LABRANCHE & CO INC
Form 10-Q
November 09, 2001

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 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 incorporation or organization) | (I.R.S. Employer 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 [X] No [ ]

The number of shares of the registrant's common stock outstanding as of November 9, 2001 was 58,706,366.

LABRANCHE & CO INC.
FORM 10-Q

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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 September 30, | |
|---|---|---|
| | 2001 | 2000 |
| REVENUES: | | |
| Net gain on principal transactions | $ 71,267 | $ 64,460 |
| Commissions | 14,784 | 12,035 |
| Other | 3,069 | 4,727 |
| Total revenues | 89,120 | 81,222 |
| EXPENSES: | | |
| Employee compensation and related benefits | 22,993 | 18,667 |
| Interest | 13,435 | 11,860 |
| Depreciation and amortization of | 11,004 | 4,779 |
| intangibles | 6,281 | 1,258 |
| Exchange, clearing and brokerage fees | 5,178 | 2,789 |
| Lease of exchange memberships | 5,612 | 3,010 |

| | | |
|---|---|---|
| Other | | |
| Total expenses | 64,503 | 42,363 |
| Income before provision for income taxes | 24,617 | 38,859 |
| PROVISION FOR INCOME TAXES | 13,379 | 19,911 |
| Net income | $ 11,238 | $ 18,948 |
| Weighted-average shares outstanding: | | |
| Basic | 57,163 | 48,675 |
| Diluted | 58,323 | 49,331 |
| Earnings per share | | |
| Basic | $ 0.16 | $ 0.39 |
| Diluted | $ 0.15 | $ 0.38 |

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

| ASSETS | September |
|---|---|
| | (unaud |
| CASH AND CASH EQUIVALENTS | $ 22 |
| CASH AND SECURITIES SEGREGATED UNDER FEDERAL REGULATIONS | 8 |
| SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL | 11 |
| RECEIVABLE FROM BROKERS, DEALERS AND CLEARING ORGANIZATIONS | 22 |
| RECEIVABLE FROM CUSTOMERS | 1 |
| SECURITIES OWNED, at market value: | |
| Corporate equities | 12 |
| Other | 17 |
| EXCHANGE MEMBERSHIPS CONTRIBUTED FOR USE, at market value | 3 |
| EXCHANGE MEMBERSHIPS OWNED, at cost (market value of $88,283 and $52,000, respectively) | 7 |
| OFFICE EQUIPMENT AND LEASEHOLD IMPROVEMENTS, at cost, less accumulated depreciation and amortization of $7,423 and $2,622, respectively | |

| | |
|---|---|
| INTANGIBLE ASSETS, net of accumulated amortization | |
| Specialist Stock List | 37 |
| Trade Name | 2 |
| Goodwill | 44 |
| OTHER ASSETS | 5 |
| Total assets | $ 1,97 |

LIABILITIES AND STOCKHOLDERS' EQUITY

| | |
|---|---|
| LIABILITIES: | |
| Payable to brokers and dealers | $ 10 |
| Payable to customers | 6 |
| Securities sold, but not yet purchased, at market value | 20 |
| Accounts payable and other accrued expenses | 9 |
| Income taxes payable | 1 |
| | 48 |

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| | |
|---|---|
| DEFERRED TAX LIABILITIES | 16 |
| LONG TERM DEBT | 36 |
| SUBORDINATED LIABILITIES | |
| Exchange memberships, at market value | 3 |
| Other subordinated indebtedness | 4 |
| | 8 |
| 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 September 30, 2001 and December 31, 2000, respectively | 9 |
| COMMON STOCK, $.01 par value, 200,000,000 shares authorized; 57,606,366 and 49,069,521 shares issued and outstanding as of September 30, 2001 and December 31, 2000, respectively | |
| OPTIONS ON COMMON STOCK | 4 |
| ADDITIONAL PAID-IN-CAPITAL | 59 |
| RETAINED EARNINGS | 15 |
| UNEARNED COMPENSATION | ( |
| | 88 |
| Total liabilities and stockholders' equity | $ 1,97 |

