

LABRANCHE & CO INC  
Form 10-K/A  
April 15, 2005

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K/A**

(Amendment No. 1)

ý **Annual report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
for the fiscal year ended December 31, 2004**

or

o **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of  
1934**

**for the transition period from                      to                      .**

Commission file number: 001-15251

**LaBRANCHE & CO INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Delaware**  
(State or Other Jurisdiction of  
Incorporation or Organization)

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

**One Exchange Plaza, New York, New York 10006**

(Address of Principal Executive Offices) (Zip Code)

**(212) 425-1144**

(Registrant's telephone number, including area code)

Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

Securities registered pursuant to Section 12(b) of the Act:

**Common Stock, par value \$0.01  
New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:

**None**

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes  No

---

**Explanatory Note:**

LaBranche & Co Inc. (the Company) is filing this Amendment to its Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2005 (the Original Report) solely to revise Item 6. Selected Financial Data on page 34 of the Original Report and the first paragraph of the Executive Overview section of Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations on page 35 of the Original Report in order to (i) reflect the correct amount of our pro forma net income available to common stockholders for the full year 2004, which excludes the Lava sale and the charges for exchange membership impairment, debt repurchase, goodwill impairment and acceleration of preferred stock discount accretion, as \$16.5 million, or \$0.27 per diluted share, rather than \$16.7 million, or \$0.28 per diluted share, as reflected in the Original Report, and (ii) provide a reconciliation of this non-GAAP financial information to the Company's reported results under U.S. GAAP, which was inadvertently omitted from the Original Report. The Company previously furnished this required reconciliation of non-GAAP financial information to U.S. GAAP results in its report on Form 8-K dated January 21, 2005 in connection with its issuance of a press release announcing its financial results for the fourth quarter and full year ended December 31, 2004. The reconciliation included herein also corrects an error included in the previously furnished reconciliation. No other changes in the Original Report are being made by means of this filing.

**PART II**

**Item 6.                   SELECTED FINANCIAL DATA.**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

The selected financial data set forth below for the years ended December 31, 2004, 2003 and 2002 and as of December 31, 2004, 2003 and 2002 have been derived from our consolidated financial statements, which have been audited by KPMG LLP, independent auditors, and are included elsewhere in this annual report. The selected financial data set forth below for the years ended December 31, 2001 and 2000 and as of December 31, 2001 and 2000 have been derived from our consolidated financial statements, audited by Arthur Andersen LLP, independent public auditors, which are not included elsewhere in this annual report. The selected financial data set forth below should be read in conjunction with the consolidated financial statements and related notes thereto and with Management's Discussion and Analysis of Financial Condition and Results of Operations, which are included elsewhere in this filing.

(000's omitted)	For Year Ended December 31,					
	2004	2003	2002	2001	2000	
<b>STATEMENT OF OPERATIONS DATA:</b>						
<b>Revenues:</b>						
Net gain on principal transactions	\$ 182,535	\$ 202,207	\$ 342,400	\$ 340,795	\$ 282,948	
Commissions	96,045	94,443	92,044	62,866	45,381	
Realized gain from sale of Lava investment	24,900					
Other	15,567	9,339	18,401	20,469	16,480	
<b>Total revenues</b>	<b>319,047</b>	<b>305,989</b>	<b>452,845</b>	<b>424,130</b>	<b>344,809</b>	
<b>Expenses:</b>						
Employee compensation and benefits	99,310	99,123	131,511	110,832	88,759	
Interest	63,789	48,188	48,589	52,049	41,893	
Restitution and fines		63,519				
Goodwill impairment	37,600	170,302				
Exchange memberships impairment	18,327	515				
Debt repurchase premium	49,029					
Other	106,461	109,416	106,621	104,538	47,580	
<b>Total expenses</b>	<b>374,516</b>	<b>491,063</b>	<b>286,721</b>	<b>267,419</b>	<b>178,232</b>	
<b>Income (loss) before minority interest and provision (benefit) for income taxes</b>	<b>\$ (55,469)</b>	<b>\$ (185,074)</b>	<b>\$ 166,124</b>	<b>\$ 156,711</b>	<b>\$ 166,577</b>	
<b>Net income (loss)</b>	<b>\$ (43,780)</b>	<b>\$ (179,389)</b>	<b>\$ 87,226</b>	<b>\$ 71,587</b>	<b>\$ 81,923</b>	

Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

(000 s omitted)	As of December 31,					
	2004	2003	2002	2001	2000	
<b>BALANCE SHEET DATA:</b>						
Total assets	\$ 2,055,097	\$ 1,963,090	\$ 1,912,802	\$ 2,000,837	\$ 1,004,122	
Total long term obligations (1)	498,733	275,891	383,233	429,205	397,828	
Stockholders' equity	\$ 692,986	\$ 772,964	\$ 989,688	\$ 928,358	\$ 370,901	

(1) Includes obligations under our subordinated debt (excluding those related to contributed exchange memberships).

	For Year Ended December 31,					
	2004	2003	2002	2001	2000	
<b>COMMON SHARE DATA:</b>						
Earnings (loss) per share (diluted)	\$ (0.77)	\$ (3.08)	\$ 1.34	\$ 1.13	\$ 1.69	
Cash dividends declared per share		\$ 0.24				

Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

The following schedule provides a reconciliation of our U.S. GAAP results to pro forma results for the periods presented. In evaluating our financial performance, we review operating results from operations, which excludes non-operating charges and other non-recurring items. Pro forma earnings (loss) per share is a non-GAAP performance measure, but we believe that it is useful to assist investors in gaining an understanding of the trends and operating results for our core business. Pro forma earnings (loss) per share should be viewed in addition to, and not in lieu of, our reported results under U.S. GAAP.

(000 s omitted)	For Year Ended December 31,					
	2004	2003	2002	2001	2000	
<b>OTHER DATA Reconciliation:</b>						
Total revenues	\$ 319,047	\$ 305,989	\$ 452,845	\$ 424,130	\$ 344,809	
Less: Lava realized gain (1)	(24,900)					
Pro forma revenues	294,147	305,989	452,845	424,130	344,809	
Total expenses	374,516	491,063	286,721	267,419	178,232	
Less:						
Restitution and fines (2)		(63,519)				
Goodwill impairment (3)	(37,600)	(170,302)				
Exchange memberships impairment (4)	(18,327)	(515)				
Debt repurchase premium and related costs (5)	(55,858)					
Acceleration of discount on preferred stock repurchase (6)	(496)					
Pro forma expenses	262,235	256,727	286,721	267,419	178,232	
Income (loss) before minority interest and provision (benefit) for income taxes	(55,469)	(185,074)	166,124	156,711	166,577	
Minority interest	356	322				
Income (loss) before provision (benefit) for income taxes	(55,825)	(185,396)	166,124	156,711	166,577	
Effect of pro forma adjustments	87,381	234,336				
Pro forma income before provision for income taxes	31,556	48,940	166,124	156,711	166,577	
Provision (benefit) for income taxes	(12,045)	(6,007)	78,898	85,124	84,654	
Tax effect of pro forma adjustments	24,800	28,634				
Pro forma provision for income taxes	12,755	22,627	78,898	85,124	84,654	
Net income (loss) applicable to common stockholders	(46,033)	(183,403)	80,285	64,115	81,923	
Net effect of pro forma adjustment	62,581	205,702				
Pro forma net income available to common stockholders	\$ 16,548	\$ 22,299	\$ 80,285	\$ 64,115	\$ 81,923	
Earnings (loss) per share:						
Diluted	\$ (0.77)	\$ (3.08)	\$ 1.34	\$ 1.13	\$ 1.69	
Net effect of pro forma adjustments	1.04	3.45				
Diluted pro forma	\$ 0.27	\$ 0.37	\$ 1.34	\$ 1.13	\$ 1.69	

(1) Reflects the gain on sale of our investment in Lava Trading Inc.

(2) Reflects the previously-disclosed regulatory settlement.

(3) Relates to the write-down of the carrying value of our goodwill to reflect the results of our goodwill impairment evaluation under SFAS No. 142.



