of miss Joel Jeffrey from KBW asking you a question. Where's Joel?

Thomas B. Michaud - KBW, Inc. - President and CEO

Exactly.

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

OK, go ahead operator.

Operator:

Your next question comes from the line of Glenn Schorr from Nomura. Your line is open.

Glenn Schorr - Nomura - Analyst

Hi, thanks very much. Couple of quickies.

In the 85 people that have signed retention agreements, I just want to make sure I understand. So that would take care of comp for 2012 and 2013 and just curious what the total dollar amount is, and is that included in the purchase price?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Yes, I mean we did retention with stock the way we often look at this. You'll see some charges that go through with respect to that. But we always view that as purchase price, and that therefore, when you look at the way we looked at our return on equity investment you'll see a line where we add the after-tax cost retention to purchase price those shares. We then build into our 8.9 million incremental shares that we'll have outstanding and we throw it all in as purchase price.

And so that's all based in these numbers.

Glenn Schorr - Nomura - Analyst

Perfect, thank you.

14

On slide 17, where you talked about financials always being a big part of the IB revenue share. And I agree, it's going to go up, I'm just curious if you've done a cross section to see what is produced by say the big parts of financial services versus the small or medium part that you tend to dominate. And -- and if that has an impact on the acquisition, if you are able to as a larger firm go up stream if you will.

Thomas B. Michaud - KBW, Inc. - President and CEO

Our strategy had been to move up stream. But that doesn't mean for the nation's biggest banks. That is a very competitive space particularly for underwriting, particularly for debt capital markets. But there still are some very large regional banks that are below the big universal banks or the biggest super-regional banks and I think that we're going to be more competitive in that space now because of this partnership.

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

But I think we can be upstream...

Thomas B. Michaud - KBW, Inc. - President and CEO

That's right, yes, yes definitely. We'll be more competitive together than individually.

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

But look, credit conditions are improving. I believe you're going to see catalysts to drive a lot of capital markets transactions overall, as we come out of this crisis. And I believe that that, in general, the rising tide that's going to raise all ships, including this.

But with our additional capabilities, combined with KBW, I believe that our ability, our target range, is there.

Glenn Schorr - Nomura - Analyst

I appreciate it.

Last one is, and I agree with most of your points that low rates and everything else you mentioned driving activity. But the one question I have -- I don't know if this is for Tom or not, but how important would certain SIFI buffers and certain asset-level cutoffs be or has it been in getting banks to transact and get larger if they don't know what kind of capital charge comes along with being, let's just call it "the next size up"?

Thomas B. Michaud - KBW, Inc. - President and CEO

I think, first of all, I think the nation's biggest banks are probably not going to be the banks involved in consolidation. And particularly, it's got a lot of the universal banks that are already above the deposit caps. So I don't think they'll be buyers of depositories.

But it's interesting, because what we're finding is that at the $10 billion mark, there's an additional level of regulation that kicks in. And what we hear a lot from these managements is that if they're going to go through $10 billion, their belief is that leveraging that additional regulatory cost over a bigger footprint and asset base and earnings stream is a worthy thing to do.

So we've seen some banks when they pierce these levels that they want to keep going. And I think that that $5 billion to $10 billion range that I spoke about earlier, what we believe is happening is that you're big enough to leverage your regulatory costs when you get into that space, and you're also big enough to have a broader range of products. Below that space, it's harder to do both of those things.

So, I think that this regulatory transition that we're in is going to play and important role in consolidation.

I hope that answers your question.

Glenn Schorr - Nomura - Analyst

It does. It does. Thank you.

Operator:

Your next question comes from the line of Judy Delgado from Alpine Associates. Your line is open.

15

Judy Delgado - Alpine Associates - Analyst

Yes, thank you. Most of our questions have been answered. Could you detail what regulatory approvals in particular are required for the merger to close?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Yeah, well, the regulatory -- we have FINRA and we have the Fed. Those are, you know, we'll get those. We obviously have Hart-Scott, which we don't anticipate any problems. And probably the biggest thing is the shareholder approval.

Judy Delgado - Alpine Associates - Analyst

Thank you. And could you also just detail the stock caller for shareholders -- the expectation, perhaps; if there are any walk-away prices or protection for Stifel in this transaction?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

We'll there's a collar and customary merger provisions as it relates to termination. But our shares float between -- between $29 and $35, then it becomes fixed after that. So, you know, the deal value fluctuates above $35 and below $29. And some of the volatility in the share count is within the range, if that makes sense to you.