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



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

| | Ni |
|---|---|
| | September 2001 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | |
| Net income | $ 51,3 |
| Adjustments to reconcile net income to net cash used in operating activities: | |
| Depreciation and amortization of intangibles | 28,2 |
| Amortization of bond discount and debt issuance costs | 1,3 |
| Compensation expense related to stock-based compensation | 4,7 |
| Deferred tax (benefit) | (5,0 |
| Tax benefit related to employee stock transactions | 18,4 |
| Change in assets and liabilities: | |
| Cash segregated under federal regulations | (80,5 |
| Securities purchased under agreements to resell | 19,7 |
| Receivable from brokers, dealers and clearing organizations | (162,3 |
| Receivable from customers | (10,1 |
| Corporate equities | 3,7 |
| United States Government obligations | |
| Other securities owned | (161,9 |
| Other assets | (34,2 |
| Payable to brokers and dealers | 103,9 |
| Payable to customers | 64,6 |
| Securities sold, but not yet purchased | 142,9 |
| Accounts payable and other accrued expenses | 47,4 |
| Income taxes payable | (1 |
| Net cash used in operating activities | 32,1 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | |
| Net cash received from (paid for) acquisitions | 41,6 |
| Payment for purchase of an exchange membership | (2,0 |
| Repayment of subordinated debt and promissory note | (6,3 |
| Payments for office equipment and leasehold improvements | (1,1 |
| Net cash provided by (used in) investing activities | 32,2 |

CASH FLOWS FROM FINANCING ACTIVITIES:

| | |
|---|---|
| Proceeds from exercise of stock options | 9,6 |
| Payment of preferred dividends | (2,3 |
| Net cash received from issuance of senior subordinated debt | |
| Net cash provided by financing activities | 7,2 |
| Increase/(decrease) in cash and cash equivalents | 71,6 |



| | |
|---|---|
| CASH AND CASH EQUIVALENTS, beginning of period | 152,2 |
| CASH AND CASH EQUIVALENTS, end of the period | $ 223,8 |
| SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR: | |
| Interest | $ 44,3 |
| Income taxes | 45,1 |
| SUPPLEMENTAL NON-CASH FINANCING AND INVESTING ACTIVITIES: | |
| Acquisitions: | |
| Intangibles assets | |
| Fair value of tangible assets acquired, other than cash | $ 481,5 |
| Deferred tax liabilities related to intangible assets | 228,2 |
| Other liabilities | 95,9 |
| Common stock issuance | 181,1 |
| Exercise of options granted to former RPM stockholders | 264,6 |
| | 40,5 |

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



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 McCOOEY 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

equities and 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 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

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 for fiscal years beginning after December 15, 2001 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 intangible assets with indefinite useful lives 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, after periodic testing, 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 adoption of SFAS No. 142 will materially increase its future results of operations. The estimated annual amortization expenses for intangible assets in 2001 that will no longer be amortized are (000's omitted):

| | |
|---|---|
| Tradename amortization, net of deferred tax benefit | $ 356 |
| Goodwill amortization | 27,495 |
| Total amortization expense | $27,851 |

3. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL INFORMATION

The unaudited interim condensed consolidated financial information as of September 30, 2001 and for the three months ended September 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 September 30, 2001 should be read in conjunction with the audited 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):



| | Three Months Ended September 30, 2001 | Three Months Ended September 30, 2000 | Nine Months E September 30, |
|---|---|---|---|
| Current federal, state and local taxes | $ 14,424 | $ 20,032 | $ 61,909 |
| Deferred tax (benefit)/provision | (1,045) | (121) | (247 |
| Unincorporated business tax | -- | -- | -- |
| Total provision for income taxes | $ 13,379 | $ 19,911 | $ 61,662 |

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 September 30, 2001 and as of December 31, 2000, LaBranche's net capital, as defined under SEC Rule 15c3-1, was $441.7 million and $293.4 million, respectively. As of those dates LaBranche exceeded the minimum requirements by $438.7 million and $290.3 million, respectively. LaBranche's aggregate indebtedness to net capital ratio on those dates was .10 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 September 30, 2001 and as of December 31, 2000, LaBranche's NYSE minimum required dollar amount of net liquid assets, as defined, was $415.0

million and $284.3 million, respectively, compared to actual net liquid assets, as defined, of $451.7 million and $305.0 million, respectively.