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

- (4) Reflects the write-down to our estimate of the fair value of our NYSE and AMEX exchange memberships.
- (5) Reflects expenses and the premium paid related to our repurchase of a substantial portion of our previously outstanding \$100.0 million Senior Notes and \$250.0 million Senior Subordinated Notes.
- (6) Represents the acceleration of the discount accretion on the remaining Series B preferred stock repurchased by us.

**Item 7.  
OPERATIONS.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF**

Item 7.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

*You should read the following discussion of our financial condition and results of operations together with the financial statements and the notes to such statements included elsewhere in this annual report. This discussion contains forward-looking statements based on our current expectations, assumptions, estimates and projections about us and our industry. These forward-looking statements involve risks and uncertainties including, but not limited to those discussed in Risk Factors set forth in Item 1 of this annual report. Our actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors. We undertake no obligation to update publicly any forward-looking statements for any reason, even if new information becomes available or other events occur in the future.*

### **Executive Overview**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

For the year ended December 31, 2004, we reported a loss of \$46.0 million, or \$0.77 per share, which included a \$24.9 million gain on the sale of our investment in Lava Trading, Inc., an exchange membership impairment charge of \$18.3 million, a debt repurchase charge of \$55.9 million, a goodwill impairment charge of \$37.6 million and a preferred stock discount accretion charge of \$0.5 million. Excluding the Lava sale and the exchange membership impairment, debt repurchase, goodwill impairment charges and preferred stock discount accretion, our net income available to common stockholders for the full year 2004 was \$16.5 million, or \$0.27 per diluted share. See Item 6. Selected Financial Data Other Data for a reconciliation of these non-GAAP pro-forma results to our reported U.S. GAAP results.

The key drivers that contributed to the decreased revenues at our NYSE equity specialist subsidiary for 2004 included declining principal share volume and dollar value traded, lower market volatility and an increasing rate of program trading as a percentage of total trading

volume on the NYSE. The decline in market volatility and rise in program trading resulted in fewer market imbalances, which lowered our rate of capital participation. Although this caused a 19.3% decrease in principal trading revenues at our LaBranche & Co. LLC subsidiary in 2004 versus 2003, our LSP and LSPS subsidiaries' principal trading revenues grew 95.3% through expansion into new marketplaces and diversification of its specialist and market-making product offerings.

Throughout 2004, we continued to improve operational efficiencies by reducing headcount and related operating expenses and further enhancing our compliance and trading systems. We believe these changes have streamlined our organization without sacrificing our ability to respond to developments in the marketplace. If implemented, we anticipate that the NYSE's proposed changes to its automated trade execution system and the SEC's proposed market structure changes will provide more challenges. We are confident that our organization will successfully adapt to meet its future needs.

During 2004, we successfully completed a refinancing of certain of our indebtedness by repurchasing a substantial portion of our then-outstanding senior and senior subordinated notes and issuing \$460.0 million aggregate principal amount of 9.5% senior notes due 2009 (the Original 2009 Notes) and 11.0% senior notes due 2012 (the Original 2012 Notes) and collectively with the Original 2009 Notes, the Original Senior Notes). Although this refinancing increased the aggregate principal amount of our outstanding indebtedness, the interest rates on the Original Senior Notes and the third-quarter repurchase of all remaining shares of our outstanding Series B preferred stock with a portion of the proceeds of the Original Senior Notes issuance have enabled us to extend the maturities of our debt without increasing our overall combined after-tax annual interest and dividends expense.

On March 29, 2004, we entered into an agreement with the NYSE and the SEC to settle their investigations concerning our NYSE specialist trading activity. This settlement resolved the NYSE and the SEC investigations of our NYSE specialist trading activity for all periods through 2003. As part of the settlement with the NYSE and the SEC, we have agreed to comply with the following undertakings:

implementation of systems and procedures to ensure appropriate follow-up and review with regard to information provided to LaBranche & Co. LLC on a daily basis by the NYSE with regard to specialists' override of the Principal Inhibitor function, which identifies specialist principal trades that may have been effected while an executable agency order was reflected in the order book on the same side of the market;

creation of a committee, including LaBranche & Co. LLC's chief compliance officer and at least two members of senior management, specifically charged with meeting periodically (no less frequently than monthly) to evaluate specialist rule compliance;

development and/or enhancement of systems and procedures to track and maintain records identifying the individuals acting as specialist and clerk for each security at all times throughout each trading day;

annual certification, through LaBranche & Co. LLC's chief executive officer, that a review has been conducted by the chief compliance officer of trading in LaBranche & Co. LLC's principal account for the purpose of detecting interpositioning, trading ahead and unexecuted limit order violations;

bi-annual assessment of, and reports on, the adequacy of the resources devoted to LaBranche & Co. LLC's compliance function, and devotion of adequate funds and staffing to the compliance department; and

retention of an independent consultant to review and evaluate LaBranche & Co. LLC's compliance systems, policies and procedures reasonably designed to ensure that LaBranche & Co. LLC is in compliance with federal securities laws and NYSE rules with regard to specialist trading.

We are complying with these undertakings and do not expect these changes or enhancements to adversely affect our principal trading revenues. Instead, our fulfillment of these undertakings should enhance our risk management activities related to our specialist trading activity.

#### **New Accounting Developments**

In December 2003, the FASB issued FIN 46(R), Consolidation of Variable Interest Entities, An Interpretation of ARB No. 51. FIN 46(R) requires a company to consolidate a variable interest entity ( VIE ) if the company has variable interests that give it a majority of the expected losses or a majority of the expected residual returns, or both, of the entity. FIN 46(R) was effective no later than the end of the first reporting period that ended after March 15, 2004. As of December 31, 2004, we have determined that none of our investments are considered a VIE under the guidance provided in FIN 46(R), and therefore, the implementation of FIN 46(R) has had no impact on our consolidated financial statements.

In December 2004, the FASB issued a revision to SFAS No. 123, Accounting for Stock-Based Compensation, SFAS No. 123(R), Share Based Payment. SFAS No. 123(R) will require 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. SFAS No. 123(R) replaces SFAS No. 123 and supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees. SFAS No. 123(R) will be effective for our third quarter of fiscal 2005. We are currently evaluating the effect of adoption of SFAS No. 123(R), but we do not expect it to have a material effect on our financial condition, results of operations or cash flows.

#### **Critical Accounting Estimates**

##### *Goodwill and Other Intangible Assets*

We determine the fair value of each of our reporting units and the fair value of each reporting unit's goodwill under the provisions of Statement of Financial Accounting Standards ( SFAS ) No. 142, Goodwill and Other Intangible Assets. In determining fair value, we use standard analytical

Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

approaches to business enterprise valuation ( BEV ), such as the market comparable approach and the income approach. The market comparable approach is based on comparisons of the subject company to similar companies engaged in an actual merger or



acquisition or to public companies whose stocks are actively traded. As part of this process, multiples of value relative to financial variables, such as earnings or stockholders' equity, are developed and applied to the appropriate financial variables of the subject company to indicate its value. The income approach involves estimating the present value of the subject company's future cash flows by using projections of the cash flows that the business is expected to generate, and discounting these cash flows at a given rate of return. Each of these BEV methodologies requires the use of management estimates and assumptions. For example, under the market comparable approach, we assigned a certain control premium to the public market price of our common stock as of the valuation date of our 2004 third quarter impairment test, as well as our 2004 year-end impairment test, in estimating the fair value of our specialist reporting unit. Similarly, under the income approach, we assumed certain growth rates for our revenues, expenses, earnings before interest, income taxes, depreciation and amortization, returns on working capital, returns on other assets and capital expenditures, among others. We also assumed certain discount rates and certain terminal growth rates in our calculations. For our third quarter and year-end 2004 goodwill impairment tests, we engaged an independent business valuation firm to assist us in our BEV analyses. Given the subjectivity involved in selecting which BEV approach to use and in determining the input variables for use in our analyses, it is possible that a different valuation model and the selection of different input variables could produce a materially different estimate of fair value of our goodwill.

