

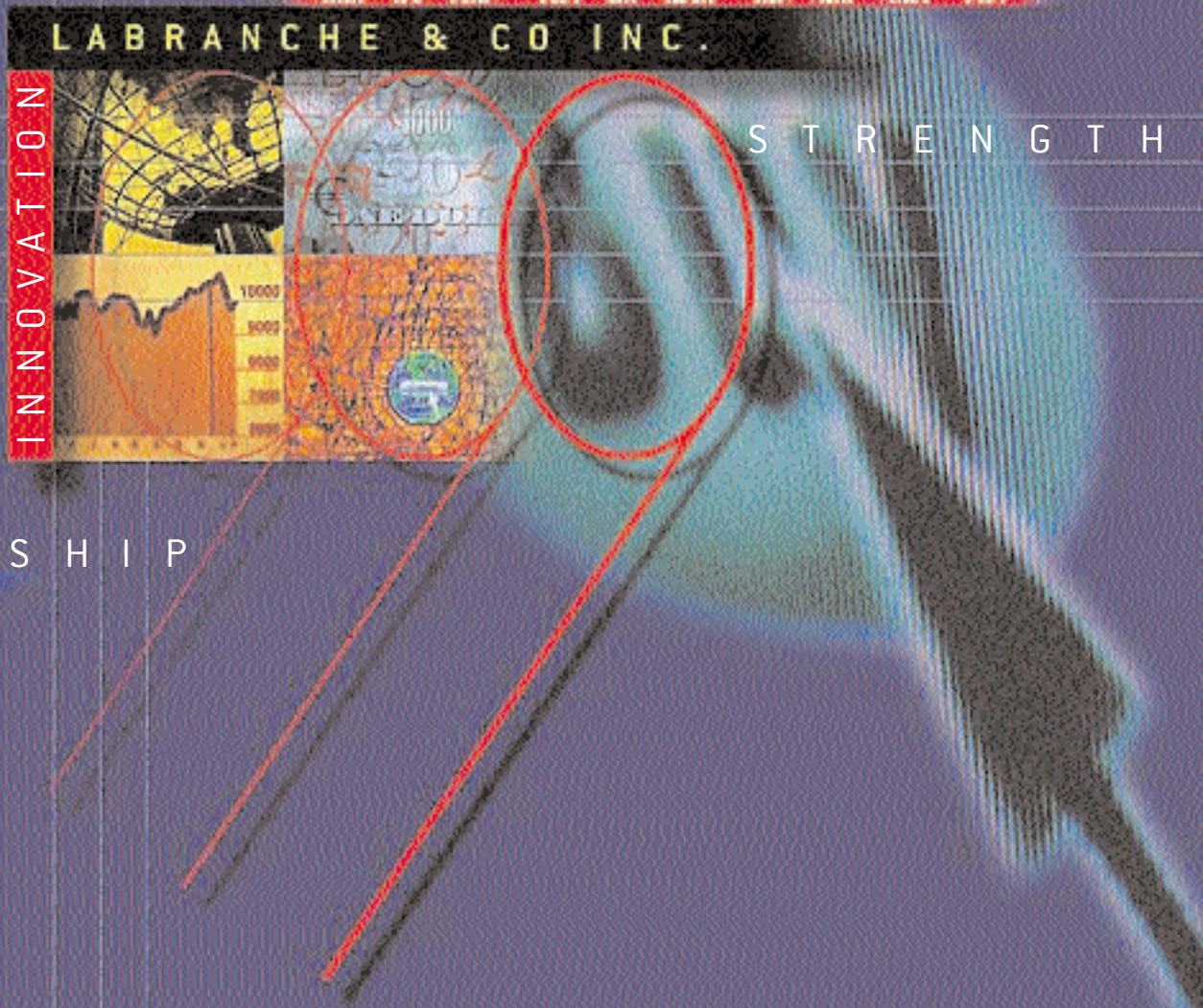
G R O W T H

LABRANCHE & CO INC.

I N N O V A T I O N

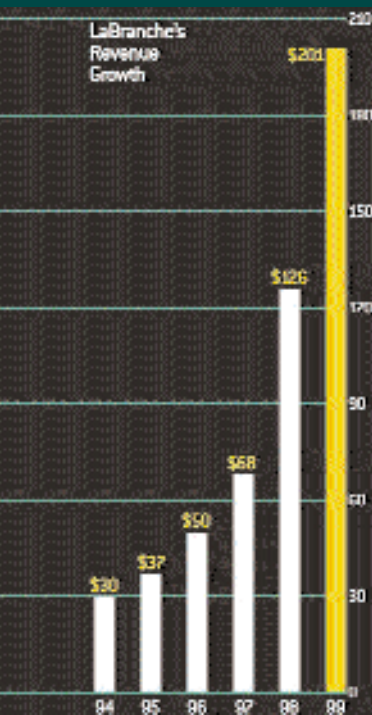
S T R E N G T H

L E A D E R S H I P



SELECTED FINANCIAL & OPERATIONAL DATA

(In millions, except for Operational Data)



LABRANCHE & CO INC. AND SUBSIDIARIES

FOR THE YEARS ENDED DECEMBER 31,*

INCOME STATEMENT DATA:

| | 1999 | 1998 | 1997 |
|---|----------|----------|---------|
| Revenues | \$ 201.0 | \$ 126.4 | \$ 67.6 |
| Income Before Managing Directors' Compensation, Limited Partners' Interest in Earnings of Subsidiary and Provision for Income Taxes | \$ 134.5 | \$ 91.6 | \$ 47.7 |
| Net Income | \$ 29.0 | \$ 2.7 | \$ 1.5 |

BALANCE SHEET DATA:

| | 1999 | 1998 | 1997 |
|----------------------|----------|----------|----------|
| Working Capital | \$ 229.1 | \$ 104.3 | \$ 62.6 |
| Total Assets | \$ 505.1 | \$ 272.2 | \$ 157.8 |
| Total Long-Term Debt | \$ 162.3 | \$ 48.1 | \$ 31.4 |
| Stockholders' Equity | \$ 252.0 | \$ 77.1 | \$ 37.7 |

OPERATIONAL DATA:

| | 1999 | 1998 | 1997 |
|--|-----------|---------|---------|
| Number of our Common Stock Listings | 271 | 284 | 202 |
| Total Share Volume on the NYSE of our Specialist Stocks (in billions) | 25.7 | 20.0 | 10.9 |
| Total Dollar Volume on the NYSE of our Specialist Stocks (in billions) | \$1,209.3 | \$950.4 | \$476.7 |
| NYSE Average Daily Trading Share Volume (in millions) | 809.2 | 673.6 | 526.9 |

*Presented on a historical basis and has not been adjusted to reflect our August 1999 reorganization and related transactions. See Notes to our Consolidated Financial Statements.

