

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

LABRANCHE & CO INC
Form 10-Q
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2001

OR

Transition Report Pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934
For the transition period from _____ to _____

COMMISSION FILE NUMBER 001-15251

LABRANCHE & CO INC.

(Exact name of registrant as specified in its charter)

DELAWARE 13-4064735
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

ONE EXCHANGE PLAZA, NEW YORK, NEW YORK 10006

(Address of principal executive offices)

(212) 425-1144

(Registrant's telephone number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year,
if changed since last report)

Indicate by check mark whether the registrant: (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

Yes No

The number of shares of the registrant's common stock outstanding as of August
14, 2001 was 57,427,838.

LABRANCHE & CO INC.
FORM 10-Q

TABLE OF CONTENTS

PART I FINANCIAL INFORMATION.....3

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

Item 1.	Financial Statements.....	3
	CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS.....	3
	CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION.....	4
	CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS.....	6
	NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS.....	8
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations.....	15
Item 3.	Quantitative and Qualitative Disclosures about Market Risk.....	24
PART II	OTHER INFORMATION.....	26
Item 6.	Exhibits and Reports on Form 8-K.....	26
	SIGNATURES.....	27

-2-

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS.

LABRANCHE & CO INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)
(000'S OMITTED EXCEPT PER SHARE DATA)

	For the Three Months Ended		For the Six M
	June 30,		June 30
	2001	2000	2001
REVENUES:			
Net gain on principal transactions	\$ 89,354	\$ 73,323	\$170,814
Commissions	16,491	11,147	28,818
Other	6,916	3,154	10,889
	112,761	87,624	210,521
EXPENSES:			
Employee compensation and related benefits	27,109	22,969	51,701
Interest	13,240	11,603	25,385
Depreciation and amortization of intangibles	11,064	4,871	17,197
Exchange, clearing and brokerage fees	6,447	1,340	9,484
Lease of exchange memberships	5,176	2,781	9,031
Other	5,985	2,960	9,299
	69,021	46,524	122,097

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

Income before provision for income taxes	43,740	41,100	88,424
PROVISION FOR INCOME TAXES	24,523	20,975	48,283
	-----	-----	-----
Net income	\$ 19,217	\$ 20,125	\$ 40,141
	=====	=====	=====
Weighted-average shares outstanding:			
Basic	57,025	48,675	53,651
Diluted	58,432	48,838	54,847
Earnings per share			
Basic	\$ 0.30	\$ 0.41	\$ 0.70
Diluted	\$ 0.29	\$ 0.41	\$ 0.68

-3-

LABRANCHE & CO INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(000'S OMITTED)

	As of	
	-----	-----
	JUNE 30, 2001	DECEMBER 31, 2000
	-----	-----
	(unaudited)	
ASSETS		
CASH AND CASH EQUIVALENTS	\$ 201,474	\$ 152,220
CASH AND SECURITIES SEGREGATED UNDER FEDERAL REGULATIONS	88,810	3,610
SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	26,322	134,111
RECEIVABLE FROM BROKERS, DEALERS AND CLEARING ORGANIZATIONS	274,627	63,468
RECEIVABLE FROM CUSTOMERS	14,983	912
SECURITIES OWNED, at market value:		
Corporate equities	171,715	132,389
Other	87,096	8,664
EXCHANGE MEMBERSHIPS CONTRIBUTED FOR USE, at market value	32,200	24,000
EXCHANGE MEMBERSHIPS OWNED, at cost (market value of \$87,400 and \$52,000, respectively)	75,315	50,300
OFFICE EQUIPMENT AND LEASEHOLD IMPROVEMENTS, at cost, less accumulated depreciation and amortization of \$6,769 and \$2,622, respectively	5,298	3,371
INTANGIBLE ASSETS, net of accumulated amortization		
Specialist Stock List	362,266	185,982
Trade Name	25,344	25,676
Goodwill	437,214	191,235

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

OTHER ASSETS	68,589	28,184
	-----	-----
Total assets	\$ 1,871,253	\$ 1,004,122
	=====	=====
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Payable to brokers and dealers	\$ 29,720	\$ 4,068
Payable to customers	80,239	4,051
Securities sold, but not yet purchased, at market value	175,438	60,726
Accounts payable and other accrued expenses	97,096	57,559
Income taxes payable	--	10,329
	-----	-----
	382,493	136,733
	-----	-----
-4-		
DEFERRED TAX LIABILITIES	168,606	74,660
	-----	-----
LONG TERM DEBT	369,459	355,893
	-----	-----
SUBORDINATED LIABILITIES		
Exchange memberships, at market value	32,200	24,000
Other subordinated indebtedness	50,935	41,935
	-----	-----
	83,135	65,935
	-----	-----
PREFERRED STOCK, at carrying value, liquidation value of \$1,000 per share; 10,000,000 shares authorized; 100,000 and 0 shares issued and outstanding as of June 30, 2001 and December 31, 2000, respectively	93,826	--
COMMON STOCK, \$.01 par value, 200,000,000 shares authorized; 57,427,838 and 49,069,521 shares issued and outstanding as of June 30, 2001 and December 31, 2000, respectively	574	491
OPTIONS ON COMMON STOCK	49,883	--
ADDITIONAL PAID-IN-CAPITAL	589,904	273,347
RETAINED EARNINGS	142,040	104,665
UNEARNED COMPENSATION	(8,667)	(7,602)
	-----	-----
	867,560	370,901
	-----	-----
Total liabilities and stockholders' equity	\$ 1,871,253	\$ 1,004,122
	=====	=====

The accompanying notes are an integral part of these condensed consolidated statements.