We review the reasonableness of the carrying value of our goodwill on an annual calendar basis (i.e., December 31) unless an event or change in circumstances would require an interim reassessment of impairment. During the nine months ended September 30, 2004, certain changes in circumstances occurred, which management believed necessitated goodwill impairment testing. The two primary factors we analyzed, which indicated a need for us to reassess the reasonableness of the carrying value of our goodwill at September 30, 2004, were the prolonged downward trend in our principal trading revenues at our Specialist reporting unit and the continued decline in the public trading price of our common stock through September 30, 2004. In our third quarter 2004 SFAS No. 142 test, we compared the fair value of our Specialist reporting unit and the fair value of our Specialist reporting unit's goodwill based on the methods described above to their respective carrying values in two separate steps under SFAS No. 142 guidelines to arrive at the \$37.6 million impairment charge we recognized during the third quarter. Notwithstanding our interim valuation of goodwill as of September 30, 2004, SFAS No. 142 requires us to test goodwill on an annual calendar basis. Accordingly, we updated our valuation models through and including our annual testing date, or December 31, 2004, and noted no further impairment of our goodwill. We cannot provide assurance that future goodwill impairment testing will not result in impairment charges in subsequent periods.

Our other intangible asset, as defined under SFAS No. 142, is our trade name. We determine the fair value of our trade name by applying the income approach using the royalty savings methodology. This method assumes that the trade name has value to the extent we are relieved of the obligation to pay royalties for the benefits received from it. Application of this methodology requires estimating an appropriate royalty rate, which is typically expressed as a percentage of revenue. Estimating an appropriate royalty rate includes reviewing evidence from comparable licensing agreements and considering qualitative factors affecting the trade name. Given the subjectivity involved in selecting which BEV approach to use and in determining the

input variables for use in our analyses, it is possible that a different valuation model and the selection of different input variables could produce a materially different estimate of fair value of our trade name.

We review the reasonableness of the carrying amount of our trade name on an annual basis in conjunction with our goodwill impairment assessment. As of September 30, 2004, the fair value of our trade name determined in accordance with the methodology described above exceeded its carrying amount. During our 2004 fiscal fourth quarter, no events or changes in circumstances occurred that required us to reassess the fair value of our trade name. Therefore, no impairment of our trade name exists at December 31, 2004. We cannot provide assurance that future trade name impairment testing will not result in impairment charges in subsequent periods.

#### *Non-Marketable Securities*

The use of fair value to measure certain non-marketable investments is a critical accounting estimate. Investments in non-marketable securities consist of investments in equity securities of private companies, limited liability company interests and limited partnership interests, which do not have readily available price quotations. Certain investments in non-marketable securities are initially carried at cost, as an approximation of fair value. Adjustments to carrying value are made if 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, and for our investment in a limited partnership interest, we adjust its carrying value by recognizing our share of the partnership's quarterly results of operations. In addition, if and when available, management considers other relevant factors relating to non-marketable investments in estimating their fair 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.

Given management's judgment involved in valuing certain of our non-marketable securities, it is possible, as of a given point in time, that a third-party could reach a different conclusion of fair value utilizing the same variables as we have in our analysis.

#### *Other-Than-Temporary Impairment of Exchange Memberships*

The determination of the fair value of our exchange memberships is a critical accounting estimate. Exchange memberships owned by us are originally carried at cost, pursuant to the American Institute of Certified Public Accountants (AICPA) *Audit and Accounting Guide Brokers and Dealers in Securities*. Adjustments to carrying value are made if we deem that an other-than-temporary decline in value, as defined in Emerging Issues Task Force (EITF) Issue No. 03-~~14~~ *The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments*, and in Section M of Topic 5 of the SEC staff accounting bulletin series (SAB No. 59) has occurred. In determining whether the value of our owned exchange memberships is impaired (*i.e.*, fair market value is below cost) and whether such impairment is temporary or other-than-temporary, we consider many factors, including, but not limited to, information regarding recent sale and lease prices of exchange memberships, historical trends of sale and lease prices of memberships on a particular exchange and their duration, the current

condition of the particular exchange's market structure, legal and regulatory developments affecting the particular exchange's market structure and earnings capability, trends in new listings on the particular exchange, general global and national economic factors and our knowledge and judgment of the specialist and execution and clearing industries and the securities market as a whole.

As a result of our analysis of the above-mentioned factors for the three and six month periods ended December 31, 2004, the difference between the fair value of our NYSE exchange memberships and their carrying value at December 31, 2004 is deemed temporary. For the years ended December 31, 2004 and 2003, we recorded other-than-temporary impairment charges of \$18.3 million and \$0.5 million, respectively, to reduce the carrying value (or cost basis) of our NYSE (fiscal 2004) and AMEX (fiscal 2003) exchange memberships.

We cannot provide assurance that the consistent application of this accounting policy to future reporting periods will not result in further adjustments to the carrying value of our exchange memberships.

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

LFSI, through the normal course of business, enters into various securities transactions as agent. The execution, settlement and financing of these transactions can result in off-balance sheet risk and concentration of credit risk. LFSI's execution and clearing activities involve settlement and financing of various customer securities transactions on a cash or margin basis. These activities may expose LFSI to off-balance sheet risk in the event the customer or other broker is unable to fulfill its contractual obligations and LFSI has to purchase or sell securities at a loss. For margin transactions, LFSI may be exposed to significant off-balance sheet risk in the event margin requirements are not sufficient to fully cover losses that customers may incur in their accounts.

#### **May 2004 Refinancing of Our Indebtedness**

On May 18, 2004, in connection with the refinancing of certain of our indebtedness, we repurchased approximately \$93.1 million of our then-outstanding \$100.0 million aggregate principal amount 9.5% senior notes due 2004 (the 2004 Notes) and approximately \$236.4 million of our then-outstanding \$250.0 million aggregate principal amount 12.0% senior subordinated notes due 2007 (the 2007 Notes) and, together with the 2004 Notes, the Old Notes), and paid for related consents delivered by the holders of the Old Notes on or prior to April 19, 2004. The aggregate purchase price we paid for the Old Notes was approximately \$386.9 million, which included the purchase price, premium and consent payments of approximately \$49.0 million and accrued but unpaid interest on the Old Notes up to, but not including, the settlement date. Upon the completion of this refinancing, the indentures governing the remaining outstanding Old Notes were stripped of substantially all restrictive covenants, certain events of default and other related provisions.

In order to fund the repurchase of the Old Notes, we issued the Original Senior Notes. The indenture governing the Original Senior Notes contains provisions similar to the indentures that governed the Old Notes prior to their amendment. For a more complete description of the

restrictive covenants in the indenture governing the Original Senior Notes, please see [Liquidity and Capital Resources](#).

In connection with our purchase of the Old Notes and our payment for the related consents that were delivered on or prior to April 19, 2004, we recorded a charge of approximately \$55.9 million in the second quarter of 2004 for premium and consent payments, accelerated debt issuance cost amortization and discount accretion and other related fees. In connection with the issuance of the Original Senior Notes, we capitalized certain costs in the aggregate amount of approximately \$12.7 million, and are amortizing these costs over the life of these notes.

#### **Repayment of Remaining 2004 Notes**

On August 16, 2004, we repaid the \$6.9 million aggregate principal amount of 2004 Notes that remained outstanding after our May 2004 refinancing, plus all accrued and unpaid interest thereon, for an aggregate of \$7.2 million. No 2004 Notes remain outstanding and the indenture governing the 2004 Notes was terminated.

#### **Completed Exchange Offer**

On September 10, 2004, pursuant to a registration rights agreement between the initial purchaser of the Original Senior Notes and us, we offered to exchange (i) our 9.5% Senior Notes due 2009 that have been registered under the Securities Act of 1933, as amended (the [2009 Senior Notes](#)), for an equal principal amount of outstanding Original 2009 Notes and (ii) our 11.0% Senior Notes due 2012 that have been registered under the Securities Act of 1933, as amended (the [2012 Senior Notes](#), and together with the 2009 Senior Notes, the [Senior Notes](#)), for an equal principal amount of outstanding Original 2012 Notes.

The exchange offer expired on October 22, 2004, with the holders of 98.5%, or \$197.0 million aggregate principal amount, of Original 2009 Notes having tendered their Original 2009 Notes for exchange, and the holders of 100.0%, or \$260.0 million aggregate principal amount, of the Original 2012 Notes having tendered their Original 2012 Notes for exchange. The Senior Notes represent the same indebtedness as the Original Senior Notes that were exchanged and have been issued under the same indenture. All subsequent references in this Report to the term [2009 Senior Notes](#) shall include the \$3.0 million principal amount of Original 2009 Notes that were not tendered in the exchange offer and remain outstanding.