T O O U R S H A R E H O L D E R S

For LaBranche & Co Inc., 1999 was an extraordinary year. By every significant measure, our progress was substantial. We generated strong financial results, competed for and won a significant number of new listings and, after the close of the year, completed two acquisitions that have further strengthened our position as one of the leading New York Stock Exchange (NYSE) Specialist firms. LaBranche also made history by becoming the first NYSE Specialist firm to go public. It is my pleasure to welcome the new shareholders who have joined us following our initial public offering last August.

For a year with so many achievements, we wanted to select an annual report theme that captured the qualities and characteristics that distinguish LaBranche. We settled on four words that convey the progress we have made and the opportunities that lay ahead: leadership, strength, growth and innovation.

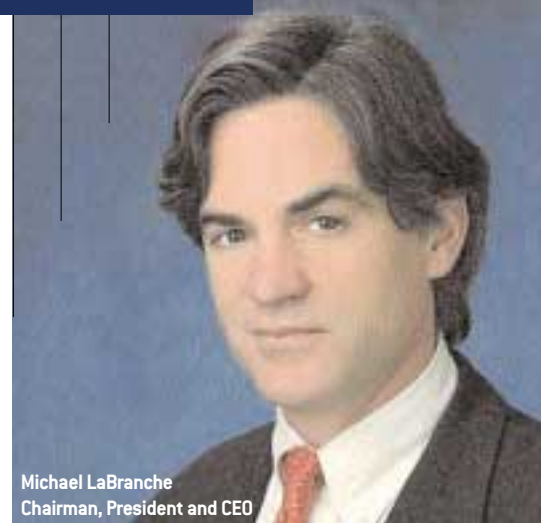
Each of these qualities is evident in LaBranche's decision to pursue its successful common stock and Senior Note offerings, which raised \$235 million in net proceeds. Early in fiscal 2000, we also completed a \$250 million additional debt offering, which was used in large part to complete our acquisitions of two other Specialist firms. We recognize that the economics of the

Specialist business are changing. As trading and dollar volumes on the NYSE rise, it will become increasingly important for Specialists to have a substantial capital base. Our IPO has strengthened our balance sheet and given us added resources to participate in the growth of the NYSE, attract new listed companies, improve service and enhance technology. As a public company with access to the capital markets, LaBranche is in an excellent position to build on its leadership position.

FINANCIAL STRENGTH

Buoyed by an equity market with growing trading volume, as well as by a large number of new listings, 1999 was a record year for LaBranche.

Net income (after giving pro forma effect to our reorganization, only) for the year was \$54.0 million, or \$1.18 per share, a 70% increase over pro forma net income of \$31.8 million, or \$0.69 per share, in 1998. Pro forma revenues for the year ended December 31, 1999, were \$201.0 million, a 46% increase compared to the pro forma \$137.9 million recorded in 1998. Earnings grew significantly more than revenues, reflecting our strong market-making skills and ability to leverage our cost structure.



Michael LaBranche
Chairman, President and CEO

T O U R S H A R E H O L D E R S

Associated with these positive financial results is the growth in trading volume. Our revenues are largely driven by volume, and not by the direction of the market. This fact has helped LaBranche remain consistently profitable throughout our history. In 1999, LaBranche was responsible for trading 25.7 billion shares, which accounted for 13.5% of the total shares and 14.5% of the total dollar volume traded on the NYSE, up from 12.7% and 14.2% in 1998.

Our strong capital base has enabled us to compete effectively for new listings. In 1999, LaBranche was awarded 16 new listings, resulting in a 64% win rate in business for which we formally competed. Our new listings include household names such as Toyota Motor Corp. (NYSE: TM), Blockbuster, Inc. (NYSE: BBI), Pepsi Bottling Group, Inc. (NYSE: PBG), Williams Communications Group (NYSE: WCG) and Agilent Technologies, Inc. (NYSE: A). LaBranche's experience, reputation and proven ability to deliver the highest-quality service are valuable assets as we pursue new premier NYSE listings.

We are also positioned to take advantage of the NYSE's fastest-growing segment — international listings. With about 50 foreign listed companies, LaBranche trades more American Depositary Receipts (ADRs) than any other Specialist. In 1999, we not only added Toyota, but we also won Enel S.p.A.

(NYSE: EN), the Italian electric utility, which at the time of its listing was the world's largest IPO in history. The NYSE's focus on becoming increasingly global plays to LaBranche's strengths.

The Company's leadership is demonstrated by its ability to grow the business through strategic acquisitions of Specialist firms. In early March 2000, we completed the acquisitions of two NYSE Specialist firms, Henderson Brothers Holdings, Inc., and Webco Securities, Inc. Henderson Brothers was the Specialist for 113 listed companies, while Webco was the Specialist for 34 listed companies, bringing our total to more than 420 NYSE listed companies. These acquisitions position LaBranche as the number one NYSE Specialist in terms of share and dollar volume traded. In addition, these acquisitions add two Dow Jones Industrial Average stocks to our portfolio and give us more than 70 S&P 500 stocks.

Each of our three acquisitions in 1997 and 1998 resulted in significant and immediate earnings improvement. We are confident that the Henderson Brothers and Webco acquisitions will do the same.