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 September 30, 2001, Henderson Brothers' and RPM Clearing Corporation's combined net capital as defined under SEC Rule 15c3-1 was $21.2 million and exceeded minimum requirements by $19.0 million. As of December 31, 2000, Henderson Brothers' net capital as defined under SEC Rule 15c3-1 was $8.5 million and exceeded minimum requirements by $8.2 million.

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6. ACQUISITIONS DURING THE THIRD QUARTER 2001

On August 13, 2001, LaBranche acquired all the assets relating to the AMEX operations of Cranmer & Cranmer, Inc. ("Cranmer"), a specialist in stocks and options on the AMEX, for an aggregate of approximately $9.2 million and 100,000 shares of the Company's common stock. The acquisition was accounted for under the purchase method of accounting. The results of Cranmer's AMEX specialist operations have been included in the Company's consolidated financial statements since August 14, 2001 and the Company does not expect any significant adjustment to the allocation of purchase price. The Company intends to finalize its purchase accounting during the fourth quarter of 2001. The excess of purchase price over fair value of net tangible assets of approximately $14.0 million was allocated to various intangible assets.

On September 20, 2001, LaBranche acquired the remaining outstanding interest not already owned in the Freedom Specialist Inc., R. Adrian & Company, LLC, LaBranche & Co. LLC Joint Book (the "Joint Book") for an aggregate of $13.6 million and 54,750 shares of the Company's common stock. The acquisition was accounted for under the purchase method of accounting. The results of the Joint Book's operations in which the Company did not own an interest have been included in the Company's consolidated financial statements since September 21, 2001. The excess of purchase price over fair value of net tangible assets of approximately $15.0 million was allocated to various intangible assets.

7. COMMITMENTS

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 Company's lease commitments at 20 Broad Street for approximately 21,000 square feet will not be renewed upon expiration on December 31, 2001.

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

| Year Ending December 31: | |
|---|---|
| 2001 | $ 914,826 |
| 2002 | 3,178,222 |
| 2003 | 2,836,999 |
| 2004 | 2,437,880 |
| 2005 | 2,378,781 |
| Thereafter | 2,933,927 |

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 September 30, 2001 | Three Months Ended September 30, 2000 | Nine Months Ended September 30, 2001 | Ni |
|---|---|---|---|---|
| Net income | $11,238 | $18,948 | $51,379 | |
| Less preferred dividends and accretion | 2,353 | -- | 5,119 | |
| Numerator for basic and diluted earnings per common share - net income | $ 8,885 | $18,948 | $46,260 | |
| Denominator for basic earnings per share - weighted-average number of common shares | 57,163 | 48,675 | 54,835 | |
| Dilutive Shares | | | | |
| Stock options | 799 | 270 | 791 | |
| Restricted stock | -- | 22 | 35 | |
| Restricted stock units | 361 | 364 | 369 | |
| Denominator for diluted earnings per share - weighted-average number of common shares | 58,323 | 49,331 | 56,030 | |
| Basic earnings per share | $ 0.16 | $ 0.39 | $ 0.84 | |
| Diluted earnings per share | $ 0.15 | $ 0.38 | $ 0.83 | |

Under the treasury stock method of accounting, restricted stock units representing 398,828 and 390,745 shares of common stock, restricted stock representing 285,000 and 249,578 shares of common stock and options to purchase an aggregate of 2,055,708 and 2,063,973 shares of common stock for the three months and the nine months ended September 30, 2001, respectively, were not included in the calculation of diluted earnings per share due to their antidilutive effect.

9. EMPLOYEE INCENTIVE AWARDS

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.