#### **Completed Excess Proceeds Offer**

**To the extent we did not use the net proceeds of the sale of the Original Senior Notes to repurchase Old Notes in connection with the May 2004 debt refinancing, repurchase the then-outstanding shares of our Series B preferred stock before September 15, 2004 and pay related fees and expenses, the Senior Notes indenture required us to offer to use such excess proceeds to repurchase an equal principal amount of Senior Notes at a price of 101.0%, on a pro rata basis.**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

Based on the aggregate principal amount of Old Notes that we repurchased in May 2004, the repurchase of our Series B preferred stock in July 2004 (see Completed Preferred Stock Exchange Offer and Subsequent Repurchase ) and the fees and expenses incurred in connection therewith, the excess proceeds amount was approximately \$18.2 million. Accordingly, on

November 1, 2004, we commenced an offer to purchase Senior Notes in the aggregate principal amount of up to approximately \$18.2 million. This excess proceeds offer expired on December 1, 2004, with approximately \$0.1 million principal amount, including accrued and unpaid interest, of 2009 Senior Notes having been tendered.

#### **Completed Preferred Stock Exchange Offer and Subsequent Repurchase**

On January 21, 2004, we completed an exchange offer pursuant to an exemption from registration under Section 3(a)(9) of the Securities Act of 1933, as amended, pursuant to which we exchanged one share of a newly-created Series B preferred stock for each share of our then-issued and outstanding Series A preferred stock. In the exchange offer, all of the approximately 39,186 shares of Series A preferred stock were exchanged by the fourteen holders of record for shares of our Series B preferred stock. Issuance of the newly-created shares of Series B preferred stock was contingent upon the tender for exchange of 100% of the issued and outstanding shares of Series A preferred stock.

On June 14, 2004, we commenced an offer to purchase any and all of the approximately 39,186 then-outstanding shares of our Series B preferred stock. On July 12, 2004, the offer expired with 100% of the then-outstanding shares of Series B preferred stock having been tendered. On July 13, 2004, we purchased all of the tendered shares at a price of \$1,000 per share, plus accrued and unpaid dividends up to but not including the date of purchase for approximately \$42.6 million and all then-outstanding shares of our Series B preferred stock were retired. As a result of the purchase, we recorded an expense in the third quarter of 2004 of approximately \$0.5 million due to the acceleration of the discount accretion on the shares that were purchased.

Of the approximately 39,186 then-outstanding shares of our Series B preferred stock, approximately 9,760 shares had been held in escrow in order to secure the indemnification obligations of the former stockholders of ROBB PECK McCOOEY Financial Services, Inc. ( RPM ) in connection with our acquisition of RPM in March 2001. In connection with the completion of the offer to purchase all then-outstanding shares of our Series B preferred stock, this escrow arrangement was terminated in order to facilitate our objective of repurchasing and retiring all outstanding shares of our Series B preferred stock without forfeiting any material right to indemnification under the merger agreement governing our acquisition of RPM.

#### **Results of Operations**





**Specialist Segment Operating Results**

Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

(000 s omitted)	For the Years Ended December 31,			2004 vs. 2003	2003 vs. 2002
	2004	2003	2002	Percentage Change	Percentage Change
<b>Revenues:</b>					
Net gain on principal transactions	\$ 182,535	\$ 202,206	\$ 342,400	(9.7)%	(40.9)%
Commissions	48,781	47,450	50,653	2.8	(6.3)
Other	13,707	6,927	8,116	97.9	(14.7)
Total segment revenues	245,023	256,583	401,169	(4.5)	(36.0)
Operating expenses	148,799	144,731	176,704	2.8	(18.1)
Goodwill impairment	37,600	166,250		(77.4)	
Exchange memberships impairment	16,300				
Restitution and fines		63,519		(100.0)	
Pre-tax income (loss)	\$ 42,324	\$ (117,917)	\$ 224,465	135.9%	(152.5)%

Revenues from our Specialist segment consist primarily of net gain earned from principal transactions in securities for which we act as specialist. Net gain on principal transactions represents trading gains net of trading losses and SEC transaction fees, where applicable, and are earned by us when we act as principal buying and selling our specialist stocks, rights, options, ETFs and futures. Also included in net gain on principal transactions are 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 specialist, and accrued dividends receivable or payable on our equity positions. These revenues are primarily affected by changes in share volume traded and fluctuations in price of stocks, rights, options, ETFs and futures in which we are the specialist or in which we make a market.

Commissions revenue generated by our Specialist segment consists primarily of fees earned when our specialists act as agents by executing limit orders on behalf of brokers, professional traders and broker dealers after a specified period of time; we do not earn commissions when we match market orders or when we act as a market-maker.

Other revenue at our Specialist segment consists primarily of interest income, proprietary trading gains or losses and gains or losses from an investment in a hedge fund.

**Key Metrics of our LaBranche & Co. LLC Specialist Business** When assessing the performance and financial results of a specific period, management examines certain metrics to ascertain their impact on our LaBranche & Co. LLC specialist's financial results. Some of the key metrics that we review, and their values for 2004, 2003 and 2002, are as follows:

	2004	2003	2002	2004 vs. 2003 Percentage Change	2003 vs. 2002 Percentage Change
NYSE average daily share volume (in millions)	1,456.7	1,398.4	1,441.0	4.2%	(3.0)%
LAB share volume on the NYSE (in billions)	96.1	94.5	102.1	1.7%	(7.4)%
LAB dollar value on the NYSE (in billions)	\$ 2,819.1	\$ 2,477.4	\$ 2,686.5	13.8%	(7.8)%
Share volume of principal shares traded (in billions)	22.3	27.6	35.7	(19.2)%	(22.7)%
Dollar value of principal shares traded (in billions)	\$ 682.7	\$ 725.1	\$ 983.4	(5.8)%	(26.3)%
Average closing price of the CBOE Volatility Index	15.5	22.0	27.3	(29.5)%	(19.4)%
Program trading as a percentage of NYSE average daily share volume	50.6	37.5	37.5	34.9%	0.0%

Generally, an increase in the average daily share volume on the NYSE, an increase in volatility (as measured by the average closing price of the CBOE's Volatility Index®, or the VIX ), an increase in the dollar value and share volume of our principal shares or a decrease in program trading enables the specialist to increase its level of principal participation and thus its ability to realize net gain on principal transactions. While these metrics are monitored by management each period, they are not the sole indicators or factors in any given period that determine our level of revenues, profitability or overall performance. Other factors, such as extreme price movements, unanticipated company news and events and other uncertainties may influence our financial performance either positively or negatively.

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

The decline in net gain on principal transactions is attributable primarily to our LaBranche & Co. LLC subsidiary, where specialist trading revenue decreased to \$149.5 million for 2004 from \$185.3 million for 2003. The decrease was due to a decline in principal shares traded as well as a significant decline in market volatility, as measured by the average closing price of the VIX. Another factor that has reduced the opportunity for the specialist to participate is the continuing rise in program trading as a percentage of NYSE average daily share volume. Program trading involves reducing large share orders into many smaller orders, resulting in the orders being matched electronically. These factors offset the benefit from the increases in NYSE average daily share volume, and share volume and dollar value traded for stocks in which LaBranche & Co. LLC is the specialist. Net gain on principal transactions generated by our LSP and LSPS subsidiaries increased to \$33.0 million in 2004 from \$16.9 million in 2003. This revenue growth was the result of an increase in the number of products traded, market-maker professionals and exchanges in which LSP trades.

Other revenue earned by our specialist segment was higher primarily due to increased proprietary trading gains, and higher interest income from our stock borrow transactions resulting from increased trading activity at LSP and LSPS and from our short to medium term investments.

For a discussion of operating expenses see Our Operating Expenses below.