BRIGHT FUTURE

There are few companies today that can point to a consistent record of growth, profitability and innovation that extends back more than 75 years. One reason LaBranche has been able to maintain that impressive distinction is because we have successfully adapted our business strategy to changing market conditions. We expect that the near future will bring some of the most exciting changes the equity markets have seen, and we are confident in our ability to remain competitive and profitable. The new demands placed on Specialist firms will necessitate greater capital strength — and as a publicly traded company with a growing portfolio of high-quality listings, we are in an excellent position to meet that demand.

We are also committed to changing as the markets change. For example, in 1999 we formed a strategic alliance with a leading electronic communications network (ECN). These types of alliances will provide greater liquidity for our after-hours trading. We are also continuously looking into associations with alternative trading systems to give us a competitive advantage in the world's evolving equity markets. We firmly believe that the development of new trading venues and the move toward extended trading hours will help our business by attracting additional investors, thus adding more volume.

Leadership, strength, growth, innovation — these are the qualities LaBranche demonstrated in 1999. They are also the attributes that we rely on as we enter a new year. We have a team of Specialists that is second to none in terms of experience and skill. With the stock markets expected to continue growing, we plan to take advantage of the anticipated increase in trading volume. The eventual transition to decimalization — trading in pennies instead of sixteenths of a dollar — should also benefit our business. Just as we saw with the move from eighths to sixteenths in the latter half of 1997, decimalization will likely result in even higher trading volume, creating more opportunities for the Specialist to participate in the market.

I thank our shareholders, employees, listed companies and the NYSE for making 1999 such a monumental year for LaBranche, and I look forward to working with you to make 2000 just as memorable.

Michael LaBranche



Chairman, President and CEO
March 15, 2000





L E A D E R S H I P

leadership

The textbook definition of the Specialist is straightforward: as the broker's broker, the Specialist connects buyers and sellers of the stocks it represents, adds liquidity to the market, reduces volatility and helps stabilize prices to ensure that the market for each of the securities it represents remains fair and orderly.

This, however, does not fully reflect the value Specialists bring to the market. Indeed, Specialists are responsible for many of the defining characteristics of the NYSE that investors and listed companies take for granted.

What distinguishes the NYSE is its two-way auction market system that allows investors to buy or sell stocks at or close to the most recent sale price. Most investors know that orders executed on the NYSE obtain the best price, but many do not know why. Specialists not only bring buyers and sellers together; they also supply the best bid and ask prices available. In fact, about 30% of the time, the Specialist is able to provide the customer with price improvement.

To ensure a fair and orderly market for their portfolio of listed issues, Specialists have a responsibility to act as principal in cases of order imbalances — when buyers or sellers outnumber each other. When this occurs, LaBranche will take a position counter to the market, buying or selling shares with its own capital to enable investors' orders to be executed in a fair and orderly manner. LaBranche is one of the top firms in committing its capital, thereby providing greater liquidity to its listed companies' stocks.

In 1999, LaBranche was responsible for trading approximately 13.5% of the total shares and

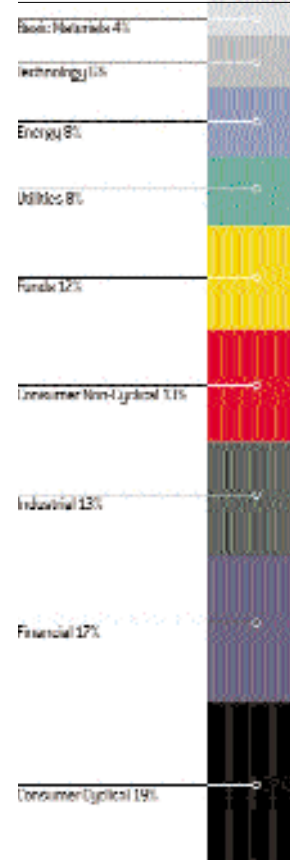
14.5% of the daily dollar volume traded on the NYSE. With the acquisitions of Henderson Brothers and Webco, which were completed in early March 2000, LaBranche now accounts for over 20% of the NYSE daily dollar volume. These figures reflect not only our leading market position but also our ability to generate revenues, which are driven by trading volume and not the direction of the market. LaBranche's leadership is also evident in the Company's substantial capital base.

For more than 75 years, LaBranche has taken a distinctive approach, which is evident in the listed companies it trades, the volume of the market it represents, its high standing in the investment community and the quality of the professionals it employs. Members of our management team average more than 30 years of experience on the trading floor.

LaBranche's special situations team also demonstrates LaBranche's distinctive approach. This team of highly experienced Specialists and trading assistants can be deployed to handle volatile market situations, such as initial public offerings, mergers and acquisitions or a downgrade by an influential research analyst. This resource enables us to meet our responsibilities and obligations to listed companies, their shareholders and other market participants with the highest level of professionalism and skill, while at the same time closely monitoring and protecting our own capital position.

To ensure LaBranche's leadership well into the future, the Company has established an intense Specialist training program. This apprenticeship approach develops our most important asset by capitalizing on the skills of our most experienced Specialists.