10. 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 consolidated results give effect to the March 2001 acquisition of ROBB PECK McCOOEY Financial Services, Inc. ("RPM"), including the issuance of common stock, the issuance of preferred stock, the assumption of 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 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 NINE MONTHS ENDED SEPTEMBER 30, | |
|---|---|---|
| | 2001 | 2000 |
| | (PRO FORMA) | (PRO FORMA) |
| Revenues | $326,439 | $372,683 |
| Pre-Tax Income | 82,905 | 136,207 |
| Net Income | 35,172 | 61,035 |
| EPS | $ 0.49 | $ 0.95 |

11. SUBSEQUENT EVENTS

Effective October 18, 2001 the Company acquired, through a merger, substantially all the assets of Bocklet & Company, LLC ("Bocklet"), a specialist for approximately 60 listed companies on the NYSE, for approximately $20.0 million and 1.1 million shares of the Company's common stock. In addition, the Company will remit funds to the former members of Bocklet equal to Bocklet's positive net working capital, as defined in the merger agreement, in equal installments three, six and nine months after the closing date. The acquisition will be accounted for under the purchase method and the results of Bocklet's operations will be included in the Company's consolidated financial statements from the closing date of the transaction.



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

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 SEC 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 two clearing subsidiaries, Henderson Brothers, Inc. ("Henderson Brothers") and ROBB PECK McCOOEY Clearing Corporation ("RPM Clearing Corporation"). Other revenue consists of proprietary trading revenue, earnings from an investment in a hedge fund, interest income and fees charged to customers for use of the front-end order execution system developed by our subsidiary, Internet Trading Technologies, Inc. ("ITTI"). For the three months ended

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September 30, 2001, net gain on principal transactions represented 80.0% of our total revenues, commissions revenue represented 16.6% of our total revenues, and other revenues represented 3.4% of our total revenues. For the nine months ended September 30, 2001, net gain on principal transactions represented 80.8% of our total revenues, commissions revenue represented 14.6% of our total revenues, and other revenues represented 4.7% of our total revenues.

EXPENSES

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.

ACQUISITIONS DURING THE NINE MONTHS ENDED SEPTEMBER 30, 2001

On March 13, 2001, we 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. The results of the operations of ITTI have been included in our financial statements since March 14, 2001. The excess of purchase price over fair value of net 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 of 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 various 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 $16.0 million.

On August 13, 2001, LaBranche & Co. LLC acquired all the assets relating to the AMEX stocks and options specialist operations of Cranmer & Cranmer, Inc. ("Cranmer") for an aggregate of approximately $9.2 million, 100,000 shares of our common stock and an amount equal to the equity capital of Cranmer, including the net value of Cranmer's open security positions on the closing date of the acquisition. The excess of purchase price over fair value of net tangible assets of approximately $14.0 million was allocated to various intangible assets. The results of the AMEX specialist operations formerly conducted by Cranmer have been included in the Company's consolidated financial statements since August 14, 2001.

On September 20, 2001, LaBranche & Co. LLC acquired the interests in the Freedom Specialist Inc. ("Freedom"), R. Adrian & Company, LLC ("Adrian") and LaBranche & Co. LLC Joint Book (the "Joint Book") which it did not previously own for an aggregate of approximately



$13.6 million in cash, 54,750 shares of our common stock and an amount equal to Freedom's and Adrian's respective shares of the equity capital of the Joint Book on the closing date of the acquisition. The excess of purchase price over fair value of net tangible assets of approximately $15.0 million was allocated to various intangible assets. The results of the operations formerly conducted by the Joint Book in which we previously did not own an interest have been included in the Company's consolidated financial statements since September 21, 2001.

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 for fiscal years beginning after December 15, 2001 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, we will cease amortization of recorded goodwill and intangible assets with indefinite useful lives 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, after periodic testing, we may incur impairment charges related to the carrying value of goodwill and intangible assets recorded in our financial statements.

RESULTS OF OPERATIONS

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

REVENUES

Total revenues increased 9.7% to $89.1 million for the three months ended September 30, 2001, from $81.2 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 10.5% to $71.3 million for the three months ended September 30, 2001, from $64.5 million for the same period in 2000. This increase was primarily due to 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, the increase is due to an increase in principal trading share volume in our existing specialist stocks traded on the NYSE. These factors were partially offset by unfavorable market conditions during the third quarter of 2001. Our share volume as principal increased 48.9% to 6.7



billion shares for the three months ended September 30, 2001, from 4.5 billion shares for the same period in 2000.