### **Year Ended December 31, 2003 Compared to Year Ended December 31, 2002**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

In 2003, our net gain on principal transactions decreased primarily as a result of decreases in NYSE share and dollar volumes traded for stocks in which we are the specialist, and decreases in NYSE market share and volatility. Throughout 2003, the dollar value and share volume of principal shares traded decreased significantly, thereby reducing our opportunities to trade profitably. The NYSE's share of consolidated volume of trades of NYSE-listed stocks decreased to 79.5% for 2003 as compared to 82.0% for 2002. The decline in volatility in the market, as measured by the VIX, also contributed to the lower net gain on principal transactions. Of our total \$202.2 million and \$342.4 million of net gain on principal transactions for the years ended December 31, 2003 and 2002, respectively, \$16.9 million and \$0.9 million, respectively, were generated from derivative trading activities at our LSP subsidiary.



Commissions revenue earned by our Specialist segment decreased due to a decrease in the share volume executed by us as agent and the effect of competitive price pressures on our billing structure. The total share volume executed by us as agent in our specialist stocks decreased 6.7% to 8.4 billion shares for 2003 from 9.0 billion shares for 2002. The share volume executed by us as agent is affected by the share volume of LaBranche & Co. LLC's specialist stocks on the NYSE, which decreased 7.4% as noted in the key metrics chart above.

For a further discussion of operating expenses see "Our Operating Expenses" below.

**Execution and Clearing Segment Operating Results**

Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

(000 s omitted)	For the Years Ended December 31,			2004 vs. 2003	2003 vs. 2002
	2004	2003	2002	Percentage Change	Percentage Change
<b>REVENUES:</b>					
Commissions	\$ 47,263	\$ 46,994	\$ 41,391	0.6%	13.5%
Other	753	915	3,174	(17.7)	(71.2)
Total segment revenues	48,016	47,909	44,565	0.2	7.5
Operating expenses	52,827	57,293	54,390	(7.8)	5.3
Goodwill impairment		4,052		(100.0)	
Exchange memberships impairment	2,027	515		293.6	
Pre-tax loss	\$ (6,838)	\$ (13,951)	\$ (9,825)	51.0%	(42.0)%

Our Execution and Clearing segment's commissions revenue includes fees charged to customers for execution, clearance and direct-access floor brokerage activities.

Our Execution and Clearing segment's other revenues consist of interest income, proprietary trading net gains or losses and fees charged to customers for use of our proprietary front-end order execution system.

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

Other revenue from our Execution and Clearing segment decreased as LFSI ceased providing its proprietary front end order execution system on a service bureau basis, and also decreased due to a decline in interest income. Interest income decreased as a result of lower balances of our short term investments and reduced levels of stock-borrow transactions.

For a discussion of operating expenses see Our Operating Expenses below.

### **Year Ended December 31, 2003 Compared to Year Ended December 31, 2002**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

Commissions revenue from our Execution and Clearing segment increased primarily due to a full year of revenues from our institutional execution group which commenced operations in July 2002. The growth in our institutional execution group was also the result of the general growth and expansion of its customer base. The increase in institutional execution group revenues was partially offset by a decline in direct-access and clearance revenues resulting from

the discontinuation of our prime brokerage business, a decline in clearing customers and a general decrease in the volume of direct access executions during 2003.

Other revenue from our Execution and Clearing segment decreased primarily due to the decline in proprietary trading revenues as well as a decline in interest income. Interest income decreased as a result of significantly lower interest rates for our short term investments and stock-borrow transactions and the decrease in customer debit account balances. Proprietary trading revenues decreased due to the discontinuation of proprietary trading during 2003.

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

### **Other Segment Operating Results**

Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

(000 s omitted)	For the Years Ended December 31,			2004 vs. 2003	2003 vs. 2002
	2004	2003	2002	Percentage Change	Percentage Change
<b>REVENUES:</b>					
Other	\$ 26,008	\$ 1,497	\$ 7,111	1,637.3%	(78.9)%
Total segment revenues	26,008	1,497	7,111	1,637.3	(78.9)
Operating expenses	67,934	54,703	55,627	24.2	(1.7)
Debt repurchase premium	49,029				
Pre-tax loss	\$ (90,955)	\$ (53,206)	\$ (48,516)	70.9%	9.7%

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.

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003**





Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

Other revenues increased primarily as a result of the \$24.9 million realized gain from the sale of our investment in Lava during 2004.

For a discussion of operating expenses see Our Operating Expenses below.

**Year Ended December 31, 2003 Compared to Year Ended December 31, 2002**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

Other revenue decreased as a result of a net depreciation in the value of our non-marketable investments in 2003. For 2002, the value of these investments had appreciated. The decrease was also due to a decline in interest income during 2003 as a result of lower interest rates for our short to medium term investments.

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

**Our Operating Expenses**

(000 s omitted)	For the Years Ended December 31,			2004 vs. 2003 Percentage Change	2003 vs. 2002 Percentage Change
	2004	2003	2002		
<b>EXPENSES:</b>					
Employee compensation and related benefits	\$ 99,310	\$ 99,123	\$ 131,511	0.2%	(24.6)%
Interest	63,789	48,188	48,589	32.4	(0.8)
Exchange, clearing and brokerage fees	39,010	40,406	37,729	(3.5)	7.1
Lease of exchange memberships	15,565	24,773	25,939	(37.2)	(4.5)
Goodwill impairment	37,600	170,302		(77.9)	
Exchange memberships impairment	18,327	515		3,458.6	
Debt repurchase premium	49,029				
Restitution and fines		63,519	—	(100.0)	—
Other operating expenses	51,886	44,237	42,953	17.3	3.0
Total expenses before provision (benefit) for income taxes	374,516	491,063	286,721	(23.7)	71.3
Provision (benefit) for income taxes	\$ (12,045)	\$ (6,007)	\$ 78,898	(100.5)%	(107.6)%

Our Specialist segment's employee compensation and related benefits consists of salaries, wages and profitability-based compensation paid to our traders and related support staff. The employee compensation and related benefits related to our Execution and Clearing segment consists of salaries, wages and profitability-based compensation paid to our execution and clearing professionals, as well as compensation based on commissions earned by various trading professionals. Profitability-based compensation may include cash compensation and stock-based compensation paid or granted to managing directors, trading professionals and other employees based on our profitability.

Interest expense is primarily incurred from the indebtedness in connection with our reorganization from partnership to corporate form in 1999, our acquisitions, the issuance of promissory notes in exchange for our preferred stock and the 2004 refinancing of the majority of our Old Notes. The interest expense at our Specialist segment is primarily the result of margin interest expense relating to positions taken at our LSP and LSPS subsidiaries and interest on subordinated indebtedness that has been approved by the NYSE for inclusion in the net capital of our LaBranche & Co. LLC subsidiary. Customers' free credit balances and bank loans generate interest expense at our Execution and Clearing segment.

Exchange, clearing and brokerage fees expense at our Specialist segment consists primarily of fees paid by us to 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, an allocation fee requiring specialist firms to share the cost of newly allocated listings, technology fees, a flat annual fee and execution and clearing fees. Our Execution and Clearing segment's exchange, clearing and brokerage fees expense consists of floor brokerage fees paid to direct-access floor brokers and fees paid to various exchanges.

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

While consolidated employee compensation and related benefits increased slightly for 2004 as compared to 2003, there were material changes within the components of employee compensation and related benefits at each of our segments year over year. The main cause of these changes was the increase in profitability-based compensation, salaries and related benefits at our LSP and LSPS subsidiaries resulting from increased trading and support personnel, which is a reflection of their continued growth. These increases were partially offset by decreases in salaries at our NYSE specialist subsidiary due to a reduction in personnel. The expiration and payment of a retention bonus plan liability, and a decrease in deferred compensation expense, both related to a prior acquisition, also contributed to the partial offset of the overall increase in employee compensation. Salaries and profitability-based compensation at our Execution and Clearing segment declined due to a decrease in trading and support personnel. Employee compensation and related benefits decreased to 31.1% of revenues for 2004 from 32.4% for 2003.