LaBranche Clients
by Industry*



* Pro forma for the acquisitions of Henderson Brothers and Webco

S T R E N G T H

strength

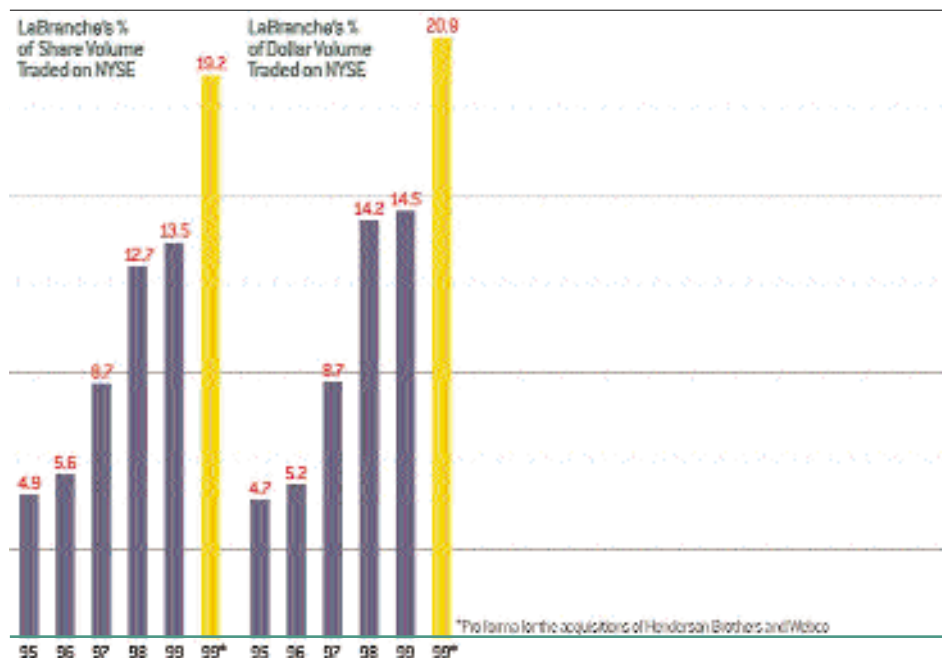


There are many ways to measure strength and, by any measure, LaBranche exemplifies it. Using one significant yardstick, LaBranche's 30 largest listed companies have a market capitalization of almost \$3 trillion — about equal to the market capitalization of the 30 largest NASDAQ companies.

Year after year, LaBranche consistently ranks among the top NYSE Specialist firms in terms of four frequently used measures — total capital, number of companies represented, dollar volume traded and share volume traded. Our dollar volume traded and share volume traded will grow as volumes continue to increase on the NYSE.

Including our recent acquisitions of Henderson Brothers and Webco, we are now the second-largest Specialist firm in terms of number of listings, with more than 420 listed companies. Our companies feature many leaders in our economy, including seven stocks included in the Dow Jones Industrial Average and more than 70 S&P 500 stocks. AT&T, Compaq, ExxonMobil, Ford, The Gap, Lucent, Merck and Nokia are among the household names that we represent. Our roster of more than 420 listed companies is an incredibly diverse group in terms of industries, revenues and market capitalization. Whether large or small, LaBranche serves each of its listed companies with the same attention and professionalism.

Our new listings, combined with higher volume on the NYSE and our efficient use of capital, led to a strong year for LaBranche. Our 1999 net income (after giving pro forma effect to our reorganization, only) increased 70% over the previous year, while pro forma revenues grew 46%. Most important, 1999 was consistent with our past performance — LaBranche has consistently delivered strong results through all market and economic conditions. Our growth is not contingent on a bull market; in fact, while the NYSE composite average was up on 47% of the trading days in 1999, LaBranche was profitable on 81% of the year's trading days. LaBranche, a publicly traded company, with a large and growing capitalization, has access to debt and equity markets to finance additional growth.



Industrial Average

10000

9000

8000

G R O W T H

growth

10000

9000

8000

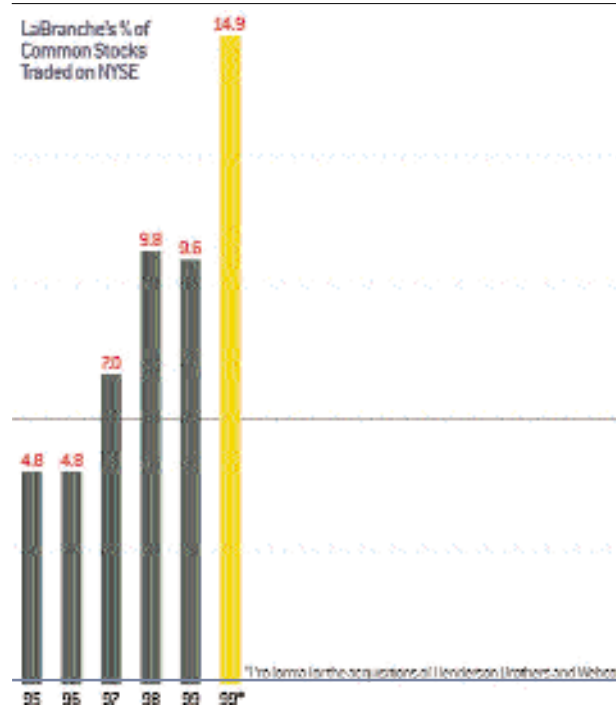
To gauge LaBranche's growth and progress, it is useful to see how much has changed in the industry since the firm's founding in 1924.


That year, average daily volume on the NYSE was about 1 million shares. In 1999, average daily volume was over 800 million shares and it was not unusual for volume on any particular day to top 1 billion shares. In 1924, we represented three listed companies; today, we represent more than 420. The 1990s were an exciting time for the equity markets generally and for LaBranche in particular. The record-high volume on the NYSE resulted in higher revenues and increased profits for LaBranche.

Early on, LaBranche saw the advantages of greater size and capital. As a result, the Company has been a leading participant in the consolidation trend among Specialist firms. Since 1990, LaBranche has acquired six Specialist firms. This is not just growth for growth's sake — each of our earlier acquisitions has contributed to significant and immediate revenue and earnings improvement, through better use of our capital and the ability to leverage our infrastructure. In addition, we expect our recent acquisitions to produce similar results.

Although we have added new listings through acquisitions, we have also successfully competed for new NYSE listings. In 1999, LaBranche won 16 new listings, representing a 64% win rate among those listings for which we interviewed. New listings allow us to diversify the industry sectors in which we participate and contribute to our revenue growth.

The future continues to hold much opportunity for growth. Just as LaBranche greatly benefited from the June 1997 rule change that allowed listed companies to choose their Specialist, there are now many changes on the horizon that we believe offer similar growth opportunities. The move to extend trading hours and the creation of alternative trading systems should eventually lead to greater trading volume, which is the key driver of LaBranche's revenues and earnings. The NYSE has identified foreign-based companies as a very promising area for new listings. With the largest list of American Depositary Receipts (ADRs) on the NYSE, LaBranche is in a strong position to compete for more of these listings, as witnessed by our wins of Toyota and Enel. Looking ahead to 2000 and beyond, the move toward trading in decimals will greatly increase trading opportunities for LaBranche.





