

LABRANCHE & CO INC  
Form 10-Q  
May 10, 2010  
Table of Contents

**UNITED STATES**  
**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 March 31, 2010

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)

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

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-4064735**  
(I.R.S. Employer  
Identification No.)

**33 Whitehall Street, New York, New York 10004**  
(Address of principal executive offices) (Zip Code)

**(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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes  No

The number of shares of the registrant's common stock outstanding as of May 7, 2010 was 42,332,374.

**Table of Contents**

**TABLE OF CONTENTS**

<u>PART I FINANCIAL INFORMATION</u>	3
<u>Item 1. Financial Statements.</u>	3
<u>CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS</u>	3
<u>CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION</u>	4
<u>CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)</u>	5
<u>CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS</u>	6
<u>NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS</u>	7
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.</u>	24
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk.</u>	40
<u>Item 4. Controls and Procedures.</u>	47
<u>PART II OTHER INFORMATION</u>	47
<u>SIGNATURES</u>	51

**Table of Contents****PART I - FINANCIAL INFORMATION****Item 1. Financial Statements.****LaBRANCHE & CO INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(000 s omitted except per share data)****(unaudited)**

	<b>For the Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009 (1)</b>
<b>REVENUES:</b>		
Net gain (loss) on trading	\$ 27,724	\$ (35,784)
Commissions and other fees	5,337	7,889
Other	1,184	1,974
<b>Total revenues</b>	<b>34,245</b>	<b>(25,921)</b>
<b>Interest expense:</b>		
Debt	2,639	5,664
Inventory financing	5,083	5,636
<b>Total interest expense</b>	<b>7,722</b>	<b>11,300</b>
Revenues, net of interest expense	26,523	(37,221)
<b>EXPENSES:</b>		
Employee compensation and related benefits	11,493	6,050
Exchange, clearing, brokerage and license fees	4,944	4,808
Depreciation and amortization	488	943
Legal and professional fees	920	633
Communications	2,617	2,065
Occupancy	906	693
Early extinguishment of debt	7,192	
Other	1,782	2,794
<b>Total expenses</b>	<b>30,342</b>	<b>17,986</b>
Loss from continuing operations before benefit for income taxes	(3,819)	(55,207)
Benefit for income taxes	(1,549)	(22,103)
<b>Loss from continuing operations</b>	<b>(2,270)</b>	<b>(33,104)</b>

Discontinued operations:

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

(Loss) income from operations of discontinued unit	(365)	5,594
(Benefit) provision for income taxes	(4,019)	2,237
<b>Income from discontinued operations</b>	<b>3,654</b>	<b>3,357</b>
Net income (loss)	\$ 1,384	\$ (29,747)
<b>Weighted average common shares outstanding:</b>		
Basic	48,540	58,390
Diluted	48,792	58,390
<b>Basic net income (loss) per common share:</b>		
Continuing operations	\$ (0.05)	\$ (0.57)
Discontinued operations (1)	\$ 0.08	\$ 0.06
<b>Total operations</b>	<b>\$ 0.03</b>	<b>\$ (0.51)</b>
<b>Diluted net income (loss) per common share:</b>		
Continuing operations	\$ (0.05)	\$ (0.57)
Discontinued operations (1)	\$ 0.08	\$ 0.06
<b>Total operations</b>	<b>\$ 0.03</b>	<b>\$ (0.51)</b>

- (1) In accordance with Financial Accounting Standards Board Accounting Standards the results of the DMM business have been reclassified as a discontinued operation for all periods presented.

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

**Table of Contents****LaBRANCHE & CO INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION****(000's omitted except per share data)**

	As of	
	March 31, 2010 (unaudited)	December 31, 2009 (audited)
<b>ASSETS</b>		
Cash and cash equivalents	\$ 95,328	\$ 186,737
Cash and securities segregated under federal regulations	1,327	1,727
Receivable from brokers, dealers and clearing organizations	59,685	70,270
Receivable from customers	22,227	42,790
Financial instruments owned, at fair value	2,358,370	3,378,738
Exchange memberships owned, at adjusted cost (fair value of \$6,266 and \$5,529, respectively)	1,221	1,096
Office equipment and leasehold improvements, at cost, less accumulated depreciation and amortization of \$9,253 and \$8,777, respectively	11,282	11,680
Held for sale		32,748
Deferred tax assets	20,315	25,457
Income tax receivable	15,560	12,208
Other assets	10,407	16,712
<b>Total assets</b>	<b>\$ 2,595,722</b>	<b>\$ 3,780,163</b>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

<b>Liabilities:</b>		
Payable to brokers, dealers and clearing organizations	\$ 398,039	\$ 615,245
Payable to customers	21,133	43,515
Financial instruments sold, but not yet purchased, at fair value	1,877,902	2,568,202
Accrued compensation	5,030	9,431
Accounts payable and other accrued expenses	12,432	17,526
Other liabilities	5	12,945
Income tax payable	1,668	1,968
Held for sale		749
Short-term debt		189,323
<b>Total liabilities</b>	<b>2,316,209</b>	<b>3,458,904</b>

**Commitments and contingencies****Stockholders' equity:**

Common stock, \$.01 par value, 200,000,000 shares authorized; 62,425,292 shares issued, 42,926,456 shares outstanding at March 31, 2010 and 62,397,795 shares issued, 51,470,826 shares outstanding at December 31, 2009	624	624
Treasury stock, at cost, 19,498,836 and 10,926,969 shares at March 31, 2010 and December 31, 2009, respectively	(81,325)	(41,569)
Additional paid-in capital	699,944	700,738
Accumulated deficit	(333,207)	(334,591)

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

Accumulated other comprehensive loss	(6,523)	(3,943)
Total stockholders' equity	279,513	321,259
Total liabilities and stockholders' equity	\$ 2,595,722	\$ 3,780,163

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

**Table of Contents**

**LaBRANCHE & CO INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN**  
**STOCKHOLDERS EQUITY AND COMPREHENSIVE LOSS**

(000 s omitted)

	Common Stock		Treasury Stock	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total
	Shares	Amount					
BALANCES, December 31, 2008	58,197	\$ 620	\$ (16,369)	\$ 702,475	\$ (236,771)	\$ (7,105)	\$ 442,850
Net loss					(97,820)		(97,820)
Other comprehensive income:							
Cumulative translation adjustment, net of taxes						3,162	3,162
Comprehensive loss							(94,658)
Purchase of treasury stock	(7,112)		(25,200)				(25,200)
Issuance of restricted stock, shares for option exercises and related compensation	386	4		(1,737)			(1,733)
BALANCES, December 31, 2009	51,471	\$ 624	\$ (41,569)	\$ 700,738	\$ (334,591)	\$ (3,943)	\$ 321,259
Net income		\$	\$	\$	\$ 1,384	\$	\$ 1,384
Other comprehensive loss:							
Cumulative translation adjustment, net of taxes						(2,580)	(2,580)
Comprehensive loss							\$ (1,196)
Purchase of treasury stock	(8,572)		(39,756)				(39,756)
Issuance of restricted stock, shares for option exercises and related compensation	27			(794)			(794)
BALANCES, March 31, 2010, unaudited	42,926	\$ 624	\$ (81,325)	\$ 699,944	\$ (333,207)	\$ (6,523)	\$ 279,513

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

**Table of Contents****LaBRANCHE & CO INC. and SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(000 s omitted)

(unaudited)

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Loss from continuing operations	\$ (2,270)	\$ (33,104)
Income from discontinued operations, net of tax	3,654	3,357
Net income (loss)	1,384	(29,747)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	503	955
Amortization of debt issuance costs and bond discount	94	182
Early extinguishment of debt	7,192	
Share-based compensation expense	(760)	(3,851)
Deferred tax benefit	7,798	(11,660)
Changes in operating assets and liabilities:		
Cash and securities segregated under federal regulations	400	50
Receivable from brokers, dealers and clearing organizations	10,578	14,646
Receivable from customers	20,563	
Financial instruments owned, at fair value	1,004,007	1,567,993
Income tax receivable	(5,059)	(8,298)
Other assets	4,239	15,103
Payable to brokers, dealers and clearing organizations	(210,759)	279,468
Payable to customers	(22,382)	
Financial instruments sold, but not yet purchased, at fair value	(683,791)	(1,766,341)
Accrued compensation	(4,315)	(72,381)
Accounts payable and other accrued expenses	(5,051)	(10,344)
Other liabilities	(12,940)	688
Income taxes payable	(67)	(8,429)
Net cash provided by (used in) operating activities of continuing operations	111,634	(31,966)
Net cash provided by (used in) operating activities of discontinued operations	31,999	(1,139)
Net cash provided by (used in) operating activities	143,633	(33,105)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for purchases of office equipment and leasehold improvements	(117)	(489)
Payments for purchases of exchange memberships	(125)	
Net cash used in investing activities of continuing operations	(242)	(489)
Net cash used in investing activities of discontinued operations		
Net cash used in investing activities	(242)	(489)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments of short-term debt	(189,323)	
Discount (premium) on early extinguishment of debt	(5,228)	

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

Purchases of treasury stock	(39,756)	(2,711)
Net cash used in financing activities of continuing operations	(234,307)	(2,711)
Net cash used in financing activities of discontinued operations		
Net cash used in financing activities	(234,307)	(2,711)
Effect of exchange rate changes on cash and cash equivalents	(493)	(970)
Decrease in cash and cash equivalents	\$ (91,409)	\$ (37,275)
CASH AND CASH EQUIVALENTS, beginning of period	186,737	304,179
CASH AND CASH EQUIVALENTS, end of period	\$ 95,328	\$ 266,904
<b>SUPPLEMENTAL DISCLOSURE OF CASH PAID DURING THE PERIOD FOR:</b>		
Interest	\$ 10,426	\$ 5,636
Income taxes	\$ 907	\$ 8,177

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

**Table of Contents**

**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 Structured Holdings, Inc., a Delaware corporation (LSHI), LaBranche & Co. LLC, a New York limited liability company, LaBranche Financial Services, LLC, a New York limited liability company (LFS), LABDR Services, Inc., a Delaware corporation (LABDR), and LaBranche & Co. B.V., a Netherlands private limited liability company (BV). The Holding Company is the sole member of LaBranche & Co. LLC (LLC) and LFS, the 100% stockholder of LSHI and LABDR and the sole owner of BV. LSHI is a holding company that is the sole member of LaBranche Structured Products, LLC, a New York limited liability company (LSP), the 100% owner of LaBranche Structured Products Europe Limited, a United Kingdom single member private company (LSPE), and LaBranche Structured Products Hong Kong Limited, a Hong Kong single member private company (LSPH), and the sole stockholder of LaBranche Structured Products Direct, Inc., a New York corporation (LSPD) and collectively with the Holding Company, LaBranche & Co. LLC, LFS, LSHI, LABDR, BV, LSP, LSPE, LSPD and LSPH, the Company. All material inter-company transactions have been eliminated in consolidation.

LSP is a registered broker-dealer and Financial Industry Regulatory Authority (FINRA) member firm that operates as a market-maker in options, Exchange Traded Funds (ETFs) and futures on several exchanges. LFS is a registered broker-dealer and a member of the New York Stock Exchange (NYSE) and other exchanges and primarily provides securities execution and brokerage services to institutional investors and professional traders, and is a market maker in over-the-counter, bulletin board and pink sheet securities. LaBranche & Co. LLC is a registered broker-dealer that, until January 22, 2010, operated primarily as a Designated Market Maker (DMM) in equity securities and rights listed on the NYSE. On January 22, 2010, the Company sold its DMM business to Barclays Capital, Inc., a division of Barclays Bank Plc (Barclays). LSPE operates as a market-maker for ETFs traded on the London Stock Exchange and the Euroex and Euronext exchanges, and is registered as a broker-dealer with the United Kingdom's Financial Services Authority. LSPH is registered as a market-maker for ETFs in Hong Kong and is registered as a broker-dealer with Hong Kong's Securities and Futures Commission. LSPD is a registered broker-dealer and FINRA member firm that is primarily an institutional execution firm in equities and structured products. LABDR is an investment company with a minority ownership in a New Jersey aviation partnership. BV represented LaBranche & Co. LLC in European markets and provided client services to LaBranche & Co. LLC's European listed companies until June 30, 2007, when it ceased operations.

On April 16, 2010, LSP and LFS submitted an application to FINRA to merge into one combined entity. In the Company's opinion, the combined entity of LSP and LFS will enable the Company to more efficiently use its capital by aggregating their capital resources into one firm. As of March 31, 2010, the date of their most recent FOCUS reports, LFS had net capital of \$7.5 million and excess net capital of \$6.5 million, and LSP had net capital of \$46.8 million and excess net capital of \$46.2 million. The overall business to be conducted by the combined

## **Table of Contents**

entity is not expected to be materially different than their operations as separate entities and as approved in the FINRA memberships to which each of LSP and LFS currently is a party. The Company will complete the merger as soon as reasonably practicable.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Basis of Presentation Sale of the DMM Business of LaBranche & Co. LLC***

On January 22, 2010, LaBranche & Co. LLC completed the sale of its DMM pursuant to an agreement dated January 13, 2010 and as amended January 22, 2010 by and among LaBranche & Co. LLC and Barclays.

In accordance with Financial Accounting Standards Board ( FASB ) Accounting Standards Codification ( ASC ) 205-20, Discontinued Operations , the assets and liabilities of the DMM business of LaBranche & Co. LLC have been reclassified as held for sale in the consolidated statements of financial condition and its results have been reclassified as discontinued operations in the consolidated statements of operations and the consolidated statements of cash flows.

### ***Cash and Cash Equivalents***

Cash and cash equivalents include all demand deposits held in banks, highly liquid investments with original maturities of 90 days or less and currency positions that are being held in the prime brokerage account at the Company s clearing broker for its market-making operations. Certain portions of these balances are used to meet regulatory requirements (see Note 5).

### ***Use of Estimates***

The use of generally accepted accounting principles requires management to make certain estimates and assumptions. In addition to the estimates we make in connection with fair value measurements, the use of estimates and assumptions is also important in determining provisions for potential losses that may arise from litigation and regulatory proceedings and tax audits. Actual results could differ from these estimates.

A substantial portion of the Company s compensation and benefits represents contractual incentive compensation and discretionary bonuses, which are determined at year end. The Company believes the most appropriate way to allocate estimated annual discretionary bonuses among interim periods is in proportion to the net revenues earned in such periods. In addition to the level of net revenues, overall compensation expense in any given year is also influenced by, among other factors, prevailing labor markets, business mix and the structure of the Company s share-based compensation programs.