Interest expense increased primarily as a result of the issuance of the Senior Notes in connection with the repurchase on May 18, 2004 of substantially all the then-outstanding Old Notes. As a result of the repurchase, we recorded \$5.5 million of additional interest expense related to the acceleration of debt issuance cost amortization and senior notes discount accretion. The additional interest expense on the Original Senior Notes, resulting from the increased outstanding indebtedness, also contributed to the increase. The remaining increase in interest expense was the result of increased margin interest charges relating to the growth and expansion of trading activity at our LSP and LSPS subsidiaries. While interest expense increased to 20.0% of total revenues for the year 2004 from 15.7% for 2003, non-tax deductible dividends on preferred stock have been eliminated effective July 2004.

Exchange, clearing and brokerage fees declined primarily due to the decrease in fees at our NYSE specialist subsidiary. Contributing to the decrease was the elimination of the NYSE technology fee in July of 2003, lower allocation fees for new listings, and a decrease in NYSE regulatory fees due to a lower number of NYSE floor personnel. Partially offsetting these decreases was an increase in exchange, clearing and brokerage fees at our execution and clearing segment related to higher LFSI revenues from direct-access floor brokers. Additionally, commissions expense and exchange fees at our LSP and LSPS subsidiaries increased due to increased trading activity. Exchange, clearing and brokerage fees declined to 12.2% of revenues for 2004 from 13.2% for the year 2003.

Lease of exchange memberships decreased substantially as a result of the decline in the average annual lease cost of an NYSE membership and a decrease in the number of our NYSE leased memberships. Our average annual lease cost of an NYSE membership for the year 2004 was approximately \$235,000, as compared to approximately \$316,000 for 2003. Additionally, we leased on average approximately 11 fewer NYSE seats for 2004 than we did in 2003. Lease of exchange memberships expense decreased to 4.9% of total revenues for the year ended December 31, 2004 from 8.1% for the same period in 2003.

Other operating expenses increased in 2004 as compared to 2003 primarily due to an increase in legal, audit and other professional fees incurred primarily in connection with



Sarbanes-Oxley Act compliance, the refinancing of our debt and litigation. Bank charges also increased due to investment banking fees relating to our debt refinancing, and fees charged on a committed revolving credit facility established in the first quarter of 2004, which was terminated upon the completion of the refinancing of our indebtedness on May 18, 2004. Additional expenses relating to our debt refinancing included credit rating service fees, as well as printing and filing fees. An increase in insurance premiums also contributed to the increase.

In September 2004, we recorded a goodwill impairment charge of \$37.6 million, all of which was attributable to our Specialist segment. SFAS No. 142, Goodwill and Other Intangible Assets ( SFAS No. 142 ) requires entities to test goodwill for possible impairment on an annual basis, or more frequently, if certain events and circumstances exist. We tested our goodwill for impairment at December 31, 2003, at which time we recorded an impairment charge of \$170.3 million, of which \$166.2 million was attributable to our Specialist segment and \$4.1 million was attributable to our Execution and Clearing segment. Due to certain changes in circumstances, such as the decrease in our market capitalization and continued downward trends in our principal trading revenues, we tested our goodwill for impairment as of September 30, 2004. The impairment charge, which represents the excess of the carrying value of our Specialist segment's goodwill over its implied fair value, was necessary to properly reflect the carrying value of our goodwill at September 30, 2004. We updated our third quarter 2004 goodwill valuation results at December 31, 2004, per the annual testing requirement, and noted no further impairment of this asset at this date. For a more complete description of our methodology in evaluating the reasonableness of the carrying value of our goodwill, please see Critical Accounting Estimates.

Exchange memberships impairment significantly increased in 2004 as compared to 2003 as a result of an \$18.3 million other-than-temporary impairment charge related to our NYSE exchange memberships. Of this total, \$16.3 million was attributable to our Specialist segment and \$2.0 million was attributable to our Execution and Clearing segment. Whereas the 2004 impairment charge was related to the 39 NYSE memberships we own (each of which is valued at \$1.5 million at December 31, 2004, compared to \$2.0 million at December 31, 2003), the 2003 impairment charge was related to an AMEX membership owned by our LFSI subsidiary.

We incurred a \$49.0 million charge in connection with the repurchase of a substantial portion of our then-outstanding Old Notes. This charge was attributable to a consent payment, which was offered to debt holders who tendered their 2004 Notes and 2007 Notes by April 19, 2004, and a premium for tendering the 2004 Notes and 2007 Notes for purchase prior to their maturity.

Our benefit for income taxes increased two-fold in 2004 to approximately \$12.0 million. In conjunction with this increase, our effective tax rate rose to 21.8% for 2004 from 3.2% for 2003 as a result of non-deductible goodwill impairment charge and NYSE penalties of approximately \$179.2 million in 2003, which almost equaled that fiscal year's book net loss. By contrast, the non-deductible goodwill impairment charge of approximately \$33.3 million in 2004 represented 59.7% of the book net loss for 2004. Accordingly, this permanent difference offset almost half of 2004's statutory tax rate of 46.1%, or approximately 18.0%.

**Year Ended December 31, 2003 Compared to Year Ended December 31, 2002**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

Employee compensation and related benefits expense decreased as a result of a reduction in profitability-based compensation accruals and other employee benefits due to lower revenues in 2003. The decrease was partially offset by an increase in employee salaries due to the hiring of additional trading and support personnel for LSP and LFSI. Employee compensation and related benefits expense increased to 32.4% of total revenues in 2003, from 29.0% of total revenues in 2002 as a result of lower revenues.

In the fourth quarter of 2003, we recorded a goodwill impairment charge of \$170.3 million, of which \$166.2 million was attributable to our Specialist segment and \$4.1 million was attributable to our Execution and Clearing segment. In determining the goodwill impairment, we first compared the fair value of each reporting unit to its carrying value through an analysis of our market capitalization and discounted cash flows techniques. For the year ended December 31, 2003, we engaged an independent valuation firm to assist us with these fair value tests. Since the carrying value of each reporting unit exceeded its fair value, we then compared the implied fair value of each reporting unit's goodwill to its carrying value. The implied fair value of each reporting unit's goodwill was determined by valuing all assets and liabilities as if each reporting unit had been acquired in a business combination. The impairment charge, which represented the excess of the carrying value of each reporting unit's goodwill over its implied fair value, was necessary to properly reflect the carrying value of our goodwill at December 31, 2003.

During 2003, the NYSE and the SEC announced the commencement of investigations regarding the trading practices of several NYSE specialist firms, including LaBranche & Co. LLC. In February 2004, we and LaBranche & Co. LLC agreed in principle with the NYSE and the staff of the SEC, subject to final approval by the SEC, to settle the NYSE and SEC specialist trading investigations. Pursuant to the agreement in principle, an accrual was made for the \$63.5 settlement as of December 31, 2003.

### **Liquidity and Capital Resources**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

As of December 31, 2004, we had \$2,055.1 million in assets, of which \$545.0 million consisted of cash and short-term investments, primarily in government obligations maturing within three months, cash and securities segregated under federal regulations and overnight repurchase agreements. To date, we have financed our operations primarily with retained earnings from operations and proceeds from our debt and equity offerings. Due to the nature of the securities business and our role as a specialist, 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, 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.

As of December 31, 2004, the scheduled maturities of our contractual obligations, without taking into account any available roll-over provisions, were as follows:

Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

	Total	<1 Year	1-3 Years (000 s omitted)	3-5 Years	>5 Years
Short Term and Long Term Debt*	\$ 483,542	\$ 2,000	\$ 21,642	\$ 199,900	\$ 260,000
Subordinated Liabilities	17,285	5,990	8,295	3,000	
Deferred Compensation	21,635	6,000	15,635		
Operating Lease Obligations	6,661	2,730	3,509	268	154
<b>Total</b>	<b>\$ 529,123</b>	<b>\$ 16,720</b>	<b>\$ 49,081</b>	<b>\$ 203,168</b>	<b>\$ 260,154</b>

\* Amounts represent aggregate amount to be paid at maturity and do not include discounts of approximately \$0.1 million as of December 31, 2004.

The above table includes indebtedness with primarily long-term maturities, whose interest and principal payments have a significant effect on the cash available to finance our current and future operations. As of December 31, 2004, our most significant long-term indebtedness was the \$199.9 million aggregate principal amount of 2009 Senior Notes, which mature in May 2009, and the \$260.0 million aggregate principal amount of 2012 Senior Notes, which mature in May 2012.