Connect



Connect

I N N O V A T I O N

innovation

To continue to succeed, a company must constantly innovate. The Specialist industry is no exception.

As the landscape changes, we are constantly altering the way we work and think. LaBranche has earned a reputation for innovation that can be seen from the way we work with our listed companies to our decision to become the first publicly traded Specialist firm.

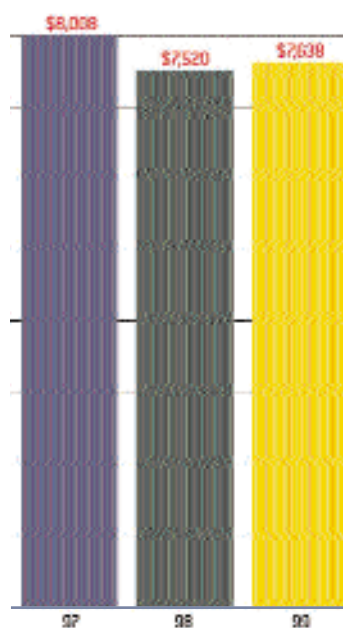
LaBranche was the first Specialist firm to introduce initiatives to keep our listed companies abreast of our activities. Our dedicated corporate relations team provides senior management of our listed companies with real-time information and news, so they can be better informed and more responsive to their shareholders. These firsts include hosting an annual Listed Company Conference that allows senior managers to get a unique perspective of Wall Street and the activities of their Specialist; publishing *The LaBranche Post*, a newsletter featuring behind-the-scene stories; and conducting an annual listed company survey that provides valuable feedback that we use to enhance the services we offer listed companies. A resource for both our listed companies and investors, LaBranche's website offers definitions of Wall Street terminology, hyperlinks to the websites of our listed companies and the NYSE, and investor relations information on LaBranche's own stock.

Innovation also extends to our daily work. LaBranche is at the cutting edge of a changing marketplace, and nowhere is this more apparent than in the way we have embraced technology. To become more efficient and to keep pace with

the growth in trading activity, LaBranche continues to invest in the latest technologies and systems. Through the NYSE's multibillion-dollar SuperDot trading system, LaBranche utilizes the world's most advanced trading network to serve its constituencies. Essentially, LaBranche is already a part of the world's largest ECN, allowing buyers and sellers to meet electronically.

Not only is LaBranche embracing technology to take advantage of increased volume, it is looking for ways to work with new electronic trading systems. LaBranche views the advent of new technology as a way to enhance and expand our business. In the future, the markets may look very different than they do today, but through innovation, adaptation and dedication to quality, LaBranche will play an important role in the equity markets of the future.