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

-5-

LABRANCHE & CO INC. AND SUBSIDIARIES
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (UNAUDITED)
 (000'S OMITTED)

	Six Months Ended	
	----- June 30, 2001	June 30, 2000 -----
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income		
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization of intangibles	\$ 40,141	\$ 40,681
Amortization of bond discount and debt issuance costs	17,197	7,624
Compensation expense related to stock-based compensation	857	627
Deferred tax provision	3,391	1,495
Tax benefit related to employee stock transactions	(2,000)	72
Change in assets and liabilities:	18,290	--
Cash segregated under federal regulations	(85,200)	--
Securities purchased under agreements to resell	107,789	(36,378)
Receivable from brokers, dealers and clearing organizations	(211,159)	(88,626)
Receivable from customers	(14,071)	(1,403)
Corporate equities	(39,326)	(177,099)
United States Government obligations	--	1,471
Other securities owned	(74,553)	(3,959)
Other assets	(44,285)	(10,649)
Payable to brokers and dealers	25,652	105,037
Payable to customers	76,188	4,115
Securities sold, but not yet purchased	114,712	51,522
Accounts payable and other accrued expenses	52,865	39,024
Income taxes payable	(10,329)	(7,026)
	-----	-----
Net cash used in operating activities	(24,112)	(73,472)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net cash received from (paid for) acquisitions	66,490	(184,364)
Payment for purchase of an exchange membership	(2,000)	--
Payments for office equipment and leasehold improvements	(533)	(1,162)
	-----	-----
Net cash provided by (used in) investing activities	63,957	(185,526)
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from exercise of stock options	9,409	--
Net cash received from issuance of senior subordinated debt	--	245,693
	-----	-----
Net cash provided by financing activities	9,409	245,693
	-----	-----
Increase/(decrease) in cash and cash equivalents	49,254	(13,305)

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

-6-

CASH AND CASH EQUIVALENTS, beginning of period	152,220	83,774
CASH AND CASH EQUIVALENTS, end of the period	\$201,474	\$ 70,469
	=====	=====

SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR:

Interest	\$ 22,422	\$ 6,478
Income taxes	45,150	48,538

SUPPLEMENTAL NON-CASH FINANCING AND INVESTING ACTIVITIES:

Acquisitions:		
Intangibles assets	\$452,488	\$171,936
Fair value of tangible assets acquired, other than cash	71,555	33,863
Deferred tax liabilities related to intangible assets	95,995	61,774
Other liabilities	38,950	--
Common stock issuance	260,463	32,312
Exercise of options granted to former RPM stockholders	37,811	--

The accompanying notes are an integral part of these condensed consolidated statements.

-7-

LABRANCHE & CO INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

The condensed consolidated financial statements include the accounts of LaBranche & Co Inc., a Delaware corporation (the "Holding Company"), and its subsidiaries, LaBranche & Co. LLC, a New York limited liability company ("LaBranche"), Henderson Brothers, Inc., a Delaware corporation ("Henderson Brothers"), ROBB PECK McCOEY Clearing Corporation, a New York corporation ("RPM Clearing Corporation"), and Internet Trading Technologies, Inc., a Delaware corporation ("ITTI" and, collectively with the Holding Company, LaBranche, Henderson Brothers and RPM Clearing Corporation the "Company"). The Holding Company is the sole member of LaBranche and 100% stockholder of Henderson Brothers, RPM Clearing Corporation and ITTI. LaBranche is a registered broker-dealer and operates primarily as a specialist in equity securities listed on the New York Stock Exchange, Inc. (the "NYSE") and as a specialist in options on the American Stock Exchange (the "AMEX"). Henderson Brothers is also a registered broker-dealer and a member of the NYSE and primarily provides clearance services to customers of several introducing brokers and provides direct access floor brokerage to institutional customers. RPM Clearing Corporation is a registered broker-dealer and a member of the NYSE and other exchanges and provides clearing, prime brokerage and execution services. ITTI provides front-end order execution systems, analysis and reporting solutions for the wholesale securities dealer market.

2. NEW ACCOUNTING PRONOUNCEMENTS

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination, requiring that the purchase method of accounting be used in all business combinations initiated after June 30, 2001. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets acquired individually or with a group of assets. The statement provides that intangible assets with indefinite useful lives will no longer be amortized, effective January 1, 2002 for intangible assets existing at June 30, 2001 or effective immediately for intangible assets acquired after June 30, 2001. Rather, these assets will be tested at least annually for impairment by applying a fair-value based test. In addition, intangible assets with finite useful lives continue to be amortized over their useful lives, which are no longer limited to 40 years. The provisions of SFAS No. 142 are effective for fiscal years beginning after December 15, 2001. Accordingly, commencing January 2002, the Company will cease amortization of recorded goodwill and certain intangible assets and the amortization expense for these intangible assets will no longer be included in the results of operations. The Company does not anticipate incurring any impairment charges upon implementation of SFAS No. 142. However, it is possible that in the future, the Company may incur impairment charges related to the carrying value of goodwill and intangible assets recorded in its financial statements. The Company expects the effect of

-8-

adoption of SFAS No. 142, as it relates to no longer amortizing goodwill and certain intangible assets, will materially increase its future results of operations. The estimated annual amortization expenses for intangible assets at June 30 in 2001 that will no longer be amortized are (000's omitted):

Tradenname amortization, net of deferred tax benefit	\$ 349
Goodwill amortization	27,499

Total amortization expense	\$27,848
	=====

3. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL INFORMATION

The unaudited interim condensed consolidated financial information as of June 30, 2001 and for the three months ended June 30, 2001 and 2000 are presented in the accompanying condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial information. The unaudited interim condensed consolidated financial information reflects all adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for such periods. This interim condensed consolidated financial information as of June 30, 2001 should be read in conjunction with the audited

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

consolidated financial statements and notes thereto as of December 31, 2000 included in the Company's Form 10-K filed with the Securities and Exchange Commission ("SEC") on March 30, 2001. Results of the interim periods are not necessarily indicative of results to be obtained for a full fiscal year.

4. INCOME TAXES

The Company accounts for taxes in accordance with SFAS No. 109, "Accounting for Income Taxes," which requires the recognition of tax benefits or expenses on temporary differences between the financial reporting and tax bases of its assets and liabilities. Deferred tax assets and liabilities relate to stock-based compensation, amortization periods of certain intangibles and differences between the financial and tax basis of assets acquired. The Company's effective tax rate differs from the federal statutory rate primarily due to its non-deductible amortization of intangible assets in 2001 and 2000. The components of the provision for income taxes reflected on the condensed consolidated statements of operations are set forth below (000's omitted):

-9-

	Three Months Ended June 30, 2001 -----	Three Months Ended June 30, 2000 -----	Six Months Ended June 30, 2001 -----	Six Months Ended June 30, 2000 -----
Current federal, state and local taxes	\$ 25,528	\$ 20,831	\$ 47,485	\$ 39,456
Deferred tax (benefit)/provision	(1,005)	(81)	798	72
Unincorporated business tax	--	225	--	1,325

Total provision for income taxes	\$ 24,523	\$ 20,975	\$ 48,283	\$ 40,853
	=====			

5. REGULATORY REQUIREMENTS

LaBranche, a specialist and member of the NYSE is subject to SEC Rule 15c3-1 adopted and administered by the NYSE. LaBranche is required to maintain minimum net capital, as defined, equivalent to the greater of \$100,000 or 1/15 of aggregate indebtedness, as defined.