The outstanding senior notes were issued pursuant to a new indenture that is similar to the indentures that governed the Old Notes prior to their amendment in connection with our May 2004 debt refinancing. The new indenture includes certain covenants that, among other things, limit our ability to make certain investments, engage in transactions with stockholders and affiliates, create liens on our assets and sell assets or engage in mergers and consolidations, except in accordance with certain specified conditions. In addition, our ability to incur additional indebtedness (other than certain permitted indebtedness), pay dividends, redeem stock or repurchase subordinated indebtedness prior to maturity will be limited if our consolidated fixed charge coverage ratio is at or below a threshold of 2.00:1 on and after December 31, 2004. The consolidated fixed charge coverage ratio reflects a comparison between (1) our consolidated earnings before interest, taxes, depreciation and amortization expenses, or EBITDA, and (2) the sum of our consolidated interest expense and a tax-effected multiple of any dividend payments that we might make with respect to preferred stock. As of December 31, 2004, our consolidated fixed charge coverage ratio was approximately 1.80:1. The indenture governing the Senior Notes provides for certain exceptions to the limitations on restricted payments, including, for example, the July 2004 repurchase of all then-outstanding shares of our Series B preferred stock, repurchase of our Senior Notes, and any restricted payments up to an aggregate of \$15.0 million over the life of the indenture.

In addition, under the indenture governing the Senior Notes, if, at any time, our cumulative restricted payments since May 18, 2004 generally are greater than (i) the sum of (A) 50.0% of our cumulative consolidated net income since July 1, 2004 (or, if such calculation is a loss, minus 100.0% of such loss) and (B) 100.0% of the net cash proceeds received from any issuance or sale of our capital stock since July 1, 2004, plus (ii) \$15.0 million, we will not be entitled to make a restricted payment at such time. While we have not made any restricted payments since May 18, 2004, we cannot be sure if, when or to what extent this covenant will prevent us from making restricted payments in the future. As of December 31, 2004, since our cumulative consolidated net income since July 1, 2004 was negative, we were not entitled to make any restricted payments in excess of the \$15.0 million basket described above.

The indenture governing the Senior Notes permits us to redeem some or all of the 2009 Senior Notes on or after May 15, 2007 and some or all of the 2012 Senior Notes on or after May 15, 2008 at varying redemption prices, depending on the date of redemption. In addition, we have the option to redeem up to 33.0% of the aggregate principal amount of the 2009 Senior Notes at a redemption price of 109.5% and up to 33.0% of the aggregate principal amount of the 2012 Senior Notes at a redemption price of 111.0% using the proceeds of certain equity offerings which we may complete on or prior to May 15, 2007. Under the terms of the indenture, if we sell substantially all our assets or experience specific kinds of changes in control, we will be required to offer to repurchase Senior Notes, on a pro rata basis, at a price in cash equal to 101.0% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

After giving effect to our May 2004 debt refinancing and the repurchase of all then-outstanding shares of our Series B preferred stock in July 2004, the after-tax earnings per share impact of our ongoing interest obligations with respect to the Senior Notes is lower than the combined after-tax earnings per share impact of our interest obligations with respect to the Old Notes and our non-tax deductible dividend obligations with respect to our then-outstanding Series B preferred stock. To the extent we repurchase any Senior Notes in connection with future corporate strategic initiatives, our fixed-term interest payments would be correspondingly reduced.

The remaining \$13.6 million aggregate principal amount of 2007 Notes that we did not repurchase in connection with our May 2004 debt refinancing will continue to accrue interest at a rate of 12.0% per annum until they mature on March 2, 2007. To the extent we are not prohibited under the terms of the indenture governing the Senior Notes, we may seek to repurchase some or all of the remaining 2007 Notes from time to time on the open market.

For 2004, our reported revenues include a \$24.9 million realized gain from the sale of our investment in Lava. In connection with the sale, we received cash of approximately \$39.0 million at the closing. Additional consideration of approximately \$9.5 million is being held in escrow to secure our indemnification obligations as a stockholder of Lava under the merger agreement and may be released in whole or in part 15 months after the acquisition is consummated, subject to the final determination of any then-outstanding indemnification claims and any claims regarding taxes. Under the terms of the indenture governing the Senior Notes, to the extent we do not use the net after-tax proceeds of the Lava transaction to repurchase certain of our secured indebtedness, repay the indebtedness of our subsidiaries or purchase replacement assets, we will be required, on the 361st day following the closing of the Lava transaction, to offer to purchase Senior Notes in an aggregate principal amount equal to such net after-tax proceeds at a price equal to 100.0% of the principal amount of such Senior Notes.

A potential source of liquidity for LaBranche & Co. LLC is the committed line of credit that it maintains with a bank. In October 2004, LaBranche & Co. LLC extended this \$200.0 million committed credit agreement to October 28, 2005 on the same terms and conditions. In connection with the credit agreement, we pay a quarterly fee of 0.25% of the total committed line of credit. Amounts outstanding under this credit facility would be secured by our inventory of



specialist stocks and bear interest at the bank's broker loan rate. This facility can only be used to finance inventory requirements at LaBranche & Co. LLC. In order to maintain the availability of funds under this credit facility, we must comply with certain financial and other covenants.

As a specialist and 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 specialist, 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.

As a broker-dealer, LaBranche & Co. LLC is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers and requiring the maintenance of minimum levels of net capital, as defined in SEC Rule 15c3-1. LaBranche & Co. LLC is required to maintain minimum net capital, as defined, equivalent to the greater of \$100,000 or  $\frac{1}{15}$  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 December 31, 2004, LaBranche & Co. LLC's net capital, as defined, was \$455.1 million, which exceeded the minimum requirements by \$453.2 million.

The NYSE generally requires its specialist firms to maintain a minimum dollar regulatory capital amount in order to establish that they can meet, with their own net liquid assets, their position requirement. As of December 31, 2004, LaBranche & Co. LLC's and LSPS's required combined dollar amount of net liquid assets, as defined, was \$447.0 million. LaBranche & Co. LLC's actual net liquid assets, as defined, was \$458.7 million as of December 31, 2004. LSPS is not required to perform a net liquid assets calculation because LaBranche & Co. LLC's actual net liquid assets exceed the combined net liquid assets requirement of LaBranche & Co. LLC and LSPS. The NYSE is currently reviewing its net liquid asset requirements with an announced view toward reducing the required amounts for specialists such as LaBranche & Co. LLC. The timing and extent of any such reduction, however, has not been finally determined. A reduction in LaBranche & Co. LLC's net liquid assets requirement would allow funds no longer needed for net liquid assets purposes to be used for other corporate purposes.

The AMEX generally requires its equity specialist firms to maintain a cash or liquid asset position of the greater of (a) \$1.0 million or (b) an amount sufficient to assume a position of sixty trading units of each security in which the specialist is registered. As of December 31, 2004, LaBranche & Co. LLC satisfied the AMEX equity specialist liquid asset requirements.

## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

As a registered broker-dealer and member firm of the NYSE, LFSI also is subject to SEC Rule 15c3-1, as adopted and administered by the NYSE and the SEC. Under the alternative method permitted by the rule, the minimum required net capital of LFSI as of December 31, 2004 was equal to the greater of \$1.5 million or 2.0% of aggregate debit items, as defined. As of December 31, 2004, LFSI's net capital, as defined, was \$12.5 million, which exceeded its minimum net capital requirement by \$11.0 million.

As a clearing broker-dealer, LFSI is subject to SEC Rule 15c3-3, as adopted and administered by the SEC. As of January 4, 2005, to comply with its December 31, 2004 requirement, cash and U.S. Treasury Bills in the amount of \$0.1 million have been segregated in a special reserve account for the exclusive benefit of customers exceeding actual requirements by \$0.1 million. As of January 5, 2004, to comply with its December 31, 2003 requirement, cash and U.S. Treasury Bills in the amount of \$6.2 million were segregated in a special reserve account for the exclusive benefit of customers exceeding actual requirements by \$4.3 million. In addition, the PAIB Calculation is computed in order for correspondent firms to classify their assets held by LFSI as allowable assets in the correspondents' net capital calculation. As of January 4, 2005, to comply with its December 31, 2004 requirement, cash and U.S. Treasury Bills in the amount of \$4.4 million have been segregated in a special reserve account for the exclusive benefit of customers exceeding actual requirements by \$3.4 million. As of January 5, 2004, to comply with its December 31, 2003 requirement, cash and U.S. Treasury Bills in the amount of \$3.7 million were segregated in a special reserve account for the exclusive benefit of customers exceeding actual requirements by \$1.5 million.