### ***Foreign Currency Translation***

Assets and liabilities denominated in non-U.S. currencies are translated at rates of exchange prevailing on the date of the condensed consolidated statements of financial condition, and revenues and expenses are translated at average rates of exchange for the respective period. Gains or losses on translation of the financial statements of a non-U.S. operation, when the functional currency is other than the U.S. dollar, are included, net of taxes,

## **Table of Contents**

in the condensed consolidated statements of changes in stockholders' equity and comprehensive income (loss). Foreign currency gains or losses on the revaluation of transactions in nonfunctional currencies are included in the condensed consolidated statements of operations.

### **New Accounting Developments**

#### *Fair Value Measurements*

On January 21, 2010, the FASB issued an ASU, Fair Value Measurements and Disclosures (ASC 820): Improving Disclosures about Fair Value Measurements, which provides guidance on how investment assets and liabilities are to be valued and disclosed. Specifically, the amendment requires reporting entities to disclose i) the input and valuation techniques used to measure fair value for both recurring and nonrecurring fair value measurements, for Level 2 or Level 3 positions, ii) transfers between all levels (including Level 1 and Level 2) will be required to be disclosed on a gross basis as well as the reason for the transfers and iii) purchases, sales, issuances and settlements must be shown on a gross basis in the Level 3 rollforward rather than as one net number. The effective date of the ASU is for interim and annual periods beginning after December 15, 2009, however, the requirement to provide the Level 3 activity for purchases, sales, issuances and settlements on a gross basis will be effective for interim and annual periods beginning after December 15, 2010. At this time the Company is evaluating the implications of the amendment to ASC 820 and the impact to the financial statements.

ASC 820 will allow investors to use the net asset value of investments in investment companies that do not have a readily determinable fair value if the investees have the attributes of investment companies and the net asset values are calculated consistent with the AICPA Audit and Accounting Guide, Investment Companies, which generally requires investments to be measured at fair value. This proposal did not have any effect on the Company's financial position. This accounting principle was effective for the Company beginning in the first quarter of 2010. Adoption did not have a material effect on the Company's financial condition, results of operations or cash flows.

#### *Transfers of Financial Assets*

ASC 860, Transfers and Servicing, removes the concept of a qualifying special-purpose entity (QSPE) and removes the exception from applying to variable interest entities that are QSPEs. This statement also clarifies the requirements for isolation and limitations on portions of financial assets that are eligible for sale accounting. This statement is effective for fiscal years beginning after November 15, 2009, and is effective for the Company's fiscal year beginning January 1, 2010. The Company adopted this pronouncement during the quarter ended March 31, 2010, and the adoption had no impact on the Company's financial position or results of operations.

#### *Consolidation of Variable Interest Entities*

ASC 810-10-25-38, Consolidation, amends the consolidation guidance for variable-interest entities (VIE) and requires an enterprise to qualitatively assess the determination of the primary beneficiary of a VIE based on whether the entity has the power to direct matters

## **Table of Contents**

that most significantly impact the activities of the VIE, and had the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. ASC 810 is effective for the Company's fiscal year beginning January 1, 2010. The Company adopted this pronouncement during the quarter ended March 31, 2010, and the adoption had no impact on the Company's financial position or results of operations.

### **3. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL INFORMATION**

The unaudited interim condensed consolidated financial information as of March 31, 2010 and for the three months ended March 31, 2010 and 2009 is presented in the accompanying condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles 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 U.S. generally accepted accounting principles 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. The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions. The unaudited interim condensed consolidated financial information as of March 31, 2010 should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2009 included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission (SEC) on March 16, 2010 (the 2009 10-K). Results for the three months ended March 31, 2010 interim period are not necessarily indicative of results to be obtained for the full fiscal year.

### **4. INCOME TAXES**

The Company accounts for income taxes in accordance with ASC 740, Accounting for Income Taxes and ASC 740, Accounting for Uncertainty in Income Taxes - an interpretation of ASC 740. ASC 740 requires the recognition of tax benefits or expenses based on the estimated future tax effects of temporary differences between the financial statement and tax bases of its assets and liabilities. Deferred tax assets and liabilities primarily relate to tax basis differences on unrealized gains on corporate equities, stock-based compensation and net operating loss carry-forwards. These temporary differences result in taxable or deductible amounts in future years and are measured using the tax rates and laws that are expected to be in effect when such differences reverse.

The Company reduced its tax contingency reserve by \$12.3 million in the first quarter due to the sale of the DMM business and the conclusion of a tax audit cycle. The Company also established a tax valuation allowance of \$3.6 million for state and local net operating losses which is reflected in the net deferred tax asset balance. As a result of these adjustments, included in current and deferred income taxes from continuing operations is a \$900,000 charge for income taxes which is comprised of the netting of a deferred tax valuation charge partially offset by a reduction to contingent liabilities due to the conclusion of an examination cycle.

**Table of Contents**

The discontinued operations current and deferred taxes included an additional tax benefit of \$3.8 million related to adjustments mainly for assets sold with the DMM business.

The components of the (benefit) for income taxes reflected on the condensed consolidated statements of operations are set forth below:

(000 s omitted)	For the Three Months Ended	
	2010 (unaudited)	2009 (unaudited)
<b>Current income taxes:</b>		
Federal	\$ (6,827)	\$ (10,103)
Foreign	652	1,074
State and local	952	(2,298)
<b>Total current</b>	<b>(5,223)</b>	<b>(11,327)</b>
<b>Deferred income taxes:</b>		
Federal	2,629	(6,807)
State and local	(2,974)	(1,732)
<b>Total deferred</b>	<b>(345)</b>	<b>(8,539)</b>
<b>Total (benefit) for income taxes</b>	<b>\$ (5,568)</b>	<b>\$ (19,866)</b>
<b>Current income taxes: Continuing Operations</b>		
Federal	\$ (1,886)	\$ (10,474)
Foreign	652	1,074
State and local	181	(2,393)
<b>Total current</b>	<b>(1,053)</b>	<b>(11,793)</b>
<b>Deferred income taxes:</b>		
Federal	2,507	(8,239)
State and local	(3,003)	(2,071)
<b>Total deferred</b>	<b>(496)</b>	<b>(10,310)</b>
<b>Total (benefit) for income taxes</b>	<b>\$ (1,549)</b>	<b>\$ (22,103)</b>
<b>Current income taxes: Discontinued Operations</b>		
Federal	\$ (4,941)	\$ 371
State and local	771	95
<b>Total current</b>	<b>(4,170)</b>	<b>466</b>
<b>Deferred income taxes:</b>		
Federal	122	1,432
State and local	29	339
<b>Total deferred</b>	<b>151</b>	<b>1,771</b>
<b>Total (benefit) provision for income taxes</b>	<b>\$ (4,019)</b>	<b>\$ 2,237</b>

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

The foreign taxes represent taxes payable to the United Kingdom for LSPE, which is the single member private equity company in the UK that has been considered a controlled foreign corporation since January 1, 2008.

The Company filed a refund claim to carry back tax losses from 2009 to 2008 and prior years in the amount of \$9.7 million of which \$9.0 million was received in April 2010.

-11-

**Table of Contents****5. CAPITAL AND NET LIQUID ASSET REQUIREMENTS**

As a registered broker-dealer and FINRA member firm, LSP is subject to SEC Rule 15c3-1, as adopted and administered by the SEC and FINRA. LSP is required to maintain minimum net capital, as defined, equivalent to the greater of \$100,000 or  $\frac{1}{15}$  of aggregate indebtedness, as defined. As of March 31, 2010 and December 31, 2009, LSP's net capital, as defined, was \$46.8 million and \$85.7 million, respectively, which exceeded minimum requirements by \$46.2 million and \$82.8 million, respectively. LSP's aggregate indebtedness to net capital ratio on those dates was 0.23 to 1 and 0.51 to 1, respectively.

As a registered broker-dealer and member firm of the NYSE and FINRA, LFS is subject to SEC Rule 15c3-1, as adopted and administered by the SEC and the NYSE. Under the alternative method permitted by this rule, the minimum required net capital is equal to the greater of \$1.0 million or 2.0% of aggregate debit items, as defined. As of March 31, 2010 and December 31, 2009, LFS' net capital, as defined, was \$7.5 million and \$26.1 million, respectively, which exceeded minimum requirements by \$6.5 million and \$25.1 million, respectively. In January 2010, LFS distributed \$15 million to LaBranche & Co Inc. in the form of a dividend.

LSP and LFS submitted an application to FINRA to merge into one combined entity as disclosed in Note 1.

LaBranche & Co. LLC, as a DMM, up until January 22, 2010, and member of the NYSE, is subject to the provisions of SEC Rule 15c3-1, as adopted and administered by the SEC and NYSE. LaBranche & Co. LLC was required to maintain minimum net capital, as defined, equivalent to the greater of \$100,000 or  $\frac{1}{15}$  of aggregate indebtedness, as defined.

As of March 31, 2010 and December 31, 2009, LaBranche & Co. LLC's net capital, as defined under SEC Rule 15c3-1, was \$10.2 million and \$91.9 million, respectively, which exceeded the minimum requirements by \$10.1 million and \$90.9 million, respectively. LaBranche & Co. LLC's aggregate indebtedness to net capital ratio on those dates was 0.03 to 1 and 0.02 to 1.

The NYSE generally requires its DMM firms to maintain a minimum dollar regulatory capital amount in order to establish that they can meet, with their own Net Liquid Assets ( NLA ), their position requirement. As of December 31, 2009, when LaBranche & Co. LLC was still a DMM firm, its NYSE minimum required dollar amount of NLA, as defined, was \$70.2 million and its actual NLA, as defined, was \$85.3 million. As of December 31, 2009, LaBranche & Co. LLC's actual NLA exceeded the NLA requirement, thus satisfying its NLA requirement as of that date. Upon completion of the sale of the DMM business on January 22, 2010, LaBranche & Co LLC is no longer subject to the NLA requirement.

As a registered broker-dealer and NYSE/Amex member firm, LSPD is subject to SEC Rule 15c3-1, as adopted and administered by the SEC. LSPD is required to maintain minimum net capital, as defined, equivalent to the greater of \$5,000 or  $\frac{1}{15}$  of aggregate indebtedness, as defined. As of March 31, 2010 and December 31, 2009, LSPD's net capital, as defined, was \$0.3 million and \$2.4 million, respectively, which exceeded its minimum requirements by \$0.3 million and \$2.4 million, respectively. In January 2010, LSPD distributed \$2.0 million to its parent in the form of a dividend.

**Table of Contents**

As a registered broker dealer in the United Kingdom, LSPE is subject to the capital adequacy and capital resources as managed and monitored in accordance with the regulatory capital requirements of the Financial Services Authority ( FSA ) in the United Kingdom. In calculating regulatory capital, the Company's capital consists wholly of Tier 1 capital. Tier 1 capital is the core measure of a Company's financial strength from a regulator's point of view. It consists of the type of financial capital considered the most reliable and liquid, primarily Shareholder's Equity. As of March 31, 2010, Tier 1 capital, as defined, was \$46.7 million which exceeded the total variable capital requirement by \$5.2 million. At December 31, 2009, Tier 1 capital, as defined, was \$49.6 million which exceeded the total variable capital requirement by \$3.2 million. In both April and July 2009, LSPE received approximately \$5 million of share capital from its parent.

As a registered corporation under the Hong Kong Securities and Futures Ordinance, LSPH is subject to the capital requirements of the Hong Kong Securities and Futures (Financial Resources) Rules ( FRR ). The minimum paid-up share capital requirement is HKD 5,000,000 (\$0.6 million at March 31, 2010 and December 31, 2009) and the minimum liquid capital requirement is the higher of HKD 3,000,000 (\$0.4 million at March 31, 2010 and December 31, 2009) and the variable required liquid capital as defined in the FRR. The Company monitors its compliance with the requirements of the FRR on a daily basis. As of March 31, 2010, LSPH's liquid capital, as defined was \$0.6 million, which exceeded its minimum requirements by \$0.3 million. As of December 31, 2009, LSPH's liquid capital, as defined was \$0.4 million, which exceeded its minimum requirements by \$0.1 million. In January and August 2009, LSPH received \$1 million and \$0.6 million, respectively, of share capital from its parent to increase the company's regulatory capital above the minimum requirement.

**6. INCOME (LOSS) PER SHARE**

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Numerator for basic and diluted income (loss) per common share	\$ 1,384	\$ (29,747)
Denominator for basic income (loss) per common share	48,540	58,390
Dilutive shares:		
Restricted stock units	252	
Denominator for diluted income (loss) per common share	48,792	58,390
Basic net income (loss) income per common share:		
Continuing operations	\$ (0.05)	\$ (0.57)
Discontinued operations	\$ 0.08	\$ 0.06
Total operations	\$ 0.03	\$ (0.51)
Diluted net income (loss) income per common share:		
Continuing operations	\$ (0.05)	\$ (0.57)
Discontinued operations	\$ 0.08	\$ 0.06
Total operations	\$ 0.03	\$ (0.51)

## **Table of Contents**

Options to purchase an aggregate of 230,000 and 945,000 shares of common stock were outstanding at March 31, 2010 and 2009, respectively, but were not included in the computation of diluted income (loss) per share because the options' exercise prices were greater than the market price of the Company's common stock. For the first quarter of 2009, 118,507 potentially dilutive shares represented by restricted stock units were not included in the computation of diluted net loss per share because to do so would be anti-dilutive as the Company had a net loss in the quarter.

On January 29, 2010, the Company commenced a tender offer to purchase up to 15,000,000 shares of its outstanding common stock, at a price of \$4.60 per share. On March 1, 2010, the tender offer expired and the Company repurchased an aggregate of 8,539,667 shares of common stock at a price of \$4.60 per share plus transaction costs, for a total tender price of \$39.6 million. In addition to the tender offer, the Company repurchased an aggregate of 32,200 shares of its outstanding common stock in the first quarter of 2010, for a total price of \$0.2 million or an average price of \$4.84 per share. Following the tender offer and these other repurchases in the first quarter of 2010, the Company had 42,926,456 million shares of common stock outstanding as of March 31, 2010.

### **7. EMPLOYEE INCENTIVE PLANS**

ASC 505 and 718, Share Based Payments requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award.

The following disclosures are also being provided pursuant to the requirements of ASC 505 and 718:

The Company has sponsored one share-based employee incentive plan—the LaBranche & Co Inc. Equity Incentive Plan (the Old Plan), which provided for grants of incentive stock options, nonqualified stock options, restricted shares of common stock, restricted stock units (RSUs), unrestricted shares and stock appreciation rights.