As of June 30, 2001 and as of December 31, 2000, LaBranche's net capital, as defined under SEC Rule 15c3-1, was \$394.6 million and \$293.4 million, respectively. As of those dates LaBranche exceeded the minimum requirements by \$391.7 million and \$290.3 million, respectively. LaBranche's aggregate indebtedness to net capital ratio on those dates was .11 to 1 and .16 to 1, respectively.

The NYSE generally requires members registered as specialists to maintain a minimum dollar regulatory capital amount in order to establish that they can meet, with their own net liquid assets, their position requirement.

As of June 30, 2001 and as of December 31, 2000, LaBranche's NYSE minimum required dollar amount of net liquid assets, as defined, was \$405.0 million and \$284.3 million, respectively, compared to actual net liquid assets, as defined, of \$426.3 million and \$305.0 million, respectively.

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

As registered broker-dealers and NYSE member firms, Henderson Brothers and RPM Clearing Corporation are also subject to SEC Rule 15c3-1, as adopted and administered by the NYSE. Under the alternative method permitted by the rule, the minimum required net capital for each subsidiary is equal to the greater of \$250,000 or 2% of aggregate debit items as defined.

As of June 30, 2001, Henderson Brothers' and RPM Clearing Corporation's combined net capital as defined under SEC Rule 15c3-1 was \$23.9 million and exceeded minimum requirements by \$23.0 million.

6. ACQUISITIONS DURING THE FIRST QUARTER 2001

On March 15, 2001, the Company acquired, through a merger, ROBB PECK McCOOEY Financial Services, Inc. ("RPM") for an aggregate of approximately 6.9 million shares of the

-10-

Company's common stock and shares of the Company's nonconvertible Series A preferred stock having an aggregate face and liquidation value of approximately \$100.0 million and a fair value of approximately \$93.4 million. Each share of the Series A preferred stock entitles the holder thereof to cumulative preferred cash dividends at an annual rate of 8% for the first four years, 10% for the fifth year and 10.8% thereafter, certain voting rights and preferred distributions upon liquidation. In addition, the Company assumed RPM's obligations under RPM's outstanding option agreements with its employees. Thus, each option to purchase RPM common stock was converted into a vested option to purchase 98.778 shares of the Company's common stock. The acquisition was accounted for under the purchase method and the results of RPM's operations have been included in the Company's consolidated financial statements since March 16, 2001. The Company finalized its purchase accounting during the second quarter of 2001 without any significant adjustment to the original allocation of purchase price. The adjusted excess of purchase price over fair value of tangible assets of approximately \$433.8 million was allocated to intangible assets with corresponding respective lives as follows (000's omitted):

	ORIGINAL AMOUNT	LIFE
	-----	----
Specialist Stock List	\$ 180.0	40 years
Goodwill	253.8	15 years

	\$ 433.8	

The allocation of purchase price and determination of useful lives for the acquisition was based upon an independent appraisal. The useful life of the specialist stock list was determined based upon analysis of historical turnover characteristics of RPM's specialist stocks.

Effective March 13, 2001, the Company acquired all the outstanding capital stock of ITTI, a company that provides front-end order execution systems, analysis and reporting solutions for the wholesale securities dealer market. ITTI is operated by the Company as a separate subsidiary. The excess of purchase

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

price over fair value of net tangible assets of approximately \$4.3 million was allocated to goodwill.

7. COMMITMENTS

Minimum rental commitments under existing non-cancelable leases for office space and equipment are as follows:

-11-

YEAR ENDING DECEMBER 31:

2001	\$1,212,130
2002	1,980,037
2003	1,696,898
2004	1,297,750
2005	1,238,650
Thereafter	\$2,648,894

These leases contain escalation clauses providing for increased rentals based upon maintenance and tax increases.

8. EARNINGS PER SHARE

Earnings per share ("EPS") are computed in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS is calculated by dividing net income available to common shareholders by the weighted-average number of common shares outstanding. Diluted EPS includes the determinants of basic EPS and, in addition, gives effect to dilutive potential common shares.

The computations of basic and diluted EPS are set forth below (000's omitted, except per share data):

	Three Months Ended June 30, 2001	Three Months Ended June 30, 2000	Six Months Ended June 30, 2001	Six Months Ended June 30, 2000
	-----	-----	-----	-----
Net income	\$19,217	\$20,125	\$40,141	\$40,681
Less preferred dividends and accretion	2,378	--	2,767	--
	-----	-----	-----	-----
Numerator for basic and diluted earnings per common share - net income	\$16,839	\$20,125	\$37,374	\$40,681
Denominator for basic earnings per share - weighted-average number of common shares	57,025	48,675	53,651	47,614
Dilutive Shares				
Stock options	965	--	745	--
Restricted stock	87	--	94	--
Restricted stock units	355	163	357	125
	-----	-----	-----	-----

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

Denominator for diluted earnings per share - weighted-average number of common shares	58,432	48,838	54,847	47,739
Basic earnings per share	\$ 0.30	\$ 0.41	\$ 0.70	\$ 0.85
Diluted earnings per share	\$ 0.29	\$ 0.41	\$ 0.68	\$ 0.85

-12-

Under the treasury stock method of accounting, restricted stock units representing 404,657 and 402,412 shares of common stock, restricted stock representing 272,649 and 265,962 shares of common stock and options to purchase an aggregate of 1,913,921 and 2,134,865 shares of common stock for the three months and the six months ended June 30, 2001, respectively, were not included in the calculation of diluted earnings per share due to their antidilutive effect.

9. EMPLOYEE INCENTIVE AWARDS

During the first quarter of 2001, the Company assumed RPM's obligations under existing option agreements with RPM's employees, whereby the Company issued 2,775,662 options, of which 1,144,658 were exercised at prices between \$2.78 and \$13.67. During the second quarter of 2001 options to purchase 64,778 shares of common stock, which were issued in connection with the RPM acquisition, were exercised at prices between \$2.78 and \$13.67. The tax benefit associated with the exercise of replacement options has been recorded as an adjustment to goodwill, resulting in a decrease in the amount of approximately \$811,000 for the quarter ended June 30, 2001.