Commissions revenue increased 23.3% to $14.8 million for the three months ended September 30, 2001, from $12.0 million for the same period in 2000. This increase was primarily due to commissions revenue earned by our clearing subsidiaries for execution and clearing services. The share volume executed by us as agent in our specialist stocks decreased slightly by 6.7% to 1.4 billion shares for the three months ended September 30, 2001, from 1.5 billion shares for the same period in 2000, reflecting competitive price pressures within the marketplace.

Other revenue decreased 34.0% to $3.1 million for the three months ended September 30, 2001, from $4.7 million for the same period in 2000. This decrease was due to losses by our proprietary trading desk and losses from our investment in a hedge fund. These losses were offset by interest income, as well as revenues from trading activities of RPM Clearing Corporation and fee revenue from ITTI, both of which were acquired in March 2001.

EXPENSES

Total expenses before provision for income taxes increased 52.1% to $64.5 million for the three months ended September 30, 2001, from $42.4 million for the same period in 2000.

Employee compensation and related benefits expense increased 23.0% to $23.0 million for the three months ended September 30, 2001, from $18.7 million for the same period in 2000. This increase was primarily due to additional 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 partially offset by a decrease in profitability-based compensation. As a percentage of total revenues, employee compensation increased to 25.8% of total revenues for the three months ended September 30, 2001, from 23.0% of total revenues for the same period in 2000.

Interest expense increased 12.6% to $13.4 million for the three months ended September 30, 2001, from $11.9 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 $15.6 million and $9.0 million of promissory notes and subordinated debt, respectively, in connection with the RPM acquisition. As a percentage of total revenues, interest expense increased to 15.0% of total revenues for the three months ended September 30, 2001, from 14.7% of total revenues for the same period in 2000.

Depreciation and amortization of intangibles expense increased 129.2% to $11.0 million for the three months ended September 30, 2001, from $4.8 million for the same period in 2000. The increase was due to the amortization on the $433.6 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 12.3% of total revenues for the three months ended September 30, 2001, from 5.9% of total revenues for the same period in 2000.



Exchange, clearing and brokerage fees expense increased 384.6% to $6.3 million for the three months ended September 30, 2001, from $1.3 million the same period in 2000. This increase was due to a new NYSE allocation fee, requiring specialist firms to share the cost of newly allocated firms listing on the NYSE, an increase in NYSE regulatory fees based upon exchange seat use, increased fees from our clearing operations and increased principal 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 September 30, 2001, from $2.8 million for the same period in 2000. This increase was due to the increase in the number of our leased NYSE memberships from 48 to 66, 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. Additionally, the increase is the result of leasing eight AMEX memberships during the third quarter of 2001.

Other expenses increased 86.7% to $5.6 million for the three months ended September 30, 2001, from $3.0 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 acquisitions during the first nine months of 2001, as well as an increase in advertising and other promotional costs.

INCOME BEFORE PROVISION FOR INCOME TAXES

Income before provision for income taxes decreased 36.8% to $24.6 million for the three months ended September 30, 2001, from $38.9 million for the same period in 2000. This decrease was primarily due to the increase in employee compensation and related benefits expense, depreciation and amortization of intangibles and exchange, clearing and brokerage fees as a result of the RPM acquisition and increased regulatory fees.

INCOME TAXES

Provision for income taxes decreased 32.7% to $13.4 million for the three months ended September 30, 2001, from $19.9 million for the same period in 2000. This decrease was due to a decrease in income before provision for income taxes, as well as a reduction in the statutory New York State tax rate.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000

REVENUES

Total revenues increased 21.1% to $299.6 million for the nine months ended September 30, 2001, from $247.5 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 19.1% to $242.1 million for the nine months ended September 30, 2001, from $203.2 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 nine 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 the increase in principal trading share volume in our existing specialist stocks traded on the NYSE. These factors were offset by unfavorable market conditions during the second and third quarters of 2001. Our share volume as principal increased 46.2% to 19.3 billion shares for the nine months ended September 30, 2001, from 13.2 billion shares for the same period in 2000.