Judy Delgado - Alpine Associates - Analyst

Yes, thank you.

Operator:

Your next question comes from the line of Tony Rainer from Cantor Fitzgerald. Your line is open.

Tony Rainer - Cantor Fitzgerald - Analyst

Congrats on the deal, guys. Another good deal. Can you just go through, as far as regulatory approvals, what exact states do you need to get approval before you close this thing, if any?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

You broke up.

Tony Rainer - Cantor Fitzgerald - Analyst

Hello? What individual states do you need as far as regulatory approvals, if any?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

None, none that I'm aware of.

Tony Rainer - Cantor Fitzgerald - Analyst

OK. FINRA approval, stuff like that?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

FINRA approval. Look, I don't want to in any way discount the need for anyone that can ask any questions, but my understanding is there's no state-specific FINRA. We'll obviously review the transaction and they can approve it, but we don't see anything here unusual at all.

16

Tony Rainer - Cantor Fitzgerald - Analyst

And what about any foreign approvals -- U.K, Hong Kong, anything?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

You know, we have the FSA and all of the regulators. They will look at our combined plan. They'll look at our capital plans. But again, I think we've done this conservatively and I don't anticipate any issue.

Tony Rainer - Cantor Fitzgerald - Analyst

OK, I appreciate it. Thanks so much.

Operator:

Your next question comes from the line of Chris Harris from Wells Fargo Securities. Your line is open.

Chris Harris - Wells Fargo Securities - Analyst

Thanks for the follow-up here, guys. Just two quick ones. One on the revenue range for KBW, $250 million to $325 million that you guys lay out on slide 16. Is that, I assume those numbers that you have there, does that kind of takes into account potential staffing reductions we might see? And then I'm just kind of curious as to how you think you can maintain that level of revenue at KBW if there are, you know, some head-count reductions?

Ronald J. Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Look with the client facing businesses, the people that generate revenue at KBW and the people at Stifel in the FIG practice are, you know, we are keeping those people. We're not talking about any reductions for the people that face our clients and provide that service.

Chris Harris - Wells Fargo Securities - Analyst

OK.

Ron Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

I never view revenues as synergistic.

Chris Harris - Wells Fargo Securities - Analyst

So you might, after this deal is done, you could conceivably have, for example take the world of analysts, you could conceivably have two analysts covering the exact same stocks, just because one is on the KBW side and the other is on the Stifel side.

Ron Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Well, no. I mean, that's a good question, to clarify that. I mean, we obviously have a plan to have a research product that combines the best of what we're doing. I'm glad you pointed that out because I don't want there to be confusion on that.

On the Stifel side, we cover, you know, 1,000 names anyway, or close to that, outside of FIG. After the merger, we will not have FIG covered by a Stifel analyst.

All of the FIG business will be done under the KBW banner and brand, and the KBW sales force will be the specialized sales force that markets that research product.

We're not going to have two analysts -- imagine that, what if they had conflicting opinions. That'd be interesting. But we're not doing that.

17

Chris Harris - Wells Fargo Securities - Analyst

Okay. Thank you.

Operator:

And with no further questions in queue, I turn the call back over to Mr. Kruszewski for closing remarks.

Ron Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

Well, I would like to close by, again, I'm pleased with our quarter. I think that, while that was very good news, it is overshadowed by the great news of welcoming our new partner from KBW. We look forward to getting out and seeing our clients and talking to people.

Tom?

Thomas B. Michaud - KBW, Inc. - President and CEO

Yes, thank you, Ron. We're delighted to be partnering with Stifel. And we think that, like I said earlier, we think this is the right deal for our shareholders, for our clients, and for our employees. And we look forward to working with Ron to build the premier middle market investment bank.

Ron Kruszewski - Stifel Financial Corp. - Chairman, President and CEO

With that, thank you for your time, your questions and participation. And we look forward to updating you in the future. Thank you.

Operator:

And this concludes today's conference call. You may now disconnect.