10. PROMISSORY NOTES PAYABLE

As of June 30, 2001, the Company has \$16.1 million of promissory notes payable as a result of debt assumed by the Company in the RPM acquisition. Three of these notes, representing approximately \$3.3 million, are subordinated debt placed with family members of former employees of RPM. This debt has maturities ranging from the first half of 2002 through the first half of 2006, and bears interest at an annual rate between 9.0% and 12.5%, payable on a quarterly basis. One of these agreements, representing \$295,000, has an automatic rollover provision that extends the maturity for an additional year, unless the lender provides notice at least 30 days prior to maturity. Seven additional notes, representing \$10.0 million, are promissory notes placed with former RPM employees and their family members. These notes are payable in equal annual installments on the anniversaries of issuance, with maturity dates ranging from the second half of 2002 through the first half of 2005, and bear interest at annual rates ranging from 9.5% to 12.0%, payable on a quarterly basis. The remaining four notes, representing \$2.7 million, represent deferred compensation of former RPM employees. These notes are payable in equal annual installments on the anniversaries of issuance, with maturity dates ranging from the second half of 2002 through the second half of 2004, and bear interest at annual rates ranging from 9.5% to 10.0%.

11. PRO FORMA FINANCIAL INFORMATION

The following 2000 pro forma consolidated results give effect to the Company's March 2000 acquisition of all the outstanding capital stock of Henderson Brothers, the March 2000 acquisition of Webco Securities, Inc. ("Webco") and the March 2000 issuance of \$250.0 million of Senior Subordinated Notes as if they occurred on January 1, 2000. In addition, the 2000 pro forma

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

consolidated results give effect to the March 2001 acquisition of RPM, including the issuance of common stock, the issuance of preferred stock, the assumption of all obligations under RPM's option agreements and the reversal of the historical results of operations for certain business lines (the "Acquisition Transactions"), as if they occurred on January 1, 2000. The 2001

-13-

pro forma consolidated results give effect to the Acquisition Transactions as if they occurred on January 1, 2001. The pro forma impact on revenues, pre-tax income and earnings are as follows (000's omitted, except per share data):

	FOR THE SIX MONTHS ENDED	

	JUNE 30,	
	2001	2000
	----	----
	(PRO FORMA)	(PRO FORMA)
Revenues	\$237,319	\$261,071
Pre-Tax Income	61,716	95,922
Net Income	24,792	43,410
EPS	\$ 0.35	\$ 0.69

12. SUBSEQUENT EVENTS

During May 2001, the Company signed a letter of intent to acquire Bocklet & Company, LLC, a specialist for approximately 60 listed companies on the NYSE. A definitive agreement has not been completed, but the transaction consideration will include cash and shares of the Company's common stock.

During July 2001, the board of directors approved an increase in the number of shares of the Company's common stock available for issuance under the Equity Incentive Plan by an additional 3,000,000 shares. The effectiveness of this increase is subject to the approval of the stockholders of the Company at the next annual or special meeting of stockholders.

On August 2, 2001, the Company entered into a sublease commitment for office space located at 120 Broadway, New York, New York. The sublease is for approximately 45,000 square feet and expires on March 30, 2006. Additionally, one of the lease commitments at 20 Broad Street for approximately 21,000 square feet will not be renewed upon expiration on December 31, 2001.

As of August 9, 2001, LaBranche entered into an asset purchase agreement with Cranmer & Cranmer, Inc. ("Cranmer") and Cranmer's stockholders pursuant to which LaBranche will acquire substantially all the assets of Cranmer, a specialist in stocks and options on the AMEX. Pursuant to this agreement, the consideration will include cash and shares of the Company's common stock. In addition, LaBranche will remit funds to Cranmer equal to the equity capital of Cranmer, including the net value of Cranmer's open positions on the closing date of the acquisition.

-14-

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

UNLESS THE CONTEXT OTHERWISE REQUIRES, THE "COMPANY," "LABRANCHE" OR "WE" SHALL MEAN LABRANCHE & CO INC. AND ITS WHOLLY-OWNED SUBSIDIARIES.

LABRANCHE'S QUARTERLY AND ANNUAL OPERATING RESULTS ARE AFFECTED BY A WIDE VARIETY OF FACTORS THAT COULD MATERIALLY AND ADVERSELY AFFECT ACTUAL RESULTS, INCLUDING: A DECREASE IN TRADING VOLUME ON THE NEW YORK STOCK EXCHANGE, VOLATILITY IN THE EQUITY SECURITIES MARKET AND CHANGES IN THE VALUE OF OUR SECURITIES POSITIONS. AS A RESULT OF THESE AND OTHER FACTORS, LABRANCHE MAY EXPERIENCE MATERIAL FLUCTUATIONS IN FUTURE OPERATING RESULTS ON A QUARTERLY OR ANNUAL BASIS, WHICH COULD MATERIALLY AND ADVERSELY AFFECT ITS BUSINESS, FINANCIAL CONDITION, OPERATING RESULTS, AND STOCK PRICE. AN INVESTMENT IN LABRANCHE INVOLVES VARIOUS RISKS, INCLUDING THOSE MENTIONED ABOVE AND THOSE THAT ARE DETAILED FROM TIME TO TIME IN LABRANCHE'S SEC FILINGS.

CERTAIN STATEMENTS CONTAINED IN THIS REPORT, INCLUDING WITHOUT LIMITATION, STATEMENTS CONTAINING THE WORDS "BELIEVES", "INTENDS", "EXPECTS", "ANTICIPATES" AND WORDS OF SIMILAR IMPORT, CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995. READERS ARE CAUTIONED THAT ANY SUCH FORWARD-LOOKING STATEMENTS ARE NOT GUARANTEES OF FUTURE PERFORMANCE, AND SINCE SUCH STATEMENTS INVOLVE RISKS AND UNCERTAINTIES, THE ACTUAL RESULTS AND PERFORMANCE OF LABRANCHE AND THE SPECIALIST INDUSTRY MAY TURN OUT TO BE MATERIALLY DIFFERENT FROM THE RESULTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. GIVEN THESE UNCERTAINTIES, READERS ARE CAUTIONED NOT TO PLACE UNDUE RELIANCE ON SUCH FORWARD-LOOKING STATEMENTS. LABRANCHE ALSO DISCLAIMS ANY OBLIGATION TO UPDATE ITS VIEW OF ANY SUCH RISKS OR UNCERTAINTIES OR TO PUBLICLY ANNOUNCE THE RESULT OF ANY REVISIONS TO THE FORWARD-LOOKING STATEMENTS MADE IN THIS REPORT.

THIS DISCUSSION SHOULD BE READ IN CONJUNCTION WITH LABRANCHE'S CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND THE NOTES THERETO CONTAINED IN THIS REPORT.