The Old Plan terminated in August 2009. The rights of any person who received an option grant or grant of restricted stock units under the Old Plan that are currently outstanding were not affected by reason of the termination of the Old Plan and will continue in accordance with the terms of the award agreement (as then in effect or thereafter amended) regarding those options or restricted stock units. On January 14, 2010 the Company's Board of Directors approved a new equity incentive plan, the LaBranche & Co Inc. 2010 Equity Incentive Plan (the 2010 Plan). The 2010 Plan has been proposed to the stockholders of the Company for approval in the Company's 2010 annual meeting of stockholders.

The fair value of the restricted stock awards granted under the Old Plan was determined by using the closing price of the Company's common stock on the respective dates on which the awards are granted. Grant date was determined to be the date the compensation committee of the Board of Directors approved the grant, except in circumstances where the approval by the compensation committee was contingent upon a future event, such as the negotiation and execution of an employment agreement, in which case the grant date would be the date the condition is satisfied. Amortization of compensation costs for grants awarded under the Old Plan recognized during the three months ended March 31, 2010 was approximately \$0.3 million compared to approximately \$1.0 million for the same period in 2009. During the first

**Table of Contents**

quarter of 2010, the Company reevaluated the forfeiture rate used to calculate share based payments due to the departure of personnel who had been granted restricted stock units that had not vested prior to their departure. The change in the forfeiture rate resulted in a benefit net of taxes of \$1.1 million for the three months ended March 31, 2010. The tax benefit realized in the Condensed Consolidated Statements of Operations for the Plan was approximately \$0.1 million for three ended March 31, 2010, excluding the amount recorded for the change in the forfeiture rate, compared to \$0.4 million for the same period in 2009.

Unrecognized compensation cost related to the Company's non-vested stock options and restricted stock unit awards totaled \$1.0 million, at fair value, at March 31, 2010 and \$1.4 million at December 31, 2009. The cost of these non-vested awards is generally expected to be recognized over a period of approximately three years.

ASC 505 and 718 generally requires share-based awards granted to retirement-eligible employees to be expensed immediately. The Company did not grant any share-based awards prior to our adoption of ASC 505 and 718 to retirement-eligible employees or those with non-substantive non-compete agreements. In addition, no grants of any stock options or RSUs were changed or amended after the Company's adoption of ASC 505 and 718 to reflect retirement eligibility or non-compete agreements.

The total number of shares of the Company's common stock that could have been issued under the Old Plan through the Old Plan's termination date could not exceed 7,687,500 shares. As of August 24, 2009 (the date the Old Plan terminated) 4,253,595 shares remained available for grant under the Old Plan. Due to the termination of the Old Plan on August 24, 2009, there were no shares available for grant under the Old Plan as of March 31, 2010.

*Restricted Stock Units*

All of the RSUs outstanding as of March 31, 2010 and 2009 require future service as a condition to the delivery of the underlying shares of common stock on their respective vesting dates. The RSUs were granted under the Company's Old Plan and vest over varying numbers of years. An employee who received RSUs under the Old Plan does not have any ownership rights with respect to the underlying shares until the shares vest pursuant to the terms of the RSU agreement. In all cases, delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain requirements outlined in the agreements. Generally, the RSUs become fully vested if the grantee's employment with the Company terminates by reason of death or disability prior to vesting. The grantee forfeits the unvested portion of the RSUs upon the termination of employment for any reason other than death or disability. When delivering the underlying shares of stock to employees, the Company generally issues new shares of common stock, as opposed to reissuing treasury shares.

The following table provides information about grants of RSUs:

	Number of Shares	Weighted Average Price per Share
RSUs Outstanding as of December 31, 2009	642,345	\$ 4.30
Granted		
Vested	(27,497)	8.99
Forfeited	(124,663)	4.93
RSUs Outstanding as of March 31, 2010	490,185	\$ 3.88

**Table of Contents**

Under ASC 505 and 718, the Company is required to estimate forfeitures of RSUs for purposes of determining the Company's share-based award expense. Applying ASC 505 and 718 as of March 31, 2010, for purposes of determining share-based award expense, RSUs with respect to 311,802 shares of the Company's common stock were expected to vest based on shares issued of 490,185, with a weighted average price of \$3.88 per share.

*Stock Options*

As of March 31, 2010, all stock options granted to employees were fully vested and exercisable. In general, all stock options expire on the tenth anniversary of grant, although they may be subject to earlier termination or cancellation in certain circumstances under the Old Plan and the stock option agreement, such as death, disability or other termination of employment prior to the tenth anniversary of grant. The dilutive effect, if any, of the Company's outstanding stock options is included in Weighted Average Common Shares Outstanding Diluted on the Condensed Consolidated Statements of Operations.

The following table provides information about options to purchase the Company's common stock:

	Number of Shares	Weighted Average Exercise Price per Share
Options Outstanding as of December 31, 2009	325,000	\$ 35.23
Options Granted		
Options Exercised		
Options Forfeited	(95,000)	35.79
Options Outstanding as of March 31, 2010	230,000	\$ 35.00
Options Exercisable as of:		
March 31, 2010	230,000	\$ 35.00

The following table summarizes information about stock options outstanding and exercisable as of March 31, 2010:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share	Number of Shares	Weighted Average Exercise Price per Share
\$31.00 \$40.99	230,000	1.80	\$ 35.00	230,000	\$ 35.00

No options were exercised during the three months ended March 31, 2010 and 2009. The options are due to expire January 17, 2012.

**8. BUSINESS SEGMENTS**

Segment information is presented in accordance with ASC 280, Disclosures About Segments of an Enterprise and Related Information. The Company's business segments are based upon the nature of the financial services provided, their revenue source and the Company's management organization.

**Table of Contents**

The Company's Market-Making segment operates as a market-maker in equities, options, ETFs and futures on several exchanges. The Market-Making segment currently includes the operations of the subsidiaries of LSH (LSP, LSPE, LSPH and LSPD). Due to the sale of the DMM operations of LaBranche & Co LLC on January 22, 2010, the Market Making segment excludes the operations of the DMM, and includes only the net earnings from continuing operations. In addition, for comparative purposes, the Market Making segment is reported with LaBranche & Co LLC's DMM operations in a supplemental schedule in the Results of Operations section of the MD&A, entitled "Market-Making Segment Operating Results including Discontinued Operations."

The Company's Institutional Brokerage segment provides mainly securities execution and brokerage services to institutional investors and professional traders, and currently includes the operations of LFS and the leveraged loan operations of the Holding Company. LFS also is a market-maker in over-the-counter, bulletin board and pink sheet securities serving as a liquidity provider in those securities. Effective March 2009, the leveraged loan sales and fixed income trading group commenced operations.

The Company's Other segment is comprised primarily of the interest on the Holding Company's indebtedness, unallocated corporate administrative expenses, including professional and legal costs, unallocated revenues (primarily interest income) and elimination entries. This segment also includes the investment entity, LABDR, and the inactive company, BV.

Revenues and expenses directly associated with each segment are included in determining its operating results. Other expenses, including corporate overhead, which are not directly attributable to a particular segment, generally are allocated to each segment based on its resource usage levels or other appropriate measures. Interest with respect to the Company's outstanding senior notes, certain administrative expenses, corporate overhead expenses and other sources of revenues are not specifically allocated by management when reviewing the Company's segments' performance, and appear in the Other segment. Selected financial information for each segment is set forth below (000's omitted):

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Market-Making Segment:</b>		
Total revenues, net of interest expense	\$ 23,662	\$ (36,852)
Operating expenses	13,243	7,067
Depreciation and amortization	42	50
Income (loss) before taxes	\$ 10,377	\$ (43,969)
Segment assets	\$ 2,522,884	\$ 1,932,314
<b>Institutional Brokerage Segment:</b>		
Total revenues, net of interest expense	\$ 5,395	\$ 5,543
Operating expenses	8,710	7,632
Depreciation and amortization	4	2
Loss before taxes	\$ (3,319)	\$ (2,091)
Segment assets	\$ 49,689	\$ 42,688
<b>Other:</b>		
Total revenues, net of interest expense	\$ (2,534)	\$ (5,912)
Operating expenses	709	2,344
Early extinguishment of debt	7,192	
Depreciation and amortization	442	891
Loss before taxes	\$ (10,877)	\$ (9,147)
Segment assets	\$ 23,149	\$ 135,518
<b>Total:</b>		
Total revenues, net of interest expense	\$ 26,523	\$ (37,221)

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

Operating expenses	22,662	17,043
Early extinguishment of debt	7,192	
Depreciation and amortization	488	943
Loss before taxes	\$ (3,819)	\$ (55,207)
Assets	\$ 2,595,722	\$ 2,110,520

-17-

**Table of Contents****9. NYSE EURONEXT, INC. RESTRICTED STOCK**

As of March 31, 2010, the Company, through its subsidiaries, holds approximately 1.1 million NYX shares.

The Company has accounted for its investment in NYX as corporate equities at fair value pursuant to ASC 820 at March 31, 2010. At March 31, 2010, the NYSE closing market price for the NYX shares was \$29.61 per share as compared to the closing price of NYX shares at December 31, 2009 which was \$25.30 per share. This resulted in the Company's recognition of pre-tax income of \$3.9 million for the three months ended March 31, 2010, which is included in net gain (loss) on trading in the Company's condensed consolidated statements of operations.

On March 28, 2010, the quarterly dividend of \$0.30 per share was paid to shareholders of record of NYSE Euronext as of the close of business on March 11, 2010. The aggregate dividend payment with respect to the Company's NYX shares was \$0.3 million and \$0.9 million for the quarters ended March 31, 2010 and 2009, respectively.

**10. FINANCIAL INSTRUMENTS**

Financial instruments owned and financial instruments sold, but not yet purchased, at fair value, were as follows (000's omitted):

	March 31, 2010 (unaudited)	December 31, 2009 (unaudited)
<b>FINANCIAL INSTRUMENTS OWNED:</b>		
Corporate equities	\$ 1,290,652	\$ 1,569,072
Options	373,030	576,453
Exchange-traded funds	657,247	1,217,639
Government and corporate bonds	33,837	11,905
Leveraged loans	1,379	1,443
Investment in limited partnerships	2,225	2,226
	\$ 2,358,370	\$ 3,378,738
<b>FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED:</b>		
Corporate equities	\$ 611,706	\$ 1,227,655
Options	511,207	712,926
Exchange-traded funds	621,991	491,208
Government and corporate bonds	132,998	136,413
	\$ 1,877,902	\$ 2,568,202

**Table of Contents**

**11. FAIR VALUE MEASUREMENTS**

Effective January 1, 2008, the Company adopted ASC 820, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. Our adoption of ASC 820 did not have a material impact on our financial condition or results of operations. Pursuant to ASC 820, the fair value of a financial instrument is defined as the amount that would be received to sell an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants at the measurement date.

We use fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Our financial instruments owned and financial instruments sold, but not yet purchased are recorded at fair value on a recurring basis.

ASC 820 outlines a fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (which are considered level 1 measurements) and the lowest priority to unobservable inputs (which are considered level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices for similar instruments in active markets, quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions would reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Such valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

**Table of Contents**

The following table represents the Company's fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of the dates presented (000's omitted):

**March 31, 2010**  
(unaudited)

	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Financial instruments owned, at fair value:				
Corporate equities	\$ 1,290,652	\$	\$	\$ 1,290,652
Government and corporate bonds	33,837			33,837
Options	373,030			373,030
Exchange-traded funds	657,247			657,247
Leveraged loans	863		516	1,379
Investment partnerships		2,225		2,225
<b>Total financial instruments owned</b>	<b>2,355,629</b>	<b>2,225</b>	<b>516</b>	<b>2,358,370</b>
Government obligations	1,000			1,000
Cash and securities segregated under federal regulations	1,327			1,327
<b>Total assets, at fair value</b>	<b>\$ 2,357,956</b>	<b>\$ 2,225</b>	<b>\$ 516</b>	<b>\$ 2,360,697</b>
<b>LIABILITIES:</b>				
Government and corporate bonds	\$ 131,842	\$ 1,156	\$	\$ 132,998
Corporate equities	611,706			611,706
Options	511,207			511,207
Exchange-traded funds	621,991			621,991
<b>Total financial instruments sold, not yet purchased, at fair value</b>	<b>\$ 1,876,746</b>	<b>\$ 1,156</b>	<b>\$</b>	<b>\$ 1,877,902</b>

**December 31, 2009**  
(unaudited)

	Level 1	Level 2	Level 3	Total
<b>ASSETS:</b>				
Financial instruments owned, at fair value:				
Corporate equities	\$ 1,568,968	\$ 104	\$	\$ 1,569,072
Government and corporate bonds	11,404	501		11,905
Options	576,453			576,453
Exchange-traded funds	1,217,639			1,217,639
Leveraged loans		1,443		1,443
Investment partnerships		2,226		2,226
<b>Total financial instruments owned</b>	<b>3,374,464</b>	<b>4,274</b>		<b>3,378,738</b>
Government obligations	21,006			21,006
Cash and securities segregated under federal regulations	1,727			1,727
<b>Total assets, at fair value</b>	<b>\$ 3,397,197</b>	<b>\$ 4,274</b>	<b>\$</b>	<b>\$ 3,401,471</b>
<b>LIABILITIES:</b>				

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

Government and corporate bonds	\$ 135,691	\$ 722	\$	\$ 136,413
Corporate equities	1,227,655			1,227,655
Options	712,926			712,926
Exchange-traded funds	491,208			491,208
Total financial instruments sold, not yet purchased, at fair value	\$ 2,567,480	\$ 722	\$	\$ 2,568,202

The fair value of our financial instruments was determined from a variety of sources as follows:

For corporate equities and ETFs, fair value was determined by the closing price of the primary exchanges and was included in Level 1 for those that are actively traded. Those classified in Level 2 represent those not actively traded with quoted market prices.

For government and corporate bonds, the primary source for pricing fixed income instruments is derived from our clearing broker who determines prices through various third party pricing services. The Company confirms these values using independent observable sources. When pricing cannot be confirmed the positions will be valued using broker quotes and included in Level 2.

For options, the fair values are based on the NBBO mid-point average.

For investment partnerships holding securities actively traded, fair value was based on the net asset value and included in Level 2.

**Table of Contents**

The net increase of \$.5 million in leveraged loans was the result of a transfer of a level 2 loan to a level 3 loan due to nil trading in the security. The valuation for our level 3 assets is based on the estimated payout determined by the bankruptcy court as of March 31, 2010.

The following table represents the Company's level 3 Assets at March 31, 2010:

***Fair Value Measurements Using Significant Unobservable Inputs***

	<b>Leveraged Loans</b>
Beginning Balance	
Transfers into Level 3*	150
Total Gains or losses (realized/unrealized), included in earnings	366
Ending Balance	516

\* - Transferred from level 2 to level 3 because of lack of observable market data due to little market activity for this security.