Cautionary Statement Concerning Forward-Looking Statements

Statements in this Current Report on Form 8-K that relate to Stifel's or KBW's future plans, objectives, expectations, performance, events and the like may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Future events, risks and uncertainties, individually or in the aggregate, could cause our actual results to differ materially from those expressed or implied in these forward-looking statements. The material factors and assumptions that could cause actual results to differ materially from current expectations include, without limitation, the following: (1) the inability to close the merger in a timely manner; (2) the inability to complete the merger due to the failure to obtain KBW stockholder adoption of the merger agreement or the failure to satisfy other conditions to completion of the merger, including required regulatory and court approvals; (3) the failure of the transaction to close for any other reason; (4) the possibility that the integration of KBW's business and operations with those of Stifel may be more difficult and/or take longer than anticipated, may be more costly than anticipated and may have unanticipated adverse results relating to KBW's or Stifel's existing businesses; (5) the challenges of integrating and retaining key employees; (6) the effect of the announcement of the transaction on Stifel's, KBW's or the combined company's respective business relationships, operating results and business generally; (7) the possibility that the anticipated synergies and cost savings of the merger will not be realized, or will not be realized within the expected time period; (8) the possibility that the merger may be more expensive to complete than anticipated, including as a result of unexpected factors or events; (9) the challenges of maintaining and increasing revenues on a combined company basis following the close of the merger; (10) diversion of management's attention from ongoing business concerns; (11) general competitive, economic, political and market conditions and fluctuations; (12) actions taken or conditions imposed by the United States and foreign governments; (13) adverse outcomes of pending or threatened litigation or government investigations; (14) the impact of competition in the industries and in the specific markets in which Stifel and KBW, respectively, operate; and (15) other factors that may affect future results of the combined company described in the section entitled "Risk Factors" in the proxy statement/prospectus to be mailed to KBW's shareholders and in Stifel's and KBW's respective filings with the U.S. Securities and Exchange Commission ("SEC") that are available on the SEC's web site located at http://www.sec.gov, including the sections entitled "Risk Factors" in Stifel's Annual Report on Form 10-K for the fiscal year ended December 31, 2011, and "Risk Factors" in KBW's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. Readers are strongly urged to read the full cautionary statements contained in those materials. We assume no obligation to update any forward-looking statements to reflect events that occur or circumstances that exist after the date on which they were made.

Additional Information

In connection with the proposed Merger, Stifel will be filing a registration statement on Form S-4 that also constitutes a prospectus of Stifel and other relevant documents relating to the acquisition of KBW with the SEC. The registration statement on Form S-4 will include a proxy statement of KBW, and the final proxy statement/prospectus will be mailed to shareholders of KBW. Stifel and KBW shareholders are urged to read the registration statement and any other relevant documents filed with the SEC, including the proxy statement/prospectus that will be part of the registration statement, because they will contain important information about Stifel, KBW and the proposed transaction. Investors and securityholders will be able to obtain free copies of the registration statement and proxy statement/prospectus (when available) as well as other filed documents containing information about Stifel and KBW, without charge, at the SEC's website (http://www.sec.gov). Free copies of Stifel's filings also may be obtained by directing a request to Stifel's Investor Relations by phone to (314) 342-2000, in writing to Stifel Financial Corp., Attention: Investor Relations, 501 North Broadway, St. Louis, Missouri 63102, by email to investorrelations@stifel.com or at Stifel's website (http://www.stifel.com). Free copies of KBW's filings also may be obtained by directing a request to KBW's Investor Relations by phone to (866) 529-2339, in writing to KBW, Inc., Attn: Alan Oshiki, c/o King Worldwide Investor Relations, 48 Wall Street, 32nd Floor, New York, New York 10005, or by email to kbw.inv.relations@kbw.com.

Proxy Solicitation

Stifel, KBW and their respective directors and executive officers may be deemed, under SEC rules, to be participants in the solicitation of proxies from the shareholders of KBW with respect to the proposed transaction. More detailed information regarding the identity of the potential participants, and their direct or indirect interests, by securities holdings or otherwise, will be set forth in the registration statement and proxy statement/prospectus and other materials to be filed with the SEC in connection with the proposed transaction. Information regarding Stifel's directors and executive officers is also available in Stifel's definitive proxy statement for its 2012 Annual Meeting of Shareholders filed with the SEC on April 20, 2012. Information regarding KBW's directors and executive officers is also available in KBW's definitive proxy statement for its 2012 Annual Meeting of Shareholders filed with the SEC on April 27, 2012. These documents are available free of charge at the SEC's web site at www.sec.gov and from Investor Relations at KBW and Stifel Financial.