Commissions revenue increased 34.6% to $43.6 million for the nine months ended September 30, 2001, from $32.4 million for the same period in 2000. This increase was primarily due to the increase in commissions earned by our subsidiaries for clearing and execution services, which was partially offset by a slight decrease in commission revenue earned by our specialist activities. The share volume executed by us as agent in our specialist stocks increased 7.3% to 4.4 billion shares for the nine months ended September 30, 2001, from 4.1 billion shares for the same period in 2000.

Other revenue increased 16.7% to $14.0 million for the nine months ended September 30, 2001, from $12.0 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 partially offset by losses from our proprietary trading and nonmarketable investments.

EXPENSES

Total expenses before provision for income taxes increased 46.8% to $186.6 million for the nine months ended September 30, 2001 from $127.1 million for the same period in 2000.

Employee compensation and related benefits expense increased 16.0% to

$74.7 million for the nine months ended September 30, 2001, from $64.4 million for the same period in 2000. This increase was primarily due to the RPM acquisition on March 15, 2001, as a result of which we employed an additional 215 individuals, as well as a full nine months of compensation and related benefits expense from the additional 97 individuals employed as a result of our Henderson and Webco acquisitions. This increase was partially offset by a decrease in profitability-based compensation. As a percentage of total revenues, employee compensation decreased to 24.9% of total revenues for the nine months ended September 30, 2001, from 26.0% of total revenues for the same period in 2000.

Interest expense increased 29.8% to $38.8 million for the nine months ended September 30, 2001, from $29.9 million for the same period in 2000. This increase was due to a full nine months of interest expense on the $250.0 million of senior subordinated indebtedness issued in connection with the Henderson Brothers and Webco acquisitions. In addition, the assumption of approximately $15.6 million and $9.0 million of promissory notes and subordinated debt, respectively, in connection with the RPM acquisition contributed to the increase. Interest expense related to the activities of our clearing subsidiaries also contributed to the increase. As a percentage of total revenues, interest expense increased to 13.0% of total revenues for the nine months ended September 30, 2001, from 12.1% of total revenues for the same period in 2000.

Depreciation and amortization of intangibles expense increased 127.4% to $28.2 million for the nine months ended September 30, 2001, from $12.4 million for the same period in 2000. Amortization of intangibles increased as a result of the $433.6 million of intangible assets



recorded as a result of our acquisition of RPM, as well as a full nine 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 9.4% of total revenues for the nine months ended September 30, 2001, from 5.0% of total revenues for the same period in 2000.

Exchange, clearing and brokerage fees expense increased 338.9% to $15.8 million for the nine months ended September 30, 2001, from $3.6 million for the same period in 2000. This increase was due to a new NYSE allocation fee, requiring specialist firms to share the cost of newly allocated firms listing on the NYSE, an increase in NYSE regulatory fees based upon exchange seat use, increased fees from our clearing operations and increased principal trading volumes as a result of the RPM acquisition and a full nine months of the Henderson and Webco acquisitions.

Lease of exchange memberships expense increased 75.3% to $14.2 million for the nine months ended September 30, 2001, from $8.1 million for the same period in 2000. This increase was due to the increase in the number of our leased memberships from 48 to 66, 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 73.3% to $14.9 million for the nine months ended September 30, 2001, from $8.6 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 acquisitions during the first nine months of 2001, as well as an increase in advertising and other promotional costs.

INCOME BEFORE PROVISION FOR INCOME TAXES

Income before provision for income taxes decreased 6.1% to $113.0 million for the nine months ended September 30, 2001, from $120.4 million for the same period in 2000. This decrease was due to an increase in employee compensation and related benefits expense, depreciation and amortization of intangibles, exchange, clearing and brokerage fees and other expenses as a result of the RPM acquisition and increased regulatory fees.

INCOME TAXES

Provision for income taxes increased 1.5% to $61.7 million for the nine months ended September 30, 2001, from $60.8 million for the same period in 2000. The increase was due to an increase in nondeductible amortization of intangibles expense which was offset by a decrease in income before provision for income taxes, as well as a reduction in the statutory New York State tax rate.