**Derivatives Trading Activities**

The following table (000's omitted) sets forth by major product type the firm's gains/(losses) related to derivatives trading activities for the three months ended March 31, 2010 in accordance with ASC 815. These gains/(losses) are not representative of the firm's individual business unit results because many of the firm's trading strategies utilize financial instruments across various product types. Accordingly, gains or losses in one product type frequently offset gains or losses in other product types. The gains/(losses) set forth below are included in Net gain (loss) on trading in the condensed consolidated statements of operations.

<b>Type of Instrument</b>	<b>Three Months Ended March 31, 2010</b>
Options	\$ 48,203
Forwards	(5,556)
Futures	(23,769)
Total	\$ 18,878

The Company enters into various transactions involving derivatives and off balance sheet financial instruments. These financial instruments include forwards and foreign exchange contracts, exchange traded and over-the-counter option. Derivative transactions are entered into for trading purposes.

## **Table of Contents**

Derivative financial instruments are carried at fair value. Fair value for exchange-traded derivatives is based on quoted market prices. Fair value of forwards and options contracts are recorded in either financial instruments owned or financial instruments sold, not yet purchased. Open equity in futures transactions are recorded as receivables from and payables to broker-dealers or clearing brokers as applicable. Our derivatives trading activities exposes us to certain risks, such as price and interest rate fluctuations, volatility risk, credit risk, foreign currency movements and changes in the liquidity of markets.

Our traders purchase and sell futures, options, the stocks underlying certain ETFs and options positions, U.S. Government securities and foreign currencies in an attempt to hedge market and foreign currency risk. Certain members of management, including our chief risk officer, who oversee our options, futures and ETFs market making activities are responsible for monitoring these risks. Furthermore, our aggregate risk in connection with our options, futures and ETFs trading is under constant evaluation by certain members of management and our traders, and all significant trading strategies and positions are closely monitored.

## **12. CONTINGENCIES**

There have been no material new developments in the Company's legal proceedings since the March 16, 2010 filing of its 2009 10-K, except as follows:

In re NYSE Specialists Securities Litigation. On or about March 31, 2010, CalPERS and the NYSE submitted a stipulation of settlement to the Court, not involving any money payment by the NYSE to CalPERS. On April 2, the Court approved this settlement, and on April 6, 2010 the Court entered a final judgment dismissing CalPERS's claims against the NYSE with prejudice.

The Company believes that the claims asserted against it by the plaintiffs in the pending proceedings described in the 2009 10-K and above are without merit, and the Company denies all allegations of wrongdoing. There can be no assurance, however, as to the outcome or timing of the resolution of these proceedings. Therefore, the Company is unable to estimate the amount or potential range of any loss that may arise out of these proceedings. The range of possible resolutions could include determinations and judgments against the Company or settlements that could require substantial payments by the Company that could have a material adverse effect on the Company's financial condition, results of operations and cash flows.

In addition to the proceedings described in the 2009 10-K and above, the Company and its operating subsidiaries have been the target, from time to time, of various claims, lawsuits and regulatory inquiries in the ordinary course of their respective businesses. While the ultimate outcome of those claims and lawsuits which are currently pending cannot be predicted with certainty, the Company believes, based on its understanding of the facts of these proceedings, that their ultimate resolution will not, in the aggregate, have a material adverse effect on the Company's financial condition, results of operations or cash flows.

## **13. DISCONTINUED OPERATIONS**

On January 22, 2010, LaBranche & Co, LLC sold its DMM operations on the NYSE for \$25 million plus the value of the net DMM inventory positions. The assets sold included LaBranche & Co, LLC's stock listing rights, its DMM inventory positions at the date of sale and a portion of their its fixed assets related to computer equipment and software development.

**Table of Contents**

At December 31, 2009, the assets and liabilities related to the sale were included on the consolidated statement of financial condition in held for sale. After the sale, LaBranche & Co. LLC retained all cash and other non-DMM assets, including its NYX shares. As a result of this sale, at December 31, 2009 LaBranche & Co. LLC recognized a non-cash impairment charge related to its intangible assets of \$87.6 million related to the DMM business. As a result of this impairment at December 31, 2009 the Company did not recognize any gain or loss on the disposition of the DMM operations in 2010. The operating results of the DMM business which was formerly included in the Market-Making segment, is summarized as follows:

(000's omitted)	For The Three Months Ended March 31,	
	2010 (unaudited)	2009 (unaudited)
Revenues, net of interest expense	\$ 1,814	\$ 10,270
Total expenses	2,179	4,676
(Loss) income before provision for income taxes	(365)	5,594
(Benefit) provision for income taxes	(4,019)	2,237
(Loss) income from discontinued operations	\$ 3,654	\$ 3,357

Note: 2010 revenues through January 22, 2010 only.

**14. SHORT-TERM DEBT**

As of March 31, 2010, the Company had no remaining debt. On February 15, 2010 the Company redeemed of all its remaining outstanding 11% Senior Notes due 2012, in the aggregate principal amount of \$189.3 million, at the redemption price of 102.75% plus accrued and unpaid interest.

As of December 31, 2009, short-term debt of the Company was comprised of \$189.3 million, at 11%. Debt issuance costs, totaling approximately \$7.2 million for the 2012 Senior Notes, were amortized over the life of the Senior Notes as an adjustment to interest expense.

For the three months ended March 31, 2010 and 2009, interest expense related to the Senior Notes totaled \$2.6 and \$5.7 million, respectively, including debt issuance costs.

**15. SUBSEQUENT EVENTS****Stock Repurchase**

In April and to date in May 2010, the Company repurchased an aggregate of 594,082 million shares of its outstanding common stock at total price of \$2.9 million, or an average price of \$4.81 per share. Management continues to monitor opportunities to repurchase stock. These purchases were in addition to purchases made in the first quarter of 2010 by the Company of an aggregate of 8,571,867 shares of its common stock in connection with the previously-announced authorization by its board of directors.

---

## **Table of Contents**

### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.**

*Unless the context otherwise requires, the Company or we shall mean LaBranche & Co Inc. and its wholly-owned subsidiaries.*

*This Management's Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 (the 2009 10-K ) and our Condensed Consolidated Financial Statements and the Notes thereto contained in this report.*

#### **Executive Overview**

In the first quarter of 2010, we reported after-tax net income of \$1.4 million, or \$0.03 per diluted share, which includes an after-tax charge of \$4.3 million related to the redemption of all our remaining outstanding public indebtedness. These results compare to a net loss of 29.7 million, or \$0.51 per share, in the first quarter of 2009, which included an unrealized loss of \$29.7 million related to the decline in value of our NYX shares. On a pro-forma basis, we reported net income from continuing operations for the first quarter of 2010 of \$2.0 million, or \$0.04 per diluted share, compared to a pro-forma net loss from continuing operations of \$32.9 million, or \$0.56 per share, for the first quarter of 2009. These pro-forma results exclude the expense on early extinguishment of debt in the first quarter of 2010, as shown in the reconciliation to US GAAP measures set forth below.

The first quarter of 2010 was a period of significant change for our company. On January 22, 2010, we completed the sale of LaBranche & Co. LLC's designated market maker ( DMM ) business on the NYSE, which was formerly called the specialist business. In this sale transaction, we received \$25 million in cash plus the value of LaBranche & Co. LLC's net trading inventory, and we retained all cash and other non-DMM assets, including our shares of NYSE Euronext, Inc. stock (the NYX shares ) and \$76 million in regulatory capital that we no longer are required to maintain in connection with LaBranche & Co. LLC's DMM business. With the introduction of the NYSE's Hybrid market and new market structure and regulatory changes over the past several years, the market share of listed securities traded on the NYSE had fallen considerably and significantly challenged our ability to generate revenues in the DMM business. Volumes on the NYSE have not grown proportionately to overall growth in global and off-exchange volumes, and many days now volumes on the NYSE are lower than they were ten years ago. Due to the sale of our specialist/designated market maker business on the NYSE, our future results will not include these operations.

In addition, on February 15, 2010, we fully redeemed and cancelled all of our remaining outstanding public indebtedness pursuant to the optional redemption provisions of the indenture governing our public debt. In the redemption, we paid all of our remaining note holders 102.75% of the principal amount of their notes, plus accrued and unpaid interest thereon up to the redemption date. Therefore, as of February 15, 2010, we have no remaining outstanding public debt, resulting in a reduction of our interest expense by approximately \$21 million per year. Due to the redemption, we were also released from all our obligations and restrictions that were contained in the indenture governing our public debt.

On March 1, 2010, we also completed a tender offer in which we repurchased an aggregate of 8,539,667 shares of common stock at a price of \$4.60 per share, for a total tender

**Table of Contents**

price of \$39.3 million. The repurchase of the shares tendered, combined with the 10,937,769 shares repurchased by us pursuant to Board-authorized purchases over the past 18 months, have resulted in our repurchasing an aggregate of 31.2% of our outstanding shares of common stock. Following completion of the tender offer and the other repurchases, we have approximately 42.9 million shares of common stock left outstanding and approximately \$60.6 million in board-authorized repurchases remaining under our repurchase program as of March 31, 2010.

We entered the transactions described above and achieved these goals in the first quarter of 2010 with a view toward focusing on the businesses that will be best for us and our stockholders in the future. Therefore, following these capital and business transactions, we are a much different company than we were in the past. Our Market Making segment has now shifted its focus solely to providing liquidity in derivative products such as equity, index, ETF and foreign currency options, ETFs and futures, rather than also focusing on the cash-equity securities that were the focus of LaBranche & Co. LLC's designated market maker business. The Market Making segment, without the designated market maker business, was profitable in the first quarter of 2010, generating net income of approximately \$10.4 million.

The services offered by our Institutional Brokerage segment have remained relatively unchanged following our capital and business reorganization, as it continues to provide execution, fixed income and brokerage services to institutional investors. However, changes in the institutional brokerage environment for firms our size caused reductions in the trading volumes of our securities execution business in late 2009 and early 2010. In the first quarter of 2010, these adverse market conditions and a smaller sales trading force contributed to our Institutional Brokerage segment generating a loss of approximately \$3.0 million, of which approximately \$1.4 million was severance. We took initiatives to cut expenses and reduce headcount in the first quarter to rationalize the costs and reduced order flow of this business. Despite these reductions, we believe that we still offer a competitive, high-touch execution platform for our institutional clients and we continue to make markets in over-the-counter and pink sheet securities. We are in the process of diversifying our institutional brokerage business to offer interdealer broker services to our customers in equity and index options. We believe that this additional service will give us the ability to provide more diverse products and services to our institutional customers.

We have a very liquid balance sheet with no remaining intangible assets or long-term debt. We believe that the changes discussed above will not only give us greater financial flexibility to run our remaining businesses, but are designed to preserve or increase our capital and also give us the flexibility to enter new businesses and consider other opportunities as they arise in the financial services industry.

On April 16, 2010, our LaBranche Structured Products, LLC ( LSP ) and LaBranche Financial Services, LLC ( LFS ) subsidiaries submitted an application to FINRA to merge into one combined entity. In our opinion, the combined entity of LSP and LFS will enable us to more efficiently use our capital by aggregating their capital resources into one firm. A merger of these entities will also enable us to combine or eliminate personnel functions that would either be duplicated in the surviving entity or combine functions into more efficient and responsive roles to the needs of the business. In addition, the combined entity will be able to utilize and cross train compliance and other operational personnel to provide better services to the traders and customers of the combined entity. We will complete the merger as soon as reasonably practicable.

**Table of Contents***Regulation G Reconciliation of Non-GAAP Financial Measures*

In evaluating the Company's financial performance, management reviews results from continuing operations excluding non-operating items. Pro-forma earnings per share is a non-GAAP (generally accepted accounting principles) performance measure, but we believe that it is useful to assist investors in gaining an understanding of the trends and operating results for our continuing business. Pro-forma earnings per share should be viewed in addition to, and not in lieu of, our reported results under U.S. GAAP.

Commencing the first quarter of 2010, we are no longer adjusting our GAAP revenues to give pro forma effect to gains/losses in its NYX shares due to the fact that we sold approximately 2.0 million of its 3.1 million previously-owned NYX shares, leaving us with approximately 1.1 million NYX shares. Therefore, the adjustments that reflected the loss in our NYX shares that were made in our earnings release for the first quarter of 2009 have been removed from this Regulation G reconciliation of non-GAAP financial measures. In the earnings release for the first quarter of 2009, we had adjusted reported revenues by \$29.7 million to reflect the loss in fair value of our NYX shares in that period. The \$29.7 million adjustment was removed in this earnings release to enable the reader to compare similar measures in each period.

The following is a reconciliation of U.S. GAAP results from continuing operations to our pro-forma results from continuing operations for the periods presented:

	Three Months Ended March 31,					
	2010			2009		
	Amounts as reported	(1) Adjustments	Pro forma amounts	Amounts as reported	(1) Adjustments	Pro forma amounts
Revenues, net of interest expense, from continuing operations	\$ 26,523	\$	\$ 26,523	\$ (37,221)	\$	\$ (37,221)
Total expenses	30,342	(7,192)	23,150	17,986		17,986
(Loss) income before (benefit) provision for income taxes	(3,819)	7,192	3,373	(55,207)		(55,207)
(Benefit) provision for income taxes	(1,549)	2,877	1,328	(22,103)		(22,103)
(Loss) income from continuing operations	\$ (2,270)	\$ 4,315	\$ 2,045	\$ (33,104)	\$	\$ (33,104)
Basic per share	\$ (0.05)	\$ 0.09	\$ 0.04	\$ (0.57)	\$	\$ (0.57)
Diluted per share	\$ (0.05)	\$ 0.09	\$ 0.04	\$ (0.57)	\$	\$ (0.57)

(1) Expense adjustment reflects the expense associated with early extinguishment of the Company's debt in accounting period.

**New Accounting Developments**

See Note 2 to the condensed consolidated financial statements in Part I, Item 1 of this Quarterly Report on Form 10-Q for information regarding New Accounting Developments.

---

## **Table of Contents**

### **Critical Accounting Estimates**

#### *Financial Instruments*

Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are reported in our condensed consolidated financial statements, at fair value, on a recurring basis. Pursuant to ASC 820, the fair value of a financial instrument is defined as the amount that would be received to sell an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants at the measurement date.