REVENUES

Our revenues consist primarily of net gain earned from principal transactions in securities for which we act as specialist, and commissions revenue earned from specialist and clearance activities. Net gain on principal transactions represents trading gains net of trading losses and transaction fees, and are earned by us when we act as principal buying and selling our specialist stocks and options. Commissions revenue consists of fees we earn when our specialists act as agents to match buyers and sellers for limit orders executed by us on behalf of brokers after a specified period of time; we do not earn commissions when we match market orders. In addition, commissions revenue includes fees charged to customers for execution and clearance activities at our Henderson Brothers and RPM Clearing Corporation subsidiaries. Other revenue consists of proprietary trading revenue, an investment in a hedge fund, interest income and fees charged to customers for use of ITTI's front-end order execution system. For the three months ended June 30, 2001, net gain on principal transactions represented 79.2% of our total revenues, commissions revenue represented 14.6% of our total revenues, and other revenues represented

-15-

6.1% of our total revenues. For the six months ended June 30, 2001, net gain on principal transactions represented 81.1% of our total revenues, commissions revenue represented 13.7% of our total revenues, and other revenues represented 5.2% of our total revenues.

EXPENSES

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

Our largest operating expense is employee compensation and related benefits, which primarily consist of salaries and wages and profitability-based compensation. Profitability-based compensation includes compensation and benefits paid to managing directors, trading professionals and other employees based on our profitability and each employee's overall performance.

ACQUISITIONS DURING THE SIX MONTHS ENDED JUNE 30, 2001

On March 13, 2001, we acquired all the outstanding capital stock of Internet Trading Technologies, Inc. ("ITTI"), a company that provides front-end order execution systems, analysis and reporting solutions for the wholesale securities dealer market. We operate ITTI as a separate subsidiary. The excess of purchase price over fair value of tangible assets of approximately \$4.3 million was allocated to goodwill.

On March 15, 2001, we acquired ROBB PECK McCOOEY Financial Services, Inc. ("RPM") for an aggregate of approximately 6.9 million shares of our common stock and shares of nonconvertible Series A preferred stock having an aggregate face and liquidation value of approximately \$100.0 million and a fair value of approximately \$93.4 million. In addition, we assumed all obligations under RPM's outstanding option agreements with its employees, with each option to purchase RPM common stock having been converted into an immediately exercisable option to purchase 98.778 shares of our common stock. The adjusted excess of purchase price over fair value of net tangible assets of approximately \$433.8 million was allocated to intangible assets. The results of the operations of RPM have been included in our financial statements beginning March 16, 2001. As a result of the exercise of replacement options granted to former RPM employees, we recorded a tax benefit not reflected through the results of operations of \$15.8 million.

RECENT DEVELOPMENTS

In July 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS") No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses financial accounting and reporting for goodwill and other intangible assets acquired in a business combination, requiring that the purchase method of accounting be used in all business combinations initiated after June 30, 2001. SFAS No. 142 addresses financial accounting and reporting for acquired goodwill and other intangible assets acquired individually or with a group of assets. The statement provides that intangible assets with indefinite useful lives will no longer be amortized, effective January 1, 2002 for intangible assets existing at June 30, 2001 or effective immediately for intangible assets acquired after June 30, 2001. Rather, these assets will be tested at least annually for impairment by applying a fair-value based test. In addition, intangible assets with finite useful lives continue

-16-

to be amortized over their useful lives, which are no longer limited to 40 years. The provisions of SFAS No. 142 are effective for fiscal years beginning after December 15, 2001. Accordingly, commencing January 2002, we will cease amortization of recorded goodwill and certain intangible assets and the amortization expense for these intangible assets will no longer be included in our results of operations. We do not anticipate incurring any impairment charges upon implementation of SFAS No. 142. However, it is possible that in the future, we may incur impairment charges related to the carrying value of goodwill and intangible assets recorded in our financial statements.

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

During May 2001, we signed a letter of intent to acquire Bocklet & Company, LLC, a specialist for approximately 60 listed companies on the NYSE. A definitive agreement has not been completed, but the transaction consideration will include cash and shares of our common stock.

On August 2, 2001 we entered into a sublease commitment for office space located at 120 Broadway, New York, New York. The sublease is for approximately 45,000 square feet and expires on March 30, 2006. Additionally, one of our lease commitments at 20 Broad Street for approximately 21,000 square feet will not be renewed upon expiration on December 31, 2001.

As of August 9, 2001, LaBranche & Co. LLC entered into an asset purchase agreement with Cranmer & Cranmer, Inc. ("Cranmer") and Cranmer's stockholders pursuant to which LaBranche will acquire substantially all the assets of Cranmer, a specialist in stocks and options on the AMEX. Pursuant to this agreement, the consideration will include cash and shares of our common stock. In addition, LaBranche & Co. LLC will remit funds to Cranmer equal to the equity capital of Cranmer, including the net value of Cranmer's open positions on the closing date of the acquisition.

RESULTS OF OPERATIONS

THREE MONTHS ENDED JUNE 30, 2001 COMPARED TO THREE MONTHS ENDED JUNE 30, 2000

REVENUES

Total revenues increased 28.8% to \$112.8 million for the three months ended June 30, 2001, from \$87.6 million for the same period in 2000, principally due to the increase in revenue from net gain on principal transactions. Net gain on principal transactions increased 22.0% to \$89.4 million for the three months ended June 30, 2001, from \$73.3 million for the same period in 2000. This increase was primarily due to a full quarter of revenues from the RPM acquisition on March 15, 2001, as a result of which we became the specialist for 129 additional common stock listings. In addition, this increase was due to an increase in share volume of our specialist stocks traded on the NYSE. Our share volume as principal increased 51.1% to 6.8 billion shares for the three months ended June 30, 2001, from 4.5 billion shares for the same period in 2000.

Commissions revenue increased 48.6% to \$16.5 million for the three months ended June 30, 2001, from \$11.1 million for the same period in 2000. This increase was primarily due to a

-17-

full quarter of commissions revenue earned by our clearing subsidiaries for execution and clearing services. The share volume executed by us as agent in our specialist stocks remained relatively flat at 1.5 billion shares, reflecting the competitive price pressures within the marketplace and our continuing efforts to provide low-cost services to our customers.

Other revenue increased 115.6% to \$6.9 million for the three months ended June 30, 2001, from \$3.2 million for the same period in 2000. This increase was primarily due to a full quarter of fees from other clearance and order execution activities, short-term interest income and an increase in our proprietary trading revenues.

EXPENSES

Total expenses before provision for income taxes increased 48.4% to \$69.0 million for the three months ended June 30, 2001 from \$46.5 million for the same

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

period in 2000.