LIQUIDITY

As of September 30, 2001, we had $1,978.2 million in assets, of which $308.0 million consisted of cash and short-term investments, primarily consisting of U.S. Government



obligations, commercial paper maturing within 90 days and cash segregated under federal regulations.

In January 2001, we extended our $200.0 million line-of-credit with a U.S. commercial bank until February 1, 2002. Amounts outstanding under the U.S. commercial bank credit facility would be 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 September 30, 2001, the subordinated debt of LaBranche & Co. LLC totaled $49.6 million (excluding subordinated liabilities related to contributed exchange memberships). Of this amount, $35.0 million represented senior subordinated debt privately placed pursuant to 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 September 30, 2001, subordinated debt totaling approximately $5.6 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 second half of 2002 through the first half of 2003, 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.

In connection with our acquisition of RPM, LaBranche & Co. LLC assumed subordinated secured demand note obligations in the amount of $1.0 million and $8.0 million with maturity dates of April 2002 and June 2002, respectively. Interest with respect to these obligations is payable monthly at adjusting variable rates. These agreements have automatic rollover provisions, and the scheduled maturity date of each such obligation 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 September 30, 2001, we had $15.6 million of promissory notes payable which had been assumed in connection with 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 approximately $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 8.0% to 12.0%, payable on a quarterly basis. The remaining four notes, representing approximately $2.3 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%.

In connection with 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), with the first payment made on July 1, 2001. Dividends on the issued and outstanding shares of Series A preferred stock are preferred and cumulative and accrue daily from the date on which they were originally issued.

On August 24, 1999, in connection with our reorganization from partnership to corporate form, we issued a $16.0 million senior note as partial payment for the acquisition of a certain limited partnership interest in LaBranche & Co. LLC (prior to its conversion to a limited liability company). The note is payable in three annual installments, with $11.0 million of the aggregate principal amount already having been paid on the first and second anniversaries of issuance. The remaining $5.0 million principal amount is payable on the third anniversary of issuance, and bears interest at the annual rate of 9.5%.

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 on March 9, 2000, 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 was repaid during 1999, and the balance, plus all accrued interest, was paid in full on September 9, 2001.

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, 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 September 30, 2001, LaBranche & Co. LLC had net capital of $441.7 million, which was $438.7 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 Clearing Corporation subsidiaries are required to maintain a minimum net capital equal to the greater of $250,000 or 2% of aggregate debit items as defined. As of September 30, 2001, the combined net capital of these subsidiaries was $21.2 million and exceeded requirements by $19.0 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 and the Joint Book during 2001, our net liquid asset requirement is $415.0 million, which represents the previous combined net liquid assets of the firms as separate entities. As of September 30, 2001, our actual net liquid assets were approximately $451.7 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 AMEX specialist operations, which represented (0.4%) of our total revenues for the nine months ended September 30, 2001 and 0.5% of our total revenues for 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.

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 Clearing Corporation'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 Clearing Corporation to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contractual obligations and Henderson Brothers and RPM Clearing Corporation have to purchase or sell securities at a loss. For margin transactions, Henderson Brothers and RPM Clearing Corporation 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 Clearing Corporation 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 Clearing Corporation monitor margin levels daily and, pursuant to such guidelines, require customers to deposit additional collateral or to reduce positions when necessary.



PART II OTHER INFORMATION

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

(a) EXHIBITS.

None.

(b) REPORTS ON FORM 8-K.

(i) On October 24, 2001, we filed a Current Report on Form 8-K, dated October 22, 2001, relating to the release of our third quarter earnings and announcing our acquisition of (i) Bocklet & Company, LLC, (ii) the interests of Freedom Specialist, Inc. and R. Adrian & Company, LLC in the NYSE specialist joint account in which we also owned an interest, and (iii) the AMEX specialist operations of Cranmer & Cranmer, Inc., under Item 5 of Form 8-K.

All other items of this report are inapplicable.

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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.

November 9, 2001

LABRANCHE & CO INC.

By: /s/ Harvey S. Traison

Name: Harvey S. Traison<br>
Title: Chief Financial Officer

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