We have adopted Statement of Financial Accounting Standards, or ASC 820 Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. ASC 820 outlines a fair value hierarchy that is used to determine the value to be reported. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (which are considered level 1 measurements) and the lowest priority to unobservable inputs (which are considered level 3 measurements). The three levels of the fair value hierarchy under ASC 820 are as follows:

- Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;
- Level 2 Quoted prices for similar instruments in active markets, quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;
- Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions would reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Such valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

#### *Non-Marketable Securities*

The measurement of non-marketable securities is a critical accounting estimate. Investments in non-marketable securities consist of investments in equity securities of private companies and limited liability company interests of service provider entities and therefore are included in other assets or financial instruments owned in the condensed consolidated statements of financial condition due to the nature of business in which we have an investment. Certain investments in non-marketable securities are initially carried at cost, unless there are third-party transactions evidencing a change in value. For certain other investments in non-marketable securities, we adjust their carrying value by applying the equity method of accounting pursuant to ASC 325. Under the equity method the investor recognizes its share of the earnings and losses of an investee in the periods for which they are reported by the investee in its financial statements. These assets included in other assets represent limited liability companies that are service providers and whose value is affected by nonfinancial components. In addition, if and when available, management considers other relevant factors relating to non-marketable securities in estimating their value, such as the financial performance of the entity, its cash flow forecasts, trends within that entity's industry and any specific rights associated with our investment such as conversion features among others.

Non-marketable investments are tested for potential impairment whenever events or changes in circumstances suggest that such investment's carrying value may be impaired.

---

## **Table of Contents**

### **Use of Estimates**

The use of accounting principles generally accepted in the United States of America requires management to make certain estimates. In addition to the estimates we make in connection with fair value measurements and the accounting for goodwill and identifiable intangible assets, the use of estimates is also important in determining provisions for potential losses that may arise from litigation, regulatory proceedings and tax audits.

We estimate and provide for potential losses that may arise out of litigation, regulatory proceedings and tax audits to the extent that such losses are probable and can be estimated, in accordance with ASC 450, Accounting for Contingencies and ASC 740, Accounting for Uncertainty in Income Taxes. Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred. See Legal Proceedings in Part II, Item 1 of this Quarterly Report on Form 10-Q for information on our judicial, regulatory and arbitration proceedings.

### **Completed Purchases of Outstanding Indebtedness**

As of March 31, 2010, we have no outstanding indebtedness. On February 15, 2010 (the Redemption Date), we fully redeemed and cancelled all of our remaining outstanding public indebtedness pursuant to the optional redemption provisions of the indenture governing our public debt. On the Redemption Date, all of our remaining note holders were paid 102.75% of the principal amount of their notes, plus accrued and unpaid interest thereon up to the Redemption Date, for an aggregate of \$199.7 million. The redemption of our remaining debt, resulted in the reduction of our interest expense by approximately \$21 million per year. On January 22, 2010, we satisfied and discharged the indenture governing our outstanding public debt by irrevocably depositing with U.S. Bank National Association (the Trustee for the indebtedness) cash in an amount sufficient to pay the full amount of the redemption price for the Senior Notes on the Redemption Date, together with irrevocable instructions from us directing U.S. Bank to apply such funds to the payment of the Senior Notes on the Redemption Date. Thus, as of January 22, 2010, we were no longer obligated or restricted under the indenture governing our public debt.

### **Stock Purchases and Completed Tender Offer**

On January 29, 2010, we commenced a tender offer to purchase up to 15,000,000 shares of our outstanding common stock, at a price of \$4.60 per share. On March 1, 2010, the tender offer expired and we repurchased an aggregate of 8,539,667 shares of common stock, at a price of \$4.60 per share, for a total tender price of \$39.3 million. The repurchase of the shares tendered, combined with the 10,937,769 shares previously repurchased by us pursuant to board-authorized plans, resulted in our repurchasing an aggregate of 19,498,836 shares of our common stock, constituting an aggregate of 31.2% of our shares that were outstanding before any repurchases were made under our repurchase programs.

**Table of Contents**

George M.L. LaBranche, IV, our Chairman, Chief Executive Officer and President, tendered 500,000 shares of the 3,701,094 shares he beneficially owned (representing 0.9% of the outstanding shares) in the tender offer. Other than Mr. LaBranche, none of our directors and executive officers tendered any of their shares in the tender offer. Upon completion of the tender offer, we have approximately 42.9 million shares issued and outstanding. Following completion of the tender offer, we had approximately \$60.6 million in board-authorized repurchases remaining under our repurchase program as of March 31, 2010. Repurchases may be made in open market transactions, privately negotiated transactions, in a tender offer, Dutch auction or otherwise, in compliance with applicable state and federal securities laws. The timing and amounts of any purchases will be based on market conditions and other factors, including price and regulatory requirements.

**Results of Operations****Market-Making Segment Operating Results from Continuing Operations (without DMM Business Results)**

(000 s omitted)	For the Three Months Ended March 31,		Percentage Change
	2010	2009	
Revenues:			
Net gain (loss) on trading	\$ 27,570	\$ (33,118)	183.2%
Other	1,175	1,900	(38.2)
Total segment revenues	28,745	(31,218)	192.1
Inventory financing	5,083	5,635	(9.8)
Revenues, net of interest expense	23,662	(36,853)	164.2
Operating expenses	13,285	7,116	86.7
Income (loss) before taxes	\$ 10,377	\$ (43,969)	123.6%

Revenues from our Market-Making segment from continuing operations consist primarily of net gains and losses resulting from our market-making activities in ETFs, options and futures, the net gains and losses resulting from trading of foreign currencies, futures and equities underlying the rights, ETFs and options for which we act as market-maker.

Net gain (loss) on trading represents trading gains net of trading losses and certain exchange imposed trading activity fees, where applicable, and are earned by us when we act as principal buying and selling stocks, rights, options, ETFs and futures as well as the aggregate gains/(losses) generated from other investments not derived specifically from market-making activities.

Other revenue at our Market-Making segment consists primarily of miscellaneous receipts not derived specifically from market-making activities.

Interest expense attributable to our Market-Making segment is the result of inventory financing costs relating to positions taken in connection with our options, futures and ETFs market-making operations.

**Table of Contents****Three Months Ended March 31, 2010 Compared to March 31, 2009**

Net gain (loss) on trading increased mainly due to increases in net gain on principal transactions and the higher market value of our NYX shares. Principal transactions gains were mainly attributable to our options market-making and foreign currency trading activity. The options market-making business experienced a period of transition during the first quarter of 2009 which was due to turnover in senior management in our options market-making business. Net gain on the NYX investment is mainly the result of the unrealized gain on our NYX shares of \$3.9 million which represents the increase in the fair value of the NYX shares since December 31, 2009. Comparatively, for the first quarter of 2009 the unrealized loss from the decrease in the fair value of the NYX shares was \$27.4 million.

Other revenues decreased primarily as a result of reduced trading interest income and reduced dividend income from NYX shares due the sale of approximately two million shares of that position in the fourth quarter of 2009.

Inventory financing decreased primarily as a result of a decrease in our positions and lower rates relating to margin interest.

For a discussion of operating expenses see [Our Operating Expenses](#) below.

**Market-Making Segment Operating results including Discontinued Operations**

(000's omitted)	For The Three Months		Percentage Change
	Ended March 31, 2010	2009	
<b>Revenues:</b>			
Net gain (loss) on trading	\$ 27,764	\$ (31,152)	189.1%
Commissions	1,622	8,298	(80.5)
Other	1,218	1,906	(36.1)
<b>Total segment revenues</b>	<b>30,604</b>	<b>(20,948)</b>	<b>246.1</b>
Inventory financing	5,083	5,634	(9.8)
<b>Revenues, net of interest expense</b>	<b>25,521</b>	<b>(26,582)</b>	<b>196.0</b>
Operating expenses	16,033	11,793	36.0
<b>Income (loss) before taxes</b>	<b>\$ 9,488</b>	<b>\$ (38,375)</b>	<b>124.7%</b>

Net gain (loss) on trading changed from a loss in the first quarter of 2009 to a gain in the first quarter of 2010, mainly due to increases in net gain on principal transactions and the market value of our NYX shares. Principal transaction gains were mainly attributable to our options market-making and foreign currency trading activity. The options market-making business experienced a period of transition during the first quarter of 2009 which was due to turnover in senior management in our options market-making business. Principal transactions related to our DMM business resulted in a gain of \$2.3 million, for the first quarter of 2009 compared to a gain of \$0.2 million during the first quarter of 2010 through January 22, 2010 when we sold LaBranche & Co. LLC on January 22, 2010. Net gain on NYX investment is mainly the result of the unrealized gain on our NYX shares of \$3.9 million which represents the increase in the fair value of the NYX shares since December 31, 2009. Comparatively, for the first quarter of 2009 the unrealized loss from the decrease in the fair value of the NYX shares was \$27.4 million.

**Table of Contents**

Commission and other fees revenue during the first quarter of 2010 decreased by \$9.3 compared to the first quarter of 2009 as the result of the sale of the DMM business.

Other revenues decreased primarily as a result of reduced trading interest income and reduced dividend income from NYX shares due the sale of approximately 2 million shares of that position.

Inventory financing decreased primarily as a result of a decrease in our positions and lower rates relating to margin interest.

For a discussion of operating expenses see [Our Operating Expenses](#) below.

**Institutional Brokerage Segment Operating Results**

(000 \$ omitted)	For the Three Months Ended March 31,		Percentage Change
	2010	2009	
<b>Revenues:</b>			
Net loss on trading	\$ (68)	\$ (2,433)	97.2%
Commissions and other fees	5,337	7,889	(32.3)
Other	126	89	41.6
<b>Total segment revenues</b>	<b>5,395</b>	<b>5,545</b>	<b>(2.7)</b>
Inventory financing		2	(100.0)
<b>Revenues, net of interest expense</b>	<b>5,395</b>	<b>5,543</b>	<b>(2.7)</b>
Operating expenses	8,714	7,634	14.1
<b>Loss before taxes</b>	<b>\$ (3,319)</b>	<b>\$ (2,091)</b>	<b>58.7%</b>

Our Institutional Brokerage segment's commission revenue includes commissions generated by our sales trading desk, professional traders and the loan sales and trading agency business in each period.

Net loss on trading reflects the aggregated gains and losses generated from our investments in NYX shares, in 2009, as well as proprietary trading losses. In December 2009, LFS sold the remaining portion of its NYX shares.

**Three Months Ended March 31, 2010 Compared to March 31, 2009**

Net loss on trading, in 2009, is primarily related to a decrease in the share price of NYX stock.

Commission revenues decreased primarily as a result of a decline in trading volumes in the institutional execution market and a decrease in the institutional trading desk customer base and reduction in personnel at our institutional trading desk.

For a discussion of operating expenses see [Our Operating Expenses](#) below.

**Table of Contents****Other Segment Operating Results**

(000 s omitted)	For the Three Months Ended March 31,		Percentage Change
	2010	2009	
Other	\$ 105	\$ (248)	142.5%
Total segment revenues	105	(248)	142.5
Fixed interest on debt	2,639	5,664	(53.4)
Revenues, net of interest expense	(2,534)	(5,912)	57.1
Early extinguishment of debt	7,192		100.0
Operating expenses	1,151	3,235	(64.4)
Loss before taxes	\$ (10,877)	\$ (9,147)	18.9%

The portion of our revenues that is not generated from our two principal business segments consists primarily of unrealized gains or losses on our non-marketable investments and interest income from short-term investments of our excess cash.

Revenues, net of interest expense, of our Other segment is calculated after netting revenues by the interest expense related to our public debt and interest accrued on reserves.

Interest expense mainly relates to the effective yield on our public debt inclusive of our debt issuance costs. As noted, on February 15, 2010, we redeemed all of the 2012 Notes and which eliminated the fixed interest on public debt of approximately \$21 million per year. The fixed interest on debt of \$2.6 million in the three months ended March 31, 2010 represents the interest we paid on our outstanding debt in the first quarter of 2010 until the debt was redeemed in February 2010.

Operating expenses mainly relate to finance, accounting, tax, legal, treasury and human resource expenditures as well as related insurance and corporate governance costs and fees.

**Three Months Ended March 31, 2010 Compared to March 31, 2009**

Other revenues increased primarily as a result of an increase in the market value of our non-marketable investments.

Interest expense decreased primarily due to the redemption and repurchase of our outstanding debt.

For a discussion of operating expenses see [Our Operating Expenses](#) below.

**Our Operating Expenses**

(000 s omitted)	For the Three Months Ended March 31,		Percentage Change
	2010	2009	
Expenses:			
Employee compensation and related benefits	\$ 11,493	\$ 6,050	90.0%
Exchange, clearing, brokerage and license fees	4,944	4,808	2.8
Depreciation and amortization	488	943	(48.3)

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

Extinguishment of debt	7,192		100.0
Other operating expenses	6,225	6,185	0.6
Total expenses before taxes	30,342	17,986	68.7
Benefit for income taxes	\$ (1,549)	\$ (22,103)	(93.0)%

-32-

## **Table of Contents**

Our Market-Making segment's employee compensation and related benefits expense consists of salaries, wages and performance-based compensation paid to our traders and related support staff based on operating results. The employee compensation and related benefits expense associated with our Institutional Brokerage segment consists of salaries, wages and performance-based compensation paid to certain institutional brokerage personnel based on their earned commissions or operating results. Performance-based compensation may include cash compensation and stock-based compensation granted to managing directors, trading professionals and other employees.

Exchange, clearing and brokerage fees expense at our Market-Making segment consists primarily of fees paid by us to the NYSE, the NYSE/Amex, other exchanges, the Depository Trust Clearing Corporation ( DTCC ) and to third party execution and clearing companies. The fees paid by us to these entities are primarily based on the volume of transactions executed by us as principal and as agent, a fee based on exchange seat use, technology fees, a flat annual fee and execution and clearing fees. Our Institutional Brokerage segment's exchange, clearing and brokerage fees expense consists of floor brokerage fees paid to direct-access floor brokers, fees paid for executions including those paid to exchanges and electronic communication networks ( ECNs ), and fees paid to our clearing firm.

Other operating expenses primarily are comprised of communications costs, occupancy costs, such as office space and equipment leases and utilities, professional, legal and consulting fees and insurance.

### **Three Months Ended March 31, 2010 Compared to March 31, 2009**

Employee compensation and related benefits increased as a result of our incentive and bonus compensation being higher based on increased trading results.

Depreciation and amortization of intangibles decreased as a result of the reduction of capitalizable assets due to the sale of the DMM business.

Extinguishment of debt relates to costs associated with the redemption and cancellation of our remaining outstanding public indebtedness.

The first quarter included several significant events for the company that has materially changed our financial footprint. As a result of these actions, there are many changes to our financial results quarter over quarter and year over year contained in the information we are reporting. The public note interest expense of \$2.6 million in the first quarter of 2010 and \$5.7 million in the first quarter of 2009 is included in other segment operating results as an offset to revenues. As noted, the debt was fully redeemed on February 15, 2010 and we have no interest payments on public debt going forward. Operating expenses reported above for the quarter includes the costs related to the early extinguishment of the debt of \$7.2 million. Also included in operating expenses are one-time charges reported in the employee compensation and related benefits for severance of \$1.4 million related to the restructuring of the domestic broker-dealer

**Table of Contents**

businesses. Included in tax benefits is a \$.9 million charge for income taxes from continuing operations which is comprised of the netting of a deferred tax valuation charge partially offset by a reduction to contingent liabilities due to the conclusion of an examination cycle.