LaBranche's
Technology Expense
per Employee



| | | | | | |
|-----|--|-----|--|-----|---|
| ABN | ABN Amro Holding N.V. | CHK | Chesapeake Energy Corporation | FTU | First Union Corporation |
| ACG | ACM Government Income Fund, Inc. | CHV | Chevron Corporation | FSR | Firststar Corporation |
| ADX | Adams Express Company (The) | CHZ | Chittenden Corporation | FLE | Fleetwood Enterprises, Inc. |
| ASF | Administaff, Inc. | CIN | Cinergy Corp. | FLS | Flowserve Corporation |
| RKY | Adolph Coors Company | KMX | Circuit City Stores, Inc.-CarMax Group | FTS | Footstar, Inc. |
| AG | AGCO Corp. | CC | Circuit City Stores, Inc.-Circuit City Group | F | Ford Motor Corp. |
| A | Agilent Technologies, Inc. | CIT | CIT Group, Inc. (The) | FWC | Foster Wheeler Corp. |
| ALK | Alaska Air Group, Inc. | CCU | Clear Channel Communications, Inc. | FOX | Fox Entertainment Group, Inc. |
| AIN | Albany International Corp. | CNH | CNH Global N.V. | FTR | Frontier Insurance Group, Inc. |
| ARE | Alexandria Real Estate Equities, Inc. | CMA | Comerica Incorporated | GPS | Gap, Inc. (The) |
| AGN | Allergan, Inc. | FIX | Comfort Systems USA Inc. | GCO | Genesco Inc. |
| AWF | Alliance World Dollar Government Fund II, Inc. | GGY | Compagnie Generale de Geophysique S.A. | GEL | Genesis Energy L.P. |
| ATK | Alliant Techsystems Inc. | CPQ | Compaq Computer Corporation | GEN | GenRad, Inc. |
| ALS | Alstom S.A. | CSC | Computer Sciences Corporation | GGC | Georgia Gulf Corp. |
| AWA | America West Holdings Corporation | CIX | CompX International Inc. | GER | Germany Fund Inc. |
| AAG | American Annuity Fund Group, Inc. | CFD | Conseco Strategic Income Fund | GPM | Getty Petroleum Marketing Inc. |
| AXP | American Express Company | CNC | Conseco, Inc. | GTY | Getty Realty Corp. |
| AFG | American Financial Group, Inc. | CGX | Consolidated Graphics, Inc. | GLX | Glaxo Wellcome plc |
| AXT | American Municipal Term Trust Inc. | CAL | Continental Airlines, Inc. | GHI | Global High Income Dollar Fund, Inc. |
| INV | American Residential Investment Trust, Inc. | COO | Cooper Companies Inc. | GVG | Global Vacation Group, Inc. |
| PIN | AMF Bowling Inc. | CDA | Cordiant Communications Group plc | GGG | Graco Inc. |
| AAP | Amway Asia Pacific Ltd. | CPO | Corn Products International, Inc. | GVA | Granite Construction Incorporated |
| AJL | Amway Japan Ltd. | CNO | Cornerstone Propane Partners, L.P. | GPK | Graphic Packaging Corp. |
| APZ | Applied Industrial Technologies, Inc. | COY | Corporate High Yield Fund | GCS | Gray Communications Systems |
| ADM | Archer-Daniels-Midland Company | CPV | Correctional Properties Trust | GL | Great Lakes REIT |
| ACK | Armstrong World Industries, Inc. | CO | Corpro Companies Inc. (The) | GNI | Great Northern Iron Ore Properties |
| PAP | Asia Pulp & Paper Company Ltd. | CUZ | Cousin's Properties Inc. | GWL | Great-West Life & Annuity Insurance Capital I |
| AFS | Associates First Capital Corporation | CR | Crane Co. | GMP | Green Mountain Power Corporation |
| T | AT&T Corp. | CRD | Crawford & Company | GMD | Grupo Mexicano de Desarrollo S.A. |
| ARC | Atlantic Richfield Co. | CIK | Credit Suisse Asset Management Income Fund | GSH | Guangshen Railway Company Limited |
| CGO | Atlas Air, Inc. | CRW | Crown Crafts, Inc. | GOU | Gulf Canada Resources Limited |
| ANZ | Australia & New Zealand Banking Group, Ltd. | CRO | Crown Pacific Partners, L.P. | GRL | Gulf Indonesia Resources Ltd. |
| OST | Austria Fund (The) | CFR | Cullen/Frost Bankers, Inc. | GSE | Gundle/SLT Environmental, Inc. |
| AVY | Avery Dennison Corporation | CVS | CVS Corporation | HRB | H&R Block, Inc. |
| AVI | Avis Rent A Car, Inc. | DRC | Dain Rauscher Corporation | HAL | Halliburton Co. |
| CIB | Bancolumbia S.A. | DEL | Deltic Timber Corporation | HVT | Haverty Furniture Companies, Inc. |
| BGR | Bangor Hydro-Electric Company | DFS | Department 56, Inc. | HCC | HCC Insurance Holdings, Inc. |
| IRE | Bank of Ireland Group | DEO | Diageo plc | HCR | HCR Manor Care, Inc. |
| BMG | Battle Mountain Gold Company | DME | Dime Bancorp, Inc. | HR | Healthcare Realty Trust |
| BOL | Bausch & Lomb Inc. | DYS | Distribucion Y Servicio D&S S.A. | HPS | HealthPlan Services Corporation |
| BNG | Benetton Group, S.p.A. | DG | Dollar General Corporation | HRZ | Hertz Corp. |
| BE | Benget Corporation | DJ | Dow Jones & Company, Inc. | HXL | Hexcel Corporation |
| BRK | Berkshire Hathaway Inc. | DSF | Dresdner RCM Global Strategic Income Fund Inc. | HIC | Highland Insurance Group, Inc. |
| CHS | Bernard Chaus Inc. | DHF | Dreyfus High Yield Strategies Fund | HRH | HILB Rogal & Hamilton Company |
| BRY | Berry Petroleum Company | DSM | Dreyfus Strategic Municipal Bond Fund, Inc. | HBI | Home Base Inc. |
| BFO | Bestfoods | LEO | Dreyfus Strategic Municipals, Inc. | HI | Household International, Inc. |
| BJ | BJ's Wholesale Club, Inc. | DST | DST Systems, Inc. | HWL | Howell Corporation |
| BTM | Blackrock 2001 Term Trust | DVI | DVI, Inc. | HBC | HSBC Holdings plc |
| BBI | Blockbuster Inc. | DBG | Dyersburg Corporation | HNP | Huaneng Power International, Inc. |
| BLT | Blount International, Inc. | NGT | Eastern American Energy Trust | HYC | Hypercom Corporation |
| BMC | BMC Industries, Inc. | ECC | ECC International Corporation | HTR | Hyperion Total Return Fund |
| RST | Boca Resorts Inc. | ECL | Ecolab, Inc. | IMN | Imation Corp. |
| BWA | Borg-Warner Automotive, Inc. | ELK | Elcor Corp. | ICO | InaCom Corp. |
| BTF | Boulder Total Return Fund Inc. | ICA | Empresas ICA Sociedad Controladora | IFT | Income Opportunities Fund 2000, Inc. |
| BOY | Boykin Lodging Company | EN | Enel S.p.A. | IEI | Indiana Energy, Inc. |
| BGY | British Energy plc | ETR | Entergy Corporation | ING | ING Groep N.V. |
| BWS | Brown Shoe Company, Inc. | ENT | Equant N.V. | ICM | Internacional de Ceramica, S.A. de C.V. |
| BF | Brown-Forman Corp. | ESS | Essex Property Trust, Inc. | IAL | International Aluminum Corp. |
| BPL | Buckeye Partners, L.P. | EL | Estee Lauder Companies, Inc. | IMC | International Multi-Foods Corporation |
| BOR | Burns International Services Corporation | XOM | Exxon Mobil Corporation | IPL | IPALCO Enterprises Inc. |
| BBR | Butler Manufacturing Co. | FMN | F&M National Corp. | IIR | IRI International Corporation |
| CWZ | Cable and Wireless Communications plc | FIC | Fair, Isaac & Company, Inc. | IRS | IRSA Inversiones y Representaciones S.A. |
| CWP | Cable and Wireless plc | FNL | Fansteel Inc. | JAX | J. Alexander's Corporation |
| CDT | Cable Design Technologies | FRE | Federal Home Loan Mortgage Corp. | JPM | J.P. Morgan & Co. Inc. |
| CDN | Cadence Design Systems, Inc. | FMO | Federal Mogul Corp. | J | Jackpot Enterprises, Inc. |
| COF | Capital One Financial Corporation | FSS | Federal Signal Corporation | JFC | Jardine Fleming China Region Fund, Inc. |
| CSU | Capital Senior Living Corporation | FMK | FiberMark, Inc. | JEF | Jefferies Group, Inc. |
| CLS | Celestica Inc. | FSA | Financial Security Assurance Holdings, Ltd. | JAS | Jo-Ann Stores, Inc. |
| CCG | Chelsea GCA Realty, Inc. | FDC | First Data Corp. | JH | John H. Harland Co. |