As a registered broker-dealer and AMEX member firm, LSP is subject to SEC Rule 15c3-1, as adopted and administered by the AMEX and the SEC. 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 December 31, 2004, LSP's net capital, as defined, was \$23.8 million, which exceeded its minimum net capital requirement by \$23.2 million.

As a specialist and member of the NYSE, LSPS is subject to the provisions of SEC Rule 15c3-1, as adopted and administered by the SEC and NYSE. LSPS 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 December 31, 2004, LSPS' net capital, as defined under SEC Rule 15c3-1, was \$4.4 million, which exceeded the minimum requirements by \$4.3 million.

Failure by any of our broker-dealer subsidiaries to maintain its required net capital and net liquid assets, where applicable, may subject it to suspension or revocation of its SEC registration or its suspension or expulsion by the NYSE, the 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. In particular, LaBranche & Co. LLC's and LSPS' combined net liquid asset requirement of \$447.0 million limits our ability to utilize a substantial portion of our liquid assets for other corporate purposes. Although a portion of the combined net liquid asset requirement of \$447.0 million is met by LaBranche & Co. LLC's and LSPS' securities positions, pending trades and other assets associated with its equity and ETF specialist activities, a

substantial portion of LaBranche & Co. LLC's cash and cash equivalents as of December 31, 2004 was used to meet their combined net liquid asset requirement.

In connection with our acquisition of ROBB PECK McCOOEY Financial Services, Inc. (RPM) in March 2001, we assumed its liabilities and obligations under its deferred compensation plan. The deferred compensation plan provides for the payment, on or before December 15, 2007, of approximately \$30.2 million, plus interest at a rate of 8.0% per year, to certain former employees of RPM. While the payment of benefits under this deferred compensation plan may be accelerated in certain circumstances, no more than \$6.0 million in deferred compensation benefits (including interest) may be paid in any 12 consecutive month period beginning March 15, 2001. After taking into account all payments of deferred compensation plan benefits through December 31, 2004, approximately \$18.3 million, plus interest, remains payable under the RPM deferred compensation plan. If the plan is terminated, the deferred compensation benefits (including interest) of all participants, to the extent not previously paid, must be distributed to the participants in one lump sum.

As of December 31, 2004, the subordinated indebtedness of LaBranche & Co. LLC aggregated \$17.3 million (excluding subordinated liabilities related to contributed exchange memberships). This subordinated debt is comprised of senior subordinated notes and junior subordinated notes, which mature, or matured, on various dates between February 2005 and June 2008 and bear interest at annual rates ranging from 7.7% to 10.0%. The senior subordinated notes were originally issued in the aggregate principal amount of \$15.0 million, and, in accordance with their terms, \$3.0 million in principal amount must be repaid on June 3 of each of 2004, 2005, 2006, 2007 and 2008. LaBranche & Co. LLC repaid \$3.0 million in accordance with these terms in June 2004. LaBranche & Co. LLC may prepay, at a premium, all or any part of such senior subordinated notes at any time, provided that the amount prepaid is not less than 5.0% of the aggregate principal amount of such senior subordinated notes then outstanding. Upon the occurrence of a change of control, LaBranche & Co. LLC may, but is not required to, make one irrevocable separate offer to each holder of the senior subordinated notes to prepay all of the senior subordinated notes then held by that holder. The occurrence of a change of control also constitutes an event of acceleration under the senior subordinated notes. Each of the junior subordinated notes has an automatic rollover provision, which extends the maturity for an additional year, unless the lender provides at least seven months advance notice of its intention not to renew at maturity. LaBranche & Co. LLC is entitled to prepay with written consent from the NYSE the junior subordinated notes without penalty under the terms of the agreements relating thereto. During the first quarter of 2005, we repaid approximately \$1.9 million aggregate principal amount, plus accrued but unpaid interest, relating to these notes.

As of December 31, 2004, \$10.0 million of our outstanding indebtedness consisted of one note for \$2.0 million, which matures in June 2005 and bears interest at an annual rate of 8.0%, and eight separate notes, each in the principal amount of \$1.0 million, which mature in August 2007 and bear interest at an annual rate of 9.0%.

As of December 31, 2004, we have a tax receivable of \$1.7 million for 2004 and 2003. In addition, we intend to file a Federal carry-back claim for net operating losses generated in 2004, which will be carried back against 2002 taxable income. The potential refund

claim is approximately \$17.3 million, which is net of a \$1.1 million 2002 tax audit assessment.

Our Other liabilities of \$12.5 million reflected on the accompanying 2004 consolidated statement of financial condition are comprised of legal and tax contingencies. Such contingencies are considered long term, as there is no present obligation to pay such liabilities in the foreseeable future.

We currently anticipate that we will be able to meet our working capital, regulatory capital and capital expenditure requirements through at least the next twelve months.

***Credit Ratings***

The Original Senior Notes were originally sold in private sales to institutional investors on May 18, 2004, and substantially all the Original 2009 Notes and all the Original 2012 Notes were subsequently exchanged for substantially identical Senior Notes registered under the Securities Act of 1933, as amended. The 2004 Notes that remained outstanding after our May 2004 refinancing, in the aggregate principal amount of \$6.9 million, were repaid by us at their maturity on August 15, 2004. The 2007 Notes that remained outstanding after our May 2004 debt refinancing, in the aggregate principal amount of \$13.6 million, are publicly held but are no longer rated. The following table sets forth the credit ratings on our Senior Notes as of December 31, 2004:

	<b>Moody's Investors Service</b>	<b>Standard &amp; Poor's</b>
2009 Senior Notes	Ba1	B
2012 Senior Notes	Ba1	B

**Cash Flows**



## Edgar Filing: LABRANCHE & CO INC - Form 10-K/A

Our cash flows are related primarily to our specialist trading activities, as well as to our financing activities related to the expansion of our business.

*Year Ended December 31, 2004* Our cash and cash equivalents decreased \$47.4 million to \$444.4 million at the end of 2004. The decrease was the result of \$125.4 million used in our operating activities primarily from payment of the \$63.5 million in restitution and fines in settlement of the prior year's NYSE and SEC specialist investigation and a \$74.0 million increase in repurchase agreements. This decrease was partially offset by \$79.0 million provided by financing activities due primarily to the refinancing of our indebtedness.

*Year Ended December 31, 2003* Our cash and cash equivalents increased by \$414.9 million to \$491.9 million at the end of 2003. This increase was primarily the result of investments in U.S. government obligations with original maturities of 90 days or less, as well as our operating activities. We used net cash of \$44.0 million in our investing and financing activities primarily to buy back shares of our then-outstanding preferred stock and to pay dividends on our common shares.

*Year Ended December 31, 2002* Our cash and cash equivalents increased by \$25.0 million to \$77.0 million at the end of 2002. This increase resulted mainly from \$95.5 million provided by our operating activities, offset by \$6.1 million used for investing activities, including our acquisition of Hochstin & Company, Inc., a NYSE floor brokerage company, in October 2002. We used net cash of \$64.4 million in financing activities, primarily to repay indebtedness and to repurchase shares of our then-outstanding Series A preferred stock.

**PART IV**

**Item 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULE.**

(a) Documents filed as part of this report.

(3) *Exhibits:*

- 31.3 Certification of George M.L. LaBranche, IV, Chairman, Chief Executive Officer and President, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.4 Certification of Harvey S. Traison, Senior Vice President and Chief Financial Officer, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.



**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this amended report to be signed on its behalf by the undersigned, thereunto duly authorized.

April 15, 2005

**LaBRANCHE & CO INC.**

By: /s/ George M.L. LaBranche, IV  
George M.L. LaBranche, IV  
Chairman, Chief Executive Officer and President