**Liquidity and Capital Resources**

As of March 31, 2010, we had \$2,596 million in assets, of which \$96.7 million consisted of cash and short-term investments, primarily in overnight time deposits, government obligations maturing within 30 days and cash and securities segregated under federal regulations. This compares with \$3,780 million in assets at December 31, 2009, of which \$188.5 million consisted of cash and short term investments. To date, we have financed our operations primarily with cash flows from operations and proceeds from our debt and equity offerings. Due to the nature of the securities business and our role as a market-maker and execution agent, the amount of our cash and short-term investments, as well as operating cash flow, may vary considerably due to a number of factors, including the dollar value of our positions as principal, whether we are net buyers or sellers of securities, the dollar volume of executions by our customers and clearing house requirements, among others. Certain regulatory requirements constrain the use of a portion of our liquid assets for financing, investing or operating activities. Similarly, due to the nature of our business lines, the capital necessary to maintain current operations and our current funding needs subject our cash and cash equivalents to different requirements and uses.

At March 31, 2010, our net cash capital position was \$34.8 million. Fluctuations in net cash capital are common and are a function of variability in our total assets, statement of financial condition composition and total capital. We attempt to maintain cash capital sources in excess of our aggregate longer-term funding requirements (*i.e.*, positive net cash capital). Over the previous 12 months, our net cash capital has averaged above \$73.7 million.

	(\$ millions)	
	3/31/2010	3/31/2009
<b>Cash Capital Available:</b>		
Stockholders' equity	\$ 279.5	\$ 405.6
Long term debt > 1 year		199.3
Other holding company liabilities	36.4	30.5
<b>Total cash capital available</b>	<b>\$ 315.9</b>	<b>\$ 635.4</b>
<b>Cash Capital Required:</b>		
Regulatory capital (1)	\$ 1.7	\$ 74.3
Working capital	148.7	160.9
NYX shares	33.3	56.1
Illiquid assets/long-term investments	61.4	163.3
Subsidiary intercompany (2)	36.0	64.3
<b>Total Cash Capital Required</b>	<b>\$ 281.1</b>	<b>\$ 518.9</b>
<b>Net Cash Capital (1)</b>	<b>\$ 34.8</b>	<b>\$ 116.5</b>

(1) Included in Net Cash Capital is short term receivables from leverage loan transactions due within a 21 day period.

(2) Intercompany transfers are demand notes and are not considered regulatory capital of subsidiaries.

Cash Capital Available is mainly comprised of stockholders' equity, long term debt, subordinated debt and other liabilities of our parent holding company which, in the aggregate, constitute the currency used to purchase our assets and provide our working capital. This amount will principally be affected as debt matures or is refinanced and as earnings are retained or paid as dividends. Cash Capital Required mainly consists of the assets used in our

**Table of Contents**

businesses. Regulatory capital is defined as capital required by the SEC and applicable exchanges to be maintained by broker-dealers. It is principally comprised of cash, net equities, other investments and net receivables from other broker-dealers. Working capital constitutes liquid assets provided to our subsidiaries in excess of the required regulatory capital. Illiquid assets and long term investments are mainly comprised of exchange memberships, intangible assets, such as goodwill, tradename, deposits, deferred taxes and non-marketable investments. Net Cash Capital is considered to be the excess of Cash Capital Available over Cash Capital Required, or free cash, which we can utilize to fund our business needs.

During 2009, our holding company increased intercompany loans to the market making segment in order to reduce our inventory financing costs and made additional repurchases of our outstanding common stock. These expenditures represent a major portion of the decrease in available cash at the holding company from March 31, 2009 to March 31, 2010. The intercompany market-making loans were fully repaid to our holding company on January 20, 2010.

Our management has always viewed its core assets to be its trading equity in brokerage accounts, which consist of net financial instruments, broker-dealer receivables/payables, and cash available at the holding company and subsidiaries. Effectively, these are the liquid assets used primarily to provide liquidity in the market making and institutional brokerage businesses, as well as to grow our company.

	(\$ millions)	
	3/31/2010	3/31/2009
Market Making	\$ 153,479	\$ 275,297
Institutional Brokerage	14,412	28,843
Net Trading Equity	167,891	304,140
Holding company cash	34,838	116,541
NYX position	33,322	56,117
Net liquid assets	\$ 236,051	\$ 476,798

The decrease in net liquid assets of \$240.7 million from \$476.8 million at March 31, 2009 to \$236.1 million at March 31, 2010 is mainly due to the repurchase of the public debt for \$199.7 million and stock repurchases during this period of \$61.5 million less the proceeds from the DMM asset sale of \$25 million.

We also monitor alternative funding measures in addition to our available net cash. The alternative funding measures are significant transactions and actions we could take in the short-term to generate cash to meet debt maturities or other business needs. More precisely, as of March 31, 2010, we have identified the following alternative funding measures to support future business needs, including any stock repurchases that we may determine to execute of the \$60 million remaining under our board-approved repurchase plan:

1. Collect intercompany loan balances;
2. Reduction of excess capital at LaBranche & Co. LLC to only required NLA (i.e., declare and pay a dividend to the holding company of excess NLA);
3. Our NYX shares, as previously discussed, can be either sold or held as qualifying regulatory capital;
4. Liquidation of available net invested capital at certain subsidiaries.

**Table of Contents**

<b>Alternative Funding Measures</b>	
(\$ millions)	
Net cash capital	34.8
NYX shares (2)	33.3
Tax refund	9.7
Intercompany advance	\$ 15.0
Excess regulatory capital at subsidiaries (1)	17.0
Other investments (3)	\$ 2.2
<b>Total cash available from alternative funding measures</b>	<b>\$ 112.0</b>

(1) Subject to regulatory approval prior to distribution to the holding company.

(2) Based on NYX price of \$29.61 per share on March 31, 2010.

(3) After tax proceeds of hedge fund investments.

On February 15, 2010 (the Redemption Date), we fully redeemed and cancelled all of our remaining outstanding public indebtedness pursuant to the optional redemption provisions of the indenture governing our public debt. On the Redemption Date, all of our remaining note holders were paid 102.75% of the principal amount of their notes, plus accrued and unpaid interest thereon up to the Redemption Date. Therefore, as of February 15, 2010, we have no remaining outstanding public debt, resulting in a reduction of our interest expense by approximately \$21 million per year. On January 22, 2010, we satisfied and discharged the indenture governing our outstanding public debt by irrevocably depositing with U.S. Bank National Association (the Trustee for the indebtedness) cash in an amount sufficient to pay the full amount of the redemption price for the Senior Notes on the Redemption Date, together with irrevocable instructions from us directing U.S. Bank to apply such funds to the payment of the Senior Notes on the Redemption Date. Thus, as of January 22, 2010, we were no longer obligated or restricted under the indenture governing our public debt.

Our Other liabilities of \$0.1 million reflected on the accompanying March 31, 2010 condensed consolidated statement of financial condition are principally comprised of uncertain tax positions pursuant to ASC 740. We reduced our tax contingency reserve by \$12.3 million in the first quarter due to the sale of the DMM assets and the conclusion of a tax audit cycle. Such contingencies are considered long term, as there is no present obligation to pay such liabilities in the foreseeable future.

On January 29, 2010, we commenced a cash tender offer to purchase up to 15 million shares of our outstanding common stock at a price of \$4.60 per share. The tender offer expired on March 1, 2010 at 5:00 p.m., New York City time. In accordance with the terms and conditions of the tender offer, we purchased 8,539,667 shares of our common stock at a price of \$4.60 per share, for a total cost of approximately \$39.3 million (excluding fees and expenses relating to the tender offer). Thus, the number of shares we purchased in the tender offer represented approximately 16.6% of our outstanding common stock, since we had 51,487,523 shares outstanding prior to the commencement of the tender offer (following all prior purchases made by us under the prior repurchase program). After the tender offer was completed, approximately 42.9 million shares of our common stock remained outstanding. As of March 31, 2010, we had approximately \$60.6 million in board-authorized repurchases remaining under our repurchase program. Repurchases may be made in open market transactions, privately negotiated transactions, in a tender offer, Dutch auction or otherwise, in compliance with applicable state and federal securities laws. The timing and amounts of any purchases will be based on market conditions and other factors, including price and regulatory requirements.

---

**Table of Contents**

*Regulated Subsidiaries*

As a registered broker-dealer and NYSE Amex member firm, LSP is subject to SEC Rule 15c3-1, as adopted and administered by the SEC and the NYSE/Amex (through FINRA). LSP is required to maintain minimum net capital, as defined, equivalent to the greater of \$100,000 or  $\frac{1}{10}$  of aggregate indebtedness, as defined. As of March 31, 2010 and December 31, 2009, LSP's net capital, as defined, was \$46.8 million and \$85.7 million, respectively, which exceeded minimum requirements by \$46.2 million and \$82.8 million, respectively. LSP's aggregate indebtedness to net capital ratio on those dates was 0.23 to 1 and .51 to 1, respectively.

As a registered broker-dealer and member firm of the NYSE, LFS is also subject to SEC Rule 15c3-1, as adopted and administered by the SEC and the NYSE. Under the alternative method permitted by this rule, the minimum required net capital is equal to the greater of \$1.0 million or 2.0% of aggregate debit items, as defined. As of March 31, 2010 and December 31, 2009, LFS's net capital, as defined, was \$7.5 million and \$26.1 million, respectively, which exceeded minimum requirements by \$6.5 million and \$25.1 million, respectively. In January 2010, LFS distributed \$15 million to LaBranche & Co Inc. in the form of a dividend.

LFS is also subject to SEC Rule 15c3-3 because it maintains a soft dollar program that may result in credit balances to such clients. To comply with its March 31, 2010 requirement, cash and U.S. Treasury Bills in the amount of \$1.3 million were segregated in a special reserve account for the exclusive benefit of customers, thus exceeding actual requirements by \$0.1 million. To comply with its December 31, 2009 requirement, cash and U.S. Treasury Bills in the amount of \$1.7 million were segregated in a special reserve account for the exclusive benefit of customers, exceeding actual requirements by \$0.5 million.

As a market-maker, we are required to maintain certain levels of capital and liquid assets as promulgated by various regulatory agencies which regulate our business. As part of our overall risk management procedures (for further discussion, refer to Part I, Item 3. Quantitative and Qualitative Disclosures about Market Risk), we attempt to balance our responsibility as a market-maker and broker-dealer with our overall capital resources. These requirements restrict our ability to make use of cash and other liquid assets for corporate actions, such as repaying our debt, repurchasing stock or making acquisitions.

On April 16, 2010, our LaBranche Structured Products, LLC (LSP) and LaBranche Financial Services, LLC (LFS) subsidiaries submitted an application to FINRA to merge into one combined entity. In our opinion, the combined entity of LSP and LFS will enable us to more efficiently use our capital by aggregating their capital resources into one firm. As of March 31, 2010, the date of their most recent FOCUS reports, LFS had net capital of \$7.5 million and excess net capital of \$6.5 million, and LSP had net capital of \$46.8 million and excess net capital of \$46.1 million. The overall businesses to be conducted by the combined entity is not expected to be materially different than their operations as separate entities and as approved in the FINRA memberships to which each of LSP and LFS currently is a party. We will complete the merger as soon as reasonably practicable.

Following the sale of our DMM operations on January 22, 2010, as a broker-dealer, LaBranche & Co. LLC is subject to regulatory requirements intended to ensure the general

**Table of Contents**

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  $\frac{1}{15}$  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 150.0% of its required minimum capital. Moreover, broker-dealers are required to notify the SEC prior to repaying subordinated borrowings, paying dividends and making loans to any parent, affiliates or employees, or otherwise entering into transactions which, if executed, would result in a reduction of 30.0% or more of their excess net capital (net capital less minimum requirement). The SEC has the ability to prohibit or restrict such transactions if the result is deemed detrimental to the financial integrity of the broker-dealer. As of March 31, 2010 and December 31, 2009, LaBranche & Co. LLC's net capital, as defined under SEC Rule 15c3-1, was \$10.2 million and \$91.9 million, respectively, which exceeded the minimum requirements by \$10.1 million and \$90.9 million, respectively. LaBranche & Co. LLC's aggregate indebtedness to net capital ratio on those dates was 0.03 to 1 and 0.02 to 1.

The NYSE generally requires its market-maker firms to maintain a minimum dollar regulatory capital amount in order to establish that they can meet, with their own NLA position requirement. As of December 31, 2009, LaBranche & Co. LLC's NYSE minimum required dollar amount of NLA, as defined, was \$70.2 million, and its actual NLA, as defined, was \$85.3 million. LaBranche & Co. LLC thus satisfied its NLA requirement as of that date. Subsequent to the sale of our DMM business on January 22, 2010, we will no longer have an NLA requirement going forward.

As a registered broker-dealer and FINRA member firm, LSPD is subject to SEC Rule 15c3-1, as adopted and administered by the SEC, the NYSE/Amex and FINRA. LSPD is required to maintain minimum net capital, as defined, equivalent to the greater of \$5,000 or  $\frac{1}{15}$  of aggregate indebtedness, as defined. As of March 31, 2010 and December 31, 2009, LSPD's net capital, as defined, was \$0.3 million and \$2.4 million, respectively, which exceeded its minimum requirement by \$0.3 million and \$2.4 million, respectively. LSPD's aggregate indebtedness to net capital ratio on both dates was .01 to 1.

As a registered broker dealer in the United Kingdom, LSPE is subject to the capital adequacy and capital resources as managed and monitored in accordance with the regulatory capital requirements of the Financial Services Authority ( FSA ). In calculating regulatory capital, our capital consists wholly of Tier 1 capital. Tier 1 capital is the core measure of a Company's financial strength from a regulator's point of view. It consists of the type of financial capital considered the most reliable and liquid, primarily Shareholder's Equity. As of March 31, 2010 Tier 1 capital, as defined, was \$46.7 million which exceeded the total variable capital requirement by \$5.2 million. As of December 31, 2009 Tier 1 capital, as defined, was \$49.6 million which exceeded the total variable capital requirement by \$3.2 million.