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|-----|--|-----|--|-----|---|
| PPF | John Hancock Patriot Preferred Dividend Fund | NI | NiSource Inc. | AOS | Smith (A.O.) Corporation |
| JW | John Wiley & Sons, Inc. | NL | NL Industries, Inc. | SBH | SmithKline Beecham plc |
| JII | Johnston Industries, Inc. | NBL | Noble Affiliates, Inc. | BID | Sotheby's Holdings, Inc. |
| JLL | Jones Lang LaSalle Incorporated | NE | Noble Drilling Corp. | SJI | South Jersey Industries Inc. |
| JRC | Journal Register Company | NOK | Nokia Corporation | SDW | Southdown, Inc. |
| KPP | Kaneb Pipe Line Partners, L.P. | NSP | Northern States Power Co. (Minn) | SPK | Spieker Properties, Inc. |
| KAB | Kaneb Services, Inc. | NWB | Northwest Airlines, Inc.-Senior Quarterly Interest Bonds | SMI | Springs Industries, Inc. |
| KCS | KCS Energy Inc. | NOR | Northwestern Corporation | SAJ | St. Joseph Light & Power Company |
| KWD | Kellwood Co. | NUI | NUI Corp. | SPC | St. Paul Companies, Inc. (The) |
| KE | Koger Equity, Inc. | NNJ | Nuveen NJ Premium Income Municipal Fund, Inc. | SE | Sterling Commerce Inc. |
| PHG | Koninklijke Philips Electronics N.V. | OGE | OGE Energy Corp. | SZA | Suiza Foods Corp. |
| KFY | Korn/Ferry International | OLS | Olsten Corp. | SM | Sulzer Medica |
| KR | Kroger Co. (The) | OCR | Omnicare, Inc. | SIH | Sun International Hotels Limited |
| KUB | Kubota Corporation | OFG | Oriental Financial Group Inc. | SU | Suncor Energy Inc. |
| UXL | Laidlaw One, 5 3/4 Exchange Notes | TPI | P.T. Tri Polyta Indonesia | STI | SunTrust Banks, Inc. |
| LFL | Lan Chile S.A. | BOH | Pacific Century Financial Corporation | TSM | Taiwan Semiconductor Manufacturing Company Ltd. |
| LHO | LaSalle Hotel Properties | PRE | Partnerre Ltd. | TCO | Taubman Centers, Inc. |
| LAM | Latin American Investment Fund, Inc. (The) | POG | Patina Oil & Gas Corporation | TDT | TCW/DW Term Trust 2000 |
| LEH | Lehman Brothers Holdings, Inc. | PCY | PC Holdings S.A. | TFX | Teleflex Incorporated |
| LII | Lenox International, Inc. | PY | Pechiney S.A. | GIM | Templeton Global Income Fund |
| LXP | Lexington Corporate Properties Trust | PDX | Pediatrix Medical Group, Inc. | TRF | Templeton Russia Fund, Inc. |
| LNN | Lindsay Manufacturing Co. | PBG | Pepsi Bottling Group, Inc. | TXI | Texas Industries, Inc. |
| LIN | Linens N' Things | PBT | Permian Basin Royalty Trust | TNM | Thomas Nelson, Inc. |
| LOR | Loral Space and Communications Ltd. | PHI | Philippine Long Distance Telephone Co. | TJX | TJX Companies, Inc. (The) |
| LOW | Lowe's Companies, Inc. | PVH | Phillips-Van Heusen Corporation | TNP | TNP Enterprises, Inc. |
| LU | Lucent Technologies Inc. | PIR | Pier 1 Imports, Inc. | TP | TNT Post Group |
| LYO | Lyondell Chemical Company | PA | PIMCO Advisors Holdings L.P. | TOK | Tokheim Corporation |
| TUC | Mac-Gray Corporation | PRD | Polaroid Corporation | TOS | Tosco Corporation |
| MTA | Magyar Tavkozlesi RT ("MATAV") | PT | Portugal Telecom S.A. | TOT | TOTAL Fina S.A. |
| MHY | Managed High Income Portfolio, Inc. | PPG | PPG Industries, Inc. | TWR | Tower Automotive |
| MTU | Managed Municipal Portfolio II, Inc. | PCP | Precision Castparts Corp. | TRE | Tremont Corporation |
| MAN | Manpower Inc. | PFD | Preferred Income Fund Inc. | TRB | Tribune Company |
| MEA | Mead Corporation | PFO | Preferred Income Opportunity Fund Inc. | TYC | Tyco International Ltd. |
| UMG | MediaOne Group, Inc. | PKS | Premier Parks Inc. | UFS | U.S. Foodservice |
| MDT | Medtronic, Inc. | POI | Protection One, Inc. | USW | U.S. West Inc. |
| MRK | Merck & Co., Inc. | PSG | PS Group Holdings, Inc. | UB | UnionBanCal Corporation |
| MCY | Mercury General Corp. | PGS | Public Service Co. of North Carolina | UIL | United Illuminating Company (The) |
| MDP | Meredith Corp. | PEG | Public Service Enterprise Group Incorporated | UHT | Universal Health Realty Income Trust |
| TMR | Meridian Resource Corporation (The) | PTM | Putnam Managed High Yield Trust | UHS | Universal Health Services, Inc. |
| MX | Metso Corporation | PMO | Putnam Municipal Opportunities Trust | UNM | UnumProvident Corporation |
| MZ | Milacron Inc. | PWR | Quanta Services, Inc. | UPM | UPM-Kymmene Corporation |
| MMM | Minnesota Mining & Manufacturing Company | PRW | Quebecor Printing Inc. | UH | US Home Corp. |
| MNA | Minnesota Municipal Term Trust | STR | Questar Corp. | VCI | Valassis Communications |
| MHK | Mohawk Industries, Inc. | Q | Qwest Communications International | VKA | Van Kampen Advantage Municipal Income Trust |
| MNY | MONY Group Inc. (The) | RDN | Radian Group, Inc. | VQC | Van Kampen American Capital CA Quality Muni Trust |
| MCL | Moore Corporation Ltd. | RRC | Range Resources Corporation | VKQ | Van Kampen Municipal Trust |
| MGC | Morgan Grenfell Smallcap Fund | RCS | RCM Strategic Global Government Fund, Inc. | VNM | Van Kampen New York Quality Municipal Trust |
| IIC | Morgan Stanley California Insured Muni Income Trust | REL | Reliance Group Holdings, Inc. | VRI | Vastar Resources, Inc. |
| MWD | Morgan Stanley Dean Witter & Company | RHH | Robertson-Ceco Corp. | VIA | Viacom Inc. |
| MGB | Morgan Stanley Dean Witter Global Opportunity Bond | ROU | Rouge Industries, Inc. | VIP | Vimpel-Communications |
| YLT | Morgan Stanley Dean Witter High Income Advantage Trust II | RAM | Royal Appliance Manufacturing Co. | WAK | Wackenhut Corporation (The) |
| ICB | Morgan Stanley Dean Witter Income Securities | KPN | Royal PTT Nederland N.V. | WHC | Wackenhut Corrections Corporation |
| IQN | Morgan Stanley Dean Witter NY Quality Municipal Securities | RYL | Ryland Group, Inc. (The) | WAC | Warnaco Group, Inc. (The) |
| IQT | Morgan Stanley Quality Municipal Investment Trust | SSA | Saatchi and Saatchi, plc | WPO | Washington Post Co. (The) |
| MHF | Municipal High Income Fund | SJT | San Jan Basin Royalty Trust | WPI | Watson Pharmaceuticals, Inc. |
| MNP | Municipal Partners Fund Inc. | IMI | San Paolo IMI S.p.A. | WST | West Pharmaceutical Services, Inc. |
| MVM | Munivest Michigan Insured Fund, Inc. | SBC | SBC Communications Inc. | WEH | WestCoast Hospitality Corporation |
| MIY | Muniyield Michigan Insured Fund Inc. | SCV | Scania AB | WR | Western Resources, Inc. |
| MUR | Murphy Oil Corp. | SGP | Schering-Plough Corp. | W | Westvac Corporation |
| MYL | Mylan Laboratories Inc. | SLB | Schlumberger Limited | WTM | White Mountain Insurance Group, Inc. |
| NAB | National Australia Bank, Ltd. | SG | Scientific Games Holdings Corp. | WLL | Willamette Industries, Inc. |
| NDC | National Data Corporation | LBF | Scudder Global High Income Fund | WND | Windmere Durable Holdings, Inc. |
| NRI | NationsRent Inc. | SAF | Scudder New Asia Fund, Inc. | WYN | Wyndham International Inc. |
| NCE | New Century Energies, Inc. | SJR | Shaw Communications Inc. | YRK | York International Corporation |
| NNS | Newport News Shipbuilding Inc. | SHN | Shoney's, Inc. | ZNT | Zenith National Insurance Corp. |
| NWS | News Corporation Limited (The) | SRP | Sierra Pacific Resources | | |
| | | SEW | Singer Company N.V. | | |
| | | SNN | Smith & Nephew plc | | |