Employee compensation and related benefits increased 17.8% to \$27.1 million for the three months ended June 30, 2001, from \$23.0 million for the same period in 2000. This increase was primarily due to a full quarter of employee compensation and related benefits expense as a result of the RPM acquisition, which resulted in our employment of 215 additional individuals on March 15, 2001. This increase was offset by a decrease in profitability-based compensation. As a percentage of total revenues, employee compensation decreased to 24.0% of total revenues for the three months ended June 30, 2001, from 26.2% of total revenues for the same period in 2000.

Interest expense increased 13.8% to \$13.2 million for the three months ended June 30, 2001, from \$11.6 million for the same period in 2000. This increase was primarily due to additional interest charges associated with our clearance activities, as well as the assumption of approximately \$16.1 and \$9.0 million of promissory notes and subordinated debt, respectively, as a result of the RPM acquisition. As a percentage of total revenues, interest decreased to 11.7% of total revenues for the three months ended June 30, 2001, from 13.2% of total revenues for the same period in 2000.

Depreciation and amortization of intangibles expense increased 126.5% to \$11.1 million for the three months ended June 30, 2001, from \$4.9 million for the same period in 2000. The increase was due to the full quarter of amortization on the \$433.8 million of intangible assets recorded as a result of our acquisition of RPM on March 15, 2001. As a percentage of total revenues, depreciation and amortization of intangibles increased to 9.8% of total revenues for the three months ended June 30, 2001, from 5.6% of total revenues for the same period in 2000.

Exchange, clearing and brokerage fees consist primarily of fees paid by us as a specialist to the NYSE and to clearing houses. Fees paid by us to the NYSE primarily include fees based on the volume of transactions executed as principal and as agent, as well as a flat annual fee. Exchange, clearing and brokerage fees expense increased 392.3% to \$6.4 million for the three months ended June 30, 2001, from \$1.3 million the same period in 2000. This increase was due to a new NYSE allocation fee, whereby specialist firms share the cost of newly allocated firms listing on the NYSE, an increase in NYSE regulatory fees based upon exchange seat use, a full

-18-

quarter of fees from our clearing operations and increased trading volumes as a result of the RPM acquisition.

Lease of exchange memberships expense increased 85.7% to \$5.2 million for the three months ended June 30, 2001, from \$2.8 million for the same period in 2000. This increase was due to the increase in the number of leased memberships from 48 to 68, and was also due to an increase in the average annual leasing cost of the memberships from approximately \$276,000 to \$312,000 per membership.

Other expenses increased 100.0% to \$6.0 million for the three months ended June 30, 2001, from \$3.0 million for the same period in 2000. This increase was primarily the result of a full quarter of additional occupancy and professional fees as a result of our recent acquisitions, as well as an increase in advertising and promotional costs. INCOME BEFORE PROVISION FOR INCOME TAXES

Income before provision for income taxes increased 6.3% to \$43.7 million for the three months ended June 30, 2001, from \$41.1 million for the same period in 2000. This increase was primarily due to the increase in our total revenues

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

which was offset by the increase in employee compensation and related benefits, depreciation and amortization of intangibles and exchange clearing and brokerage fees as the result of a full quarter of the RPM acquisition and increased regulatory fees.

INCOME TAXES

Provision for income taxes increased 16.7% to \$24.5 million for the three months ended June 30, 2001, from \$21.0 million for the same period in 2000, due to the increase in nondeductible amortization of intangibles expense as result of the RPM and ITTI acquisitions.

SIX MONTHS ENDED JUNE 30, 2001 COMPARED TO SIX MONTHS ENDED JUNE 30, 2000

REVENUES

Total revenues increased 26.6% to \$210.5 million for the six months ended June 30, 2001, from \$166.3 million for the same period in 2000, principally due to the increase in revenue from net gain on principal transactions. Net gain on principal transactions increased 23.1% to \$170.8 million for the six months ended June 30, 2001, from \$138.7 million for the same period in 2000. This increase was primarily due to our acquisition of RPM on March 15, 2001 as well as a full six months of revenue from our Henderson Brothers and Webco acquisitions on March 2, 2000 and March 9, 2000, respectively. In addition, the increase is the result of increased share volume in principal trading in our existing specialist stocks traded on the NYSE. Our share volume as principal increased 43.7% to 12.5 billion shares for the six months ended June 30, 2001, from 8.7 billion shares for the same period in 2000.

Commissions revenue increased 41.9% to \$28.8 million for the six months ended June 30, 2001, from \$20.3 million for the same period in 2000. This increase was primarily due to the

-19-

increase in commissions earned by our subsidiaries for clearing and executions services. In addition, our acquisition of RPM and a full six months of revenue from our Henderson Brothers and Webco acquisitions contributed to the increase. The share volume executed by us as agent in our specialist stocks increased 11.5% to 2.9 billion shares for the six months ended June 30, 2001, from 2.6 billion shares for the same period in 2000.

Other revenue increased 49.3% to \$10.9 million for the six months ended June 30, 2001, from \$7.3 million for the same period in 2000. This increase was primarily due to an increase in our interest income and revenue earned by our clearing subsidiaries, which was offset by a decrease in our proprietary trading revenues and a decrease in our other investments.

EXPENSES

Total expenses before provision for income taxes increased 44.0% to \$122.1 million for the six months ended June 30, 2001 from \$84.8 million for the same period in 2000.

Employee compensation and related benefits increased 12.9% to \$51.7 million for the six months ended June 30, 2001, from \$45.8 million for the same period in 2000. This increase was due to the completion of the RPM acquisition on March 15, 2001, whereby we employed an additional 215 individuals, as well as a full six months of compensation and related benefits expense from the additional 97 individuals employed as a result of our Henderson and Webco

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

acquisitions. As a percentage of total revenues, employee compensation decreased to 24.6% of total revenues for the six months ended June 30, 2001, from 27.5% of total revenues for the same period in 2000.

Interest expense increased 40.3% to \$25.4 million for the six months ended June 30, 2001, from \$18.1 million for the same period in 2000. This increase was primarily due to a full six months of interest expense on the \$250.0 million issued in connection with the Henderson Brothers and Webco acquisitions. An increase in interest expense related to the activities of our clearing subsidiaries also caused the increase. As a percentage of total revenues, interest increased to 12.1% of total revenues for the six months ended June 30, 2001, from 10.9% of total revenues for the same period in 2000.