As a registered corporation under the Hong Kong Securities and Futures Ordinance, LSPH is subject to the capital requirements of the Hong Kong Securities and Futures (Financial Resources) Rules ( FRR ). The minimum paid-up share capital requirement is HKD 5,000,000 (\$0.6 million at March 31, 2010 and December 31, 2009) and the minimum liquid capital requirement is the higher of HKD 3,000,000 (\$0.4 million at March 31, 2010 and December 31, 2009) or the variable required liquid capital as defined in the FRR. We monitor our

## **Table of Contents**

compliance with the requirements of the FRR on a daily basis. As of March 31, 2010, LSPH's liquid capital, as defined was \$0.6 million, which exceeded its minimum requirements by \$0.3 million. As of December 31, 2009, LSPH's liquid capital, as defined was \$0.4 million, which exceeded its minimum requirements by \$0.1 million. In January and August 2009, LSPH received \$1 million and \$0.6 million, respectively, of share capital from its parent to increase our regulatory capital above the minimum requirement.

Failure by any of our broker-dealer subsidiaries to maintain its required net capital and NLA, where applicable, may subject it to suspension or revocation of its SEC registration or its suspension or expulsion by the NYSE, the NYSE/Amex and/or any other exchange of which it is a member firm.

As evidenced by the foregoing requirements, our broker-dealer subsidiaries require a substantial amount of capital. We believe we have adequate resources to provide for all required capital in all jurisdictions and maintains sufficient excess capital for growth and other corporate activities, as necessary.

## **Cash Flows**

Our cash and cash equivalents decreased \$91.4 million to \$95.3 million during the three months ended March 31, 2010. The decrease was primarily attributable to cash used for financing activities of \$189.3 million for repayment of debt and the related debt servicing costs for the call opportunity of \$5.2 million costs, \$39.8 million for the purchase of treasury stock to cash used for investing activities, \$0.1 million each for capital asset additions and the purchase of exchange memberships and \$0.5 million net decrease for the effect of exchange rate changes. This was offset by aggregate cash provided by operations of \$143.6 million, which is comprised of income from continuing operations of \$1.9 million offset by a loss from continuing operations of \$.5 million, a decrease in continuing operations working capital of \$110.2 million mainly from the DMM operations and by cash provided from sale of the DMM assets of \$32.0 million.

## **Credit Ratings**

Our senior notes were originally sold in private sales to institutional investors on May 18, 2004, and substantially all these senior notes were subsequently exchanged for substantially identical senior notes registered under the Securities Act of 1933, as amended, pursuant to the terms of our May 2004 debt refinancing.

In September 2007, Moody's Investor Services changed its credit rating of our outstanding senior notes from B1 to B2, which continued to be our rating at December 31, 2009, but continued a stable outlook due to our high quality balance sheet and improved liquidity.

On January 14, 2010, Moody's evaluated us following the debt redemption announcement and continued the outstanding senior note rating at B2, but changed the outlook from stable to positive based upon the increasing quality of our balance sheet and improved liquidity due to the 2012 Note redemption, sale of the DMM business and decreased working capital requirements going forward.

In August 2008, we determined that only one rating agency was necessary to provide a rating for the outstanding senior notes. As such, we terminated our relationship for credit rating

## **Table of Contents**

services from Standard & Poor's Investor Services. We still engage the credit rating services from Moody's but this ongoing relationship will be evaluated as a result of our redemption of the 2010 Notes.

### **Off-Balance Sheet Arrangements**

We have no off-balance sheet arrangements that have a material current effect or that are reasonably likely to have a material future effect on our financial position or results of operations.

### **Contractual Obligations**

During the first three months of 2010, there were no significant changes in our reported payments due under contractual obligations and disclosed contingent contractual obligations at December 31, 2009, as described in our 2009 Form 10-K.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

Due to regulatory requirements that prescribe communication barriers between our broker-dealer subsidiaries, we employ different compliance risk management procedures at each such subsidiary. These risk processes are set forth below:

#### *Our Options, Futures and ETFs Market-Making Risk Management Process*

As a market-maker in options, ETFs and futures through our LSH Group of entities, we also trade as principal. In our market-making function, we bring immediacy and liquidity to the markets when we participate. Our market-making activities expose us to certain risks, including, but not limited to, price fluctuations and volatility.

In connection with our market-making activities, we are engaged in various securities trading and lending activities and assume positions in stocks, rights, options, ETFs, U.S. Government securities, corporate securities, futures and foreign currencies for which we are exposed to credit risk associated with the nonperformance of counterparties in fulfilling their contractual obligations pursuant to these securities transactions. We are also exposed to market risk associated with the sale of securities not yet purchased, which can be directly impacted by volatile trading on the NYSE, the NYSE/Amex and other exchanges. Additionally, in the event of nonperformance and unfavorable market price movements, we may be required to purchase or sell financial instruments at a loss.

We enter into various transactions involving derivatives and off balance sheet financial instruments. These financial instruments include forwards and foreign exchange contracts, exchange traded and over-the-counter options, and swaps. Derivative transactions are entered into for trading purposes. Our derivatives trading activities exposes us to certain risks, such as price and interest rate fluctuations, volatility risk, credit risk, foreign currency movements and changes in the liquidity of markets

Our traders purchase and sell futures, options, the stocks underlying certain ETF and options positions, U.S. Government securities and foreign currencies in an attempt to hedge market and foreign currency risk. Certain members of management, including our chief risk officer, who oversee our options, futures and ETFs market-making activities are responsible for monitoring these risks. These managers utilize proprietary and third-party software

**Table of Contents**

applications, as well as information received directly from the traders, to monitor market-making positions on a real-time basis. By monitoring actual and theoretical profit and loss, volatility and other standard risk measures, these individuals seek to insure that our traders operate within the parameters set by management. Furthermore, our aggregate risk in connection with our options, futures and ETFs trading is under constant evaluation by certain members of management and our traders, and all significant trading strategies and positions are closely monitored. When an unusual or large position is observed by the chief risk officer, he communicates the issue to senior management, who communicate with the trader to understand the strategy and risk management behind the trade and, if necessary, determine avenues to mitigate our risk exposure. Our options, futures and ETFs trading is executed on national and foreign exchanges. These trades clear through the Options Clearing Corporation, the National Securities Clearing Corporation or the applicable exchange clearing organization, which reduces potential credit risk.

The following chart illustrates how specified movements in the underlying securities prices of the options, futures and ETFs in our market-making portfolios would have impacted profits and losses:

(000 s omitted)	Profit or (Loss) if the underlying securities move:				
	-15.0%	-5.0%	0%	+5.0%	+15.0%
<b>Portfolio as of:</b>					
December 31, 2009	\$ (12,721)	\$ (1,861)	\$ 0	\$ (574)	\$ (11,567)
March 31, 2010	\$ (43,373)	\$ (7,585)	\$ 0	\$ 4,039	\$ 12,336

The modeling of the risk characteristics of our trading positions involves a number of assumptions and approximations. While management believes that these assumptions and approximations are reasonable, there is no standard methodology for estimating this risk, and different methodologies would produce materially different estimates. The zero percent change column represents the profit or loss our options, futures and ETFs market-making operations would experience on a daily basis if the relevant market remained unchanged.

*Foreign Currency Risk & Interest Rate Risk*

In connection with the trading of U.S.-registered shares of foreign issuers in connection with our cash equities market-making operations, we are exposed to varying degrees of foreign currency risk. The pricing of these securities is based on the value of the ordinary securities as denominated in their local currencies. Thus, a change in a foreign currency exchange rate relative to the U.S. dollar will result in a change in the value of U.S.-registered shares in which we are a market-maker.

Our ETF market-makers trade international ETFs that are denominated and settled in U.S. dollars, but the pricing of these ETFs is also affected by changes in the relevant foreign currency rates. We, therefore, hold various foreign currencies in order to lessen the risks posed by changing foreign currency exchange rates. In addition, LSP trades derivatives denominated in foreign currencies, which creates exposure to foreign currency risk.

**Table of Contents**

The following chart illustrates how the specified movements in foreign currencies relative to the U.S. dollar to which our market-making activities are exposed would have impacted our profits and losses:

(000 s omitted)	Profit or (Loss) if the foreign currencies relative to the U.S. dollar move:			
	-15.0%	-5.0%	+5.0%	+15.0%
<b>Portfolio as of:</b>				
December 31, 2009	\$ 1,328	\$ 443	\$ (443)	\$ (1,328)
March 31, 2010	\$ 13,953	\$ 4,651	\$ (4,651)	\$ (13,953)

The information in the above table is based on certain assumptions and it does not fully represent the profit and loss exposure to changes in foreign currency exchange rates, security prices, volatility, interest rates and other related factors.

As market makers in options, ETFs and futures, we generally maintain large market maker positions. Historically, we have been operating in a low and moderate interest rate market. As such, we may be sensitive to interest rate increases or decreases and/or widening credit spreads may create a less favorable operating environment for this line of business.

*Concentration Risk*

We are subject to concentration risk by holding large positions or committing to hold large positions in certain types of securities. As of March 31, 2010, our largest unhedged proprietary position is our NYX shares. This concentration does not arise in the normal course of business. In the fourth quarter of 2009 and the first quarter of 2010, we sold approximately 2.0 million of our 3.1 million previously-owned NYX shares, leaving us with a position of approximately 1.1 million NYX shares.

*Institutional Brokerage Risk*

Our Institutional Brokerage segment, through the normal course of business, enters into various securities transactions acting in an agency or principal basis. The execution of these transactions can result in unrecorded market risk and concentration of credit risk. Our Institutional Brokerage activities involve execution and financing of various customer securities transactions on a cash or margin basis. These activities may expose us to risk in the event the customer or other broker is unable to fulfill its contractual obligations and we have to purchase or sell securities at a loss. For margin transactions, we may be exposed to significant market risk in the event margin requirements are not sufficient to fully cover losses that customers may incur in their accounts.

*Institutional Brokerage Risk Management Process*

Our institutional brokerage activities require that we execute transactions in accordance with customer instructions and accurately record and process the resulting transactions. Any failure, delay or error in executing, recording and processing transactions, whether due to human error or failure of our information or communication systems, could cause substantial losses for brokers, customers and/or us and could subject us to claims for losses. We also execute orders as principal in our role as market maker and, at times, to facilitate customer transactions. To monitor the risk in these positions, we use an internally developed desk-top system that is constantly running on the desktop screens of our institutional brokerage firm's senior management, chief compliance officer and trading systems manager. Upon escalation to other members of senior management, research and diligence is performed as to the positions and risk and determinations are made as to how to limit the exposure. Once a position is established, our traders may attempt to manage the risk associated with the position by use of ETF strategies, futures on the S&P 500, or with an industry/sector comparable security or other method approved by senior management. Despite these risk management efforts, these facilitation positions may result in trading losses that could adversely affect our commission revenues.

**Table of Contents**

Our customer margin transactions are cleared through a major Wall Street firm. These customer margin transactions are financed by the clearing firm based on our instructions. We are liable to the clearing firm for any losses incurred by the clearing firm in connection with our customers margin transactions.

Our clearing activities, through our outsourced clearing firm, may expose us to off-balance sheet risk in the event customers or brokers are unable to fulfill their contractual obligations and it was necessary to purchase or sell securities at a loss. For margin transactions, we may have been exposed to off-balance sheet risk in the event margin requirements were not sufficient to fully cover losses that customers may have incurred in their accounts.

The amount of risk related to our execution and clearance activities are linked to the size of the transaction, market volatility and the creditworthiness of customers and brokers. Our largest transactions involved those for institutional customers.

We systematically monitor our open transaction risk in connection with our institutional brokerage activities, starting when the transaction occurs and continuing until the designated settlement date. Transactions that remain unsettled after settlement date are scrutinized and necessary action to reduce risk is taken. Credit risk that could result from contra brokers defaulting is minimized since much of the settlement risk for transactions with brokers is essentially transferred to the National Stock Clearing Corporation. The credit risk associated with institutional customers is minimized since these customers have been qualified by the Depository Trust Company ( DTC ) or the DTC participants or have met the prime broker qualification standards at other brokerage firms. Before conducting business with a prospective customer, senior management that oversees our institutional brokerage operations, in conjunction with the related compliance department, reviews the prospective customer s experience in the securities industry, financial condition and personal background, including a background check with a risk reporting agency, although some of this responsibility now is undertaken by our outsourced clearing firm.

The following chart illustrates how specified movements in the underlying securities prices in our institutional brokerage portfolios would have impacted profits and losses:

(000 s omitted)	Profit or (Loss) if the underlying securities move:				
	-15.0%	-5.0%	0%	+5.0%	+15.0%
<b>Portfolio as of:</b>					
December 31, 2009	\$ (332)	\$ (111)	\$ 0	\$ 111	\$ 332
March 31, 2010	\$ (263)	\$ (87)	\$ 0	\$ 87	\$ 263

*Our Cash Equities DMM Risk Management Process (through January 22, 2010)*

Because our cash equities activities on the NYSE, prior to the sale of our DMM operations to Barclays on January 22, 2010, exposed our capital to significant risks, managing these risks was a constant priority for us. Our central role in the HYBRID market helped us to manage risks by incorporating up-to-date market information in the management of our inventory, subject to our DMM obligations. We had developed a risk management process at our LaBranche & Co. LLC subsidiary that was designed to balance our ability to profit from our DMM activities with our exposure to potential losses and compliance risk. This risk

## **Table of Contents**

management process included participation by our corporate compliance committee, executive operating committee, floor management committee, post managers, floor captains, DMMs and chief risk officer. These parties' roles are as follows:

*Corporate Compliance Committee.* LaBranche & Co. LLC's corporate compliance committee consisted of representatives from executive and senior management, compliance personnel, including our on-floor compliance officer, our general counsel, our chief regulatory officer and several additional senior floor DMMs, known as post managers. The role of the corporate compliance committee was to monitor and report to senior management on the statutory and regulatory compliance efforts of our DMM business. The corporate compliance committee also advised the compliance department in establishing, reviewing and revising our policies and procedures governing LaBranche & Co. LLC's regulatory compliance structure.

*Executive Operating Committee.* Our executive operating committee was composed of two executive officers. This committee was responsible for approving all risk management procedures and trading guidelines for our DMM stocks, after receiving recommendations from our floor management committee. In addition, our executive operating committee reviewed all unusual situations reported to it by our floor management committee.

*Floor Management Committee.* Our NYSE floor management committee, at the time of the sale of the DMM business, was composed of three post managers on the NYSE-floor. This committee was responsible for formulating and overseeing our overall risk management procedures and trading guidelines with the executive operating committee for each of our DMM stocks. The post managers generally met with their floor captains and the Executive Operating Committee on a weekly basis to review and, if necessary, revise the risk management procedures and trading guidelines for particular DMM stocks. We also employed a wheel manager who ensures that the floor is adequately staffed at all times. In addition, the post managers, the wheel manager and floor captains were always available on the trading floor to review and assist with any unusual trading situations reported by a floor captain, and to assist and or provide necessary staff to assist on break-out or intense trading situations. Our floor management committee reported to our executive operating committee about each of these trading situations as they occurred. Our floor management committee also trained other DMM and trading assistants on a regular basis on new rules and/or interpretations from the NYSE with respect to our DMM obligations and guidelines, with the assistance of our compliance department. The post managers generally met with the DMMs on their post at least once a week to evaluate each DMM's adherence to our risk management procedures and trading guidelines, as well as to review compliance reports generated by the compliance department in monitoring and reviewing DMM trading activities.