Depreciation and amortization of intangibles expense increased 126.3% to \$17.2 million for the six months ended June 30, 2001, from \$7.6 million for the same period in 2000. Amortization of intangibles increased as a result of the \$433.8 million of intangible assets recorded as a result of our acquisition of RPM, as well as a full six months of amortization on the \$233.7 million of intangible assets recorded as a result of the Henderson Brothers and Webco acquisitions. As a percentage of total revenues, depreciation and amortization of intangibles increased to 8.2% of total revenues for the six months ended June 30, 2001, from 4.6% of total revenues for the same period in 2000.

Exchange, clearing and brokerage fees consist primarily of fees paid by us as a specialist to the NYSE and to clearing houses. Fees paid by us to the NYSE primarily include fees based on the volume of transactions executed as principal and as agent, as well as a flat annual fee. Exchange, clearing and brokerage fees expense increased 295.8% to \$9.5 million for the six

-20-

months ended June 30, 2001, from \$2.4 million the same period in 2000. This increase was due to a new NYSE allocation fee, whereby specialist firms share the cost of newly allocated firms listing on the NYSE, an increase in NYSE regulatory fees based upon exchange seat use, a increased fees from our clearing operations and increased trading volumes as a result of the RPM acquisition and a full six months of the Henderson and Webco acquisitions.

Lease of exchange memberships expense increased 69.8% to \$9.0 million for the six months ended June 30, 2001, from \$5.3 million for the same period in 2000. This increase was due to the increase in the number of leased memberships from 48 to 68, and was also due to an increase in the average annual leasing cost of the memberships from approximately \$276,000 to \$312,000 per membership.

Other expenses increased 66.1% to \$9.3 million for the six months ended June 30, 2001, from \$5.6 million for the same period in 2000. This increase was primarily the result of additional communication, occupancy and professional fees as a result of our recent acquisitions, as well as an increase in advertising and promotional costs.

INCOME BEFORE PROVISION FOR INCOME TAXES

Income before provision for income taxes increased 8.5% to \$88.4 million for the six months ended June 30, 2001, from \$81.5 million for the same period in 2000. This increase was due to an increase in our total revenues which was offset by the increase in employee compensation and related benefits, depreciation and amortization of intangibles and exchange clearing and brokerage fees as the result of a full quarter of the RPM acquisition and increased regulatory fees.

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

INCOME TAXES

Provision for income taxes increased 18.1% to \$48.3 million for the six months ended June 30, 2001, from \$40.9 million for the same period in 2000, as a result of the increase in nondeductible amortization of intangibles expense as well as an increase in our overall profitability.

LIQUIDITY

As of June 30, 2001, we had \$1,871.3 million in assets, of which \$290.3 million consisted of cash and short-term investments, which primarily consist of commercial paper maturing within 180 days.

In January 2001, we extended our \$200 million line-of-credit with a U.S. commercial bank until February 1, 2002. Amounts outstanding under the U.S. commercial bank credit facility are secured by our inventory of specialist stocks and bear interest at U.S. commercial banks' broker loan rate. To date, we have not utilized this facility.

As of June 30, 2001, the subordinated debt of LaBranche & Co. LLC totaled \$50.9 million (excluding subordinated liabilities related to contributed exchange memberships). Of this

-21-

amount, \$35.0 million represented senior subordinated debt privately placed pursuant to several note purchase agreements. Of this \$35.0 million, \$20.0 million matures on September 15, 2002 and bears interest at an annual rate of 8.17%, payable on a quarterly basis, and \$15.0 million matures on June 3, 2008 and bears interest at an annual rate of 7.69%, payable on a quarterly basis. These notes are senior to all other subordinated notes of LaBranche & Co. LLC. As of June 30, 2001 subordinated debt totaling \$6.9 million represented junior subordinated debt of LaBranche & Co. LLC placed with former limited partners, their family members and our employees. This debt has maturities ranging from the first half of 2002 through the second half of 2002, and bears interest at an annual rate between 8.0% and 10.0%, payable on a quarterly basis. The agreements relating to the junior subordinated debt generally have automatic rollover provisions that extend the maturities for an additional year, unless the lender provides notice at least seven months prior to maturity.

As a result of our acquisition of RPM, LaBranche & Co. LLC acquired subordinated demand notes for \$1.0 million and \$8.0 million with maturity dates of April 2002 and December 2001 respectively. Interest is payable monthly at adjusting variable rates. These agreements have automatic rollover provisions, and the scheduled maturity date will be extended an additional six months, unless the lender gives LaBranche & Co. LLC six months' advance notice that the maturity date will not be extended.

As of June 30, 2001, we had \$16.1 million of promissory notes payable as a result of the RPM acquisition. Three of these notes, representing approximately \$3.3 million, are subordinated debt placed with family members of former employees of RPM. This debt has maturities ranging from the first half of 2002 through the first half of 2006, and bears interest at an annual rate between 9.0% and 12.5%, payable on a quarterly basis. One of these agreements, representing \$295,000, has an automatic rollover provision that extends the maturity for an additional year, unless the lender provides notice at least 30 days prior to maturity. Seven additional notes, representing \$10.0 million, are promissory notes placed with former RPM employees and their family members. These notes are payable in equal annual installments on the anniversaries of issuance, with maturity dates ranging from the second half of 2002 through the

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

first half of 2005, and bear interest at annual rates ranging from 9.5% to 12.0%, payable on a quarterly basis. The remaining four notes, representing \$2.7 million, represent deferred compensation of former RPM employees. These notes are payable in equal annual installments on the anniversaries of issuance, with maturity dates ranging from the second half of 2002 through the second half of 2004, and bear interest at annual rates ranging from 9.5% to 10.0%.

As a result of our acquisition of RPM, we issued 100,000 shares of our nonconvertible Series A preferred stock to the former stockholders of RPM. Each outstanding share of our Series A preferred stock entitles the holder thereof to cumulative preferred cash dividends at an annual rate of 8% of the liquidation preference per share until the fourth anniversary of the closing of the merger, 10% until the fifth anniversary of the closing, and 10.8% thereafter. Dividends are payable on the first day of January and the first day of July of each year (or if such date is not a regular business day, then the next business day thereafter), commencing on July 1, 2001. Dividends on the issued and outstanding shares of Series A preferred stock will be preferred and cumulative and accrue from day to day from the date on which they are originally issued.

-22-

On March 2, 2000, we issued \$250.0 million aggregate principal amount of Senior Subordinated Notes. These Senior Subordinated Notes bear interest at a rate of 12.0% annually and mature in March 2007. The indenture covering these notes includes certain covenants that, among other things, limit our ability to borrow money, pay dividends or purchase our stock, make investments, engage in transactions with stockholders and affiliates, create liens on our assets, and sell assets or engage in mergers and consolidations, except in accordance with certain specified conditions.

The Senior Subordinated Notes also require the Company, within 150 days after the end of each fiscal year, to offer to redeem from all holders of the Senior Subordinated Notes a principal amount equal to the Excess Cash Flow for such fiscal year at a price equal to 103% of the principal amount being offered for purchase plus accrued and unpaid interest, if any, to the date of redemption. Each holder is entitled to be offered his pro rata share based upon his ownership percentage of the outstanding Senior Subordinated Notes. Excess Cash Flow is defined for this purpose as 40% of the amount by which our consolidated EBITDA exceeds the sum of our interest expense, tax expense, increase in net capital or net liquid asset requirements, capital expenditures, any cash amounts related to acquisitions of NYSE specialists or any cash payments related to our payment at maturity of the principal amount of our existing or certain other indebtedness. On April 12, 2001, we offered to purchase approximately \$9.9 million aggregate principal amount of our Senior Subordinated Notes based upon the Excess Cash Flow for the year ending 2000. This offer expired on May 22, 2001 without the tender of any Senior Subordinated Notes.

In connection with the Webco acquisition, we issued unsecured senior promissory notes in the aggregate principal amount of \$3.0 million to the stockholders of Webco. These notes bear interest at an annual rate of 10.0%. Of the aggregate principal amount, \$500,000 has already been paid. The remaining \$2.5 million is due September 9, 2001 and is subject to set-off for any amounts for which the former stockholders of Webco may be obligated to indemnify us for any breaches of their or Webco's representations, warranties and covenants under the Webco acquisition agreement.

As a broker-dealer, LaBranche & Co. LLC is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers and requiring the maintenance of minimum levels of net capital,

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

as defined in SEC Rule 15c3-1. LaBranche & Co. LLC is required to maintain minimum net capital, as defined, equivalent to the greater of \$100,000 or 1/15 of aggregate indebtedness, as defined. NYSE Rule 326(c) also prohibits a broker-dealer from repaying subordinated borrowings, paying cash dividends, making loans to any parent, affiliates or employees, or otherwise entering into transactions which would result in a reduction of its total net capital to less than 150% of its required minimum capital.

At June 30, 2001, LaBranche & Co. LLC had net capital of \$394.6 million, which was \$391.7 million in excess of its required net capital of \$2.9 million.

As clearing brokers, pursuant to SEC Rule 15c3-1, our Henderson Brothers and RPM subsidiaries are required to maintain a minimum net capital equal to the greater of \$250,000 or

-23-

2% of aggregate debit items as defined. As of June 30, 2001, the combined net capital of these subsidiaries was \$23.9 million and exceeded requirements by \$23.0 million.

The NYSE generally requires members registered as specialists to maintain a minimum dollar regulatory capital amount in order to establish that they can meet, with their own net liquid assets, their position requirement. After our acquisition of RPM, our net liquid asset requirement is \$405.0 million, which represents the previous combined net liquid assets of the two firms as separate entities. As of June 30, 2001, our actual net liquid assets were approximately \$426.3 million.

Failure to maintain the required net capital and net liquid assets may subject us to suspension or revocation of SEC registration or suspension or expulsion by the NYSE.

We currently anticipate that our available cash resources and credit facilities will be sufficient to meet our anticipated working capital, regulatory capital and capital expenditure requirements through the end of 2001.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

A majority of our specialist related revenues are derived from trading as principal. We also operate a proprietary trading desk separately from our NYSE and American Stock Exchange ("AMEX") specialist operations, which represented .04% of our total revenues in the six months ended June 30, 2001 and .2% of our total revenues in the same period in 2000. We may incur trading losses as a result of these trading activities. These activities involve primarily the purchase, sale or short sale of securities for our own account. These activities are subject to a number of risks, including risks of price fluctuations and rapid changes in the liquidity of markets. In any period, we may incur trading losses in our specialist stocks for a variety of reasons, including price fluctuations of our specialist stocks, lack of trading volume in our specialist stocks and the performance of our specialist obligations. From time to time, we have large position concentrations in securities of a single issuer or issuers engaged in a specific industry. In general, because our inventory of securities is marked to market on a daily basis, any downward price movement in these securities will result in a reduction of our revenues and operating profits.

We have developed a risk management process, which is intended to balance our ability to profit from our specialist activities with our exposure to potential losses. In addition, we have trading limits relating to our proprietary trading activities.

Edgar Filing: LABRANCHE & CO INC - Form 10-Q

Although we have adopted risk management policies, we cannot be sure that these policies have been formulated properly to identify or limit our risks. Even if these policies are formulated properly, we cannot be sure that we will successfully implement these policies. As a result, we may not be able to manage our risks successfully or avoid trading losses.

Henderson Brothers' and RPM's clearance activities involve settlement and financing of various customer securities transactions on a cash or margin basis. These activities may expose Henderson Brothers and RPM to off-balance sheet risk in the event the customer or other broker

-24-

is unable to fulfill its contractual obligations and Henderson Brothers and RPM has to purchase or sell securities at a loss. For margin transactions, Henderson Brothers and RPM may be exposed to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur in their accounts.

Henderson Brothers and RPM seek to control the risks associated with customer activities by requiring customers to maintain margin collateral in compliance with various regulatory and internal guidelines. Henderson Brothers and RPM monitor margin levels daily and, pursuant to such guidelines, require customers to deposit additional collateral or to reduce positions when necessary.

-25-

PART II OTHER INFORMATION

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(a) EXHIBITS.

10.1 Agreement and Plan of Merger, dated as of January 18, 2001, by and between the Company and ROBB PECK McCOEY Financial Services, Inc. (1)

10.2 Amendment to Agreement and Plan of Merger, dated as of February 15, 2001, by and between the Company and ROBB PECK McCOEY Financial Services, Inc. (1)

99.1 Press release dated August 14, 2001.

(b) REPORTS ON FORM 8-K.

(i) On June 1, 2001, we filed a Form 8-K, dated May 22, 2001, with respect to the execution of a letter of intent to acquire Bocklet & Company, LLC, under Item 5 of Form 8-K.

All other items of this report are inapplicable.

(1) Previously filed as an exhibit to the company's Report on Form 8-K dated March 15, 2001.

-26-

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this amended report to be signed on its behalf by the undersigned thereunto duly authorized.

August 14, 2001

LABRANCHE & CO INC.

By: /s/ HARVEY S. TRAISSON

Name: Harvey S. Traisson

Title: Chief Financial Officer

-27-