*Floor Captains.* Prior to the sale of our DMM business, we employed three floor captains who monitored the activities of our cash equities DMMs throughout the trading day from various positions at our trading posts. In addition, the floor captains were readily available to assist our DMMs in determining when to deviate from procedures and guidelines in reacting to any unusual situations or market conditions. The floor captains reported these unusual situations and any deviations from these procedures and guidelines to their respective post managers.

*DMMs.* Prior to the sale of our DMM business, our DMMs conducted electronic and, at times, manual trading of our DMM stocks based upon the conditions of the marketplace. In doing so, DMMs observed our risk management procedures and trading guidelines in tandem

## **Table of Contents**

with their responsibility to create and maintain a fair and orderly market. DMMs promptly notified a floor captain or post manager of any unusual situations or market conditions requiring a deviation from our procedures and guidelines

*On-Floor Compliance Officer.* We had an on-floor compliance officer that monitored the DMMs' compliance with NYSE rules throughout the day on an ad hoc basis. The on-floor compliance officer reported his findings on general on-floor compliance initiatives on a daily basis to our equity DMM unit's Chief Compliance Officer and Chief Executive Officer and provided summary updates of these efforts to the Corporate Compliance Committee on a monthly basis. In addition, we had at least one trading assistant at each post on the NYSE floor who was compliance-registered and was able to review trading activities to monitor compliance with rules. Many of our compliance and risk management activities flowed from the efforts of our on-floor compliance initiative.

*Electronic Exception Reports.* Prior to the sale of our DMM business, we had implemented a comprehensive system of electronic rule exception reports at our LaBranche & Co. LLC subsidiary to monitor our compliance with NYSE and SEC rules. These reports were generated on a daily basis, from one to three days after each trading day, and were the result of significant development efforts from our technology group, with advice of our compliance and legal staff. Our compliance staff reviewed these exception reports daily, and in the event an exception was detected, the exception was researched in detail by our on-floor compliance officer or another compliance officer to determine if a compliance issue was found. If a compliance issue was detected, we made an effort to correct the problem and conduct training of our DMMs and/or distribute compliance bulletins to ensure our DMMs understood the rule and processes going forward. Certain detected issues were discussed at monthly compliance committee meetings.

*Circuit Breaker Rules.* The NYSE had instituted certain circuit breaker rules intended to halt trading in all NYSE listed stocks in the event of a severe market decline. The circuit breaker rules imposed temporary halts in trading when the Dow Jones Industrial Average drops a certain number of points. Current circuit breaker levels were set quarterly at 10, 20 and 30 percent of the Dow Jones Industrial Average closing values of the previous month, rounded to the nearest 50 points. These rules provided investors extra time to respond to severe market declines and provided us an additional opportunity to assure compliance with our risk management procedures.

### *Equity Market Financial Risk*

We had developed a risk management process, which was intended to balance our ability to profit from our equity DMM activities with our exposure to potential losses. We had invested substantial capital, along with the NYSE, in real-time, on-line systems which gave our management, including our chief risk officer, access to specific trading information during the trading day, including our aggregate long and short positions and our capital and profit-and-loss information on an aggregate or per issue basis. Subject to the DMM's obligation to maintain a fair and orderly market and to applicable regulatory requirements, we constantly sought to manage our trading positions relative to existing market conditions.

Prior to the sale of our DMM business, our equity DMM trading activities were subject to a number of risks, including risks of price fluctuations, rapid changes in the liquidity of markets and foreign exchange risk related to American Depositary Receipts ( ADRs ). In any

## **Table of Contents**

period, we may have incurred trading losses or gains in our DMM stocks for a variety of reasons, including price fluctuations of our DMM stocks and fulfillment of our DMM obligations. Quantification of such losses or gains were not meaningful as standard market studies do not capture our DMM obligations. From time to time, we may have had large position concentrations in securities of a single issuer or issuers engaged in a specific industry. In general, because our inventory of securities were marked-to-market on a daily basis, any significant price movement in these securities could result in an immediate reduction of our revenues and operating profits.

### *Operational and Technology Risk*

Operational risk relates to the risk of loss from external events, and from failures in internal processes or information systems. In each of our business segments, we rely heavily on our information systems in managing our risk. Accordingly, working in conjunction with the NYSE and other exchanges, we have made significant investments in our trade processing and execution systems. Our use of, and dependence on, technology has allowed us to sustain our growth over the past several years. Management members and floor captains at our NYSE cash equities market making operations constantly monitor our positions and transactions in order to mitigate our risks and identify troublesome trends should they occur. The substantial capital we had invested, along with the NYSE, in real-time, on-line systems affords management instant access to specific trading information at any time during the trading day, including:

our aggregate long and short positions;

the various positions of each of our trading professionals;

our overall position in a particular stock; and

capital and profit-and-loss information on an aggregate, per market maker or per issue basis.

Our information systems sent and received data from the NYSE through dedicated data feeds. The NYSE supplied us with DMM position reporting system terminals both on the trading floor and in our offices. These terminals allowed us to monitor our NYSE DMM trading profits and losses, as well as our positions. Our options, futures and ETFs DMM and market-making operations utilized proprietary and third-party software applications to monitor our positions and profits and losses on a real-time basis.

We internally develop and use significant proprietary trading technologies in our market-making segment in order to enhance our principal trading capabilities and manage risk in the increasingly evolving electronic marketplace. Our trading technologies are developed and maintained by our information technology personnel and their development process is subject to policies and procedures designed to mitigate the risk of technology design flaws and programming errors. These policies and procedures include, but are not limited to, policies concerning the techniques and manner by which new or enhanced trading technologies are implemented, segregation of duties among the developers, the quality assurance personnel and the individual who enters new trading technologies into production and, when possible, independent review of these technologies and procedures. Although these, and other, policies and procedures are designed to mitigate the risk of design, coding or other flaws or errors in our current and future trading technologies, we cannot assure you that these policies and procedures will successfully be followed or will timely and effectively detect such flaws or errors.

## **Table of Contents**

We have developed and implemented a business continuity plan, which includes a comprehensive disaster recovery plan. We have a back-up disaster recovery center in New York, outside of Manhattan, and Chicago as well as redundant trading facilities in London, England and Hong Kong.

### *Legal and Regulatory Risk*

Substantial legal liability or a significant regulatory action against us could have a material adverse effect on our financial condition or cause significant harm to our reputation, which in turn could negatively affect our business prospects.

Our registered broker-dealer subsidiaries are subject to certain regulatory requirements intended to insure their general financial soundness and liquidity. These broker-dealers are subject to SEC Rules 15c3-1, 15c3-3 and other requirements adopted and administered by the SEC and the NYSE.

The USA PATRIOT Act of 2001 requires U.S. financial institutions, including banks, broker-dealers, futures commission merchants and investment companies, to implement policies, procedures and controls which are reasonably designed to detect and report instances of money laundering and the financing of terrorism. We actively monitor and update our anti-money laundering practices.

### **Item 4. Controls and Procedures**

As of the end of the period covered by this report, an evaluation of the effectiveness of our disclosure controls and procedures was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **PART II OTHER INFORMATION**

### **Item 1. Legal Proceedings**

There have been no material new developments in our legal proceedings since the March 16, 2010 filing of the 2009 Form 10-K, except as follows:

In re NYSE Specialists Securities Litigation. On or about March 31, 2010, CalPERS and the NYSE submitted a stipulation of settlement to the Court, not involving any money payment by the NYSE to CalPERS. On April 2, the Court approved this settlement, and on April 6, 2010 the Court entered a final judgment dismissing CalPERS' s claims against the NYSE with prejudice.

## **Table of Contents**

We believe that the claims asserted against us by the plaintiffs in the pending proceedings described in the 2009 Form 10-K and above are without merit, and we deny all allegations of wrongdoing. There can be no assurance, however, as to the outcome or timing of the resolution of these proceedings. We therefore are unable to estimate the amount or potential range of any loss that may arise out of these proceedings. The range of possible resolutions could include determinations and judgments against us or settlements that could require substantial payments by us that could have a material adverse effect on our financial condition, results of operations and cash flows.

In addition to the proceedings described in the 2009 Form 10-K and above, we and our operating subsidiaries have been the target, from time to time, of various claims, lawsuits and regulatory inquiries in the ordinary course of our and their respective businesses. While the ultimate outcome of those claims and lawsuits which currently are pending cannot be predicted with certainty, we believe, based on our understanding of the facts of these proceedings, that their ultimate resolution will not, in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

### **Item 1A. Risk Factors**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in the 2009 Form 10-K, which could materially affect our business, financial condition or future results. There have been no material changes in the Risk Factors disclosed in our 2009 Form 10-K. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

### **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

On January 22, 2010, the date we completed the sale of our DMM business, our Board of Directors authorized the increase of the share repurchase program by \$76.6 million to a total of \$141.6 million. This increase left us with \$100 million of common stock to be repurchased under our board-authorized share repurchase program.

On January 29, 2010, we commenced a tender offer to purchase up to 15,000,000 shares of our outstanding common stock, at a price of \$4.60 per share. On March 1, 2010, the tender offer expired and we repurchased an aggregate of 8,539,667 shares of common stock at a price of \$4.60 per share, for a total tender price of \$39.3 million, constituting the purchase of an aggregate of 16.6% of our shares. George M.L. LaBranche, IV, our Chairman, Chief Executive Officer and President, tendered 500,000 shares of the 3,701,094 shares he beneficially owned (representing 0.9% of the outstanding shares) in the tender offer. Other than Mr. LaBranche, none of our directors and executive officers tendered any of their shares in the tender offer. The table of repurchases made by us in the first quarter of 2010 below includes the shares we repurchased in the tender offer.

In addition to the tender offer, we repurchased an aggregate of 32,200 shares in open-market transactions under our repurchase program during the first quarter of 2010, at a total cost of approximately \$0.2 million, as set forth by month and average price paid in the table below.

**Table of Contents**

<b>Purchase Period</b>		<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share (1)</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs</b>
January 1	January 31, 2010	10,800	\$ 3.99	10,800	(1)
February 1	February 28, 2010				(1)
March 1	March 31, 2010	8,561,067	4.64	8,561,067	(1)
<b>Total</b>		<b>8,571,867</b>	<b>\$ 4.64</b>	<b>8,571,867</b>	<b>(1)</b>

(1) Since board approval of repurchases is based on dollar amount, we cannot estimate the number of shares yet to be purchased. Following these repurchases, as well our previous quarters' repurchases of our shares under the repurchase plan, we have repurchased approximately \$81 million of our common stock under the repurchase plan through March 31, 2010.

The repurchase of the 8,539,667 shares in the tender offer, combined with the 10,959,169 shares repurchased by us pursuant to Board-authorized purchases over the past 24 months, have resulted in our repurchasing an aggregate of 19,498,836 shares of our common stock under board-authorized repurchase plans. These repurchases constitute an aggregate of 31.5% of our outstanding shares of common stock to date under our board-authorized repurchase programs.

Following these repurchases approximately \$60.6 million of our common stock remained authorized for purchase under our current repurchase plan as of March 31, 2010. Additional repurchases may be made in open market transactions, privately negotiated transactions, in a tender offer, Dutch auction or otherwise, in compliance with applicable state and federal securities laws. The timing and amounts of any purchases will be based on market conditions and other factors, including price and regulatory requirements.

We have funded, and will continue to fund, our share repurchases through a combination of cash from operations, and excess cash at our holding company, dependent upon market conditions.

**Item 5. Other Information.**

We have included in this Form 10-Q filing, and from time to time our management may make, statements which may constitute forward-looking statements within the meaning of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. Our 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

**Table of Contents**

exchanges on which we operate, changes in volatility in the equity and others securities markets and changes in the value of our securities positions. As a result of these and other factors, we may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect our business, financial condition, operating results and stock price. An investment in us involves various risks, including those mentioned above and those that are detailed from time to time in our SEC filings.

Certain statements contained in this report, including without limitation, statements containing the words believe, intend, expect, anticipate and words of similar import, also may 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, our actual results and performance and the performance of the specialist and market-making industry as a whole, 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. We also disclaim any obligation to update our 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.

**Item 6. Exhibits.**

- 10.1 Asset Purchase Agreement by and among Barclays Capital Inc., LaBranche & Co. LLC, and LaBranche & Co Inc., dated as of January 13, 2010.
- 10.2 Amendment Agreement, dated as of January 22, 2010, to the Asset Purchase Agreement by and among Barclays Capital Inc. LaBranche & Co Inc. and LaBranche & Co. LLC.
- 31.1 Certification of George M.L. LaBranche, IV, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Jeffrey A. McCutcheon, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of George M.L. LaBranche, IV, Chairman, Chief Executive Officer and President, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, regarding the information contained in LaBranche & Co Inc. s Quarterly Report on Form 10-Q for the period ended March 31, 2010.
- 32.2 Certification of Jeffrey A. McCutcheon, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, regarding the information contained in LaBranche & Co Inc. s Quarterly Report on Form 10-Q for the period ended March 31, 2010.

**Table of Contents**

**SIGNATURES**

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

May 10, 2010

LABRANCHE & Co INC.

By: /s/ Jeffrey A. McCutcheon  
Name: Jeffrey A. McCutcheon  
Title: Senior Vice President and Chief  
Financial Officer

-51-

**Table of Contents**

EXHIBIT INDEX

Exhibit No. Description of Exhibit

- 10.1 Asset Purchase Agreement by and among Barclays Capital Inc., LaBranche & Co. LLC, and LaBranche & Co Inc., dated as of January 13, 2010.
- 10.2 Amendment Agreement, dated as of January 22, 2010, to the Asset Purchase Agreement by and among Barclays Capital Inc. LaBranche & Co Inc. and LaBranche & Co. LLC.
- 31.1 Certification of George M.L. LaBranche, IV, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Jeffrey A. McCutcheon, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of George M.L. LaBranche, IV, Chairman, Chief Executive Officer and President, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, regarding the information contained in LaBranche & Co Inc. s Quarterly Report on Form 10-Q for the period ended March 31, 2010.
- 32.2 Certification of Jeffrey A. McCutcheon, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, regarding the information contained in LaBranche & Co Inc. s Quarterly Report on Form 10-Q for the period ended March 31, 2010.