NOTE: As of March 10, 2000. Includes companies whose stocks were added as a result of our recent acquisitions of Henderson Brothers and Webco.

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

OVERVIEW

Founded in 1924, LaBranche & Co. is one of the oldest and largest Specialist firms on the NYSE. Our business has grown considerably during the past five years. We have accomplished this growth both internally and through selective acquisitions. Our revenues increased from \$372 million in 1995 to \$201.0 million in 1999, representing a compound annual growth rate of 52.6%. During the same period, we increased the number of our common stock listings from 125 to 271.

Revenues

Our revenues consist primarily of net gains earned from principal transactions in securities for which we act as Specialist, and commission revenue earned from Specialist activities. Net gain on principal transactions represents trading gains net of trading losses and transaction fees, and is earned when we act as principal buying and selling our Specialist stocks. These revenues are primarily affected by changes in share volume and fluctuations in price in our Specialist stocks. Share volume for our Specialist stocks has historically been driven by general trends in NYSE trading volume, as well as factors particularly affecting our listed companies, including increased merger and acquisition activity, stock splits, greater frequency of company news releases (i.e., earnings guidance and reports), heightened research analyst coverage and investor sentiment. Commission revenue consists of commissions we earn when acting as agent to match buyers and sellers for limit orders executed by us on behalf of brokers after a specified period of time; we do not earn commissions when we match market orders. Commission revenue is primarily affected by share volume of the trades executed by us as agent. Other revenue consists of proprietary trading revenue, an investment in a hedge fund and short-term interest income. In 1999, net gain on principal transactions represented 75.1% of our total revenues, commission revenue represented 18.5% of our total revenues, and other revenue represented 6.4% of our total revenues.

Expenses

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

Prior to our reorganization from partnership to corporate form, a large portion of the compensation payments to our managing directors had not been presented as part of operating expenses. The aggregate amount of these compensation payments generally approximated LaB Investing Co. L.L.C.'s interest in the income of LaBranche & Co., before managing directors' compensation. Generally, these payments of compensation were allocated among our managing directors based on their respective percentage interests in the profits of LaB Investing Co. L.L.C. Subsequent to the reorganization transactions, we include payments to managing directors in employee compensation and benefits expense. Therefore, historical income before managing directors' compensation, limited partnership interest in earnings of subsidiary and provision for income taxes understates our operating costs.

Reorganization Transactions

On August 24, 1999, we reorganized from partnership to corporate form. Prior to the reorganization, we operated as LaBranche & Co., a limited partnership, and LaB Investing Co. L.L.C., a limited liability company and the general partner of LaBranche & Co. As part of the reorganization, we redeemed limited partnership interests in LaBranche & Co. and redeemed or purchased all membership interests in LaB Investing Co. L.L.C. in exchange for a combination of cash, indebtedness and common stock of LaBranche & Co Inc. The redemption of the limited partnership interests was accounted for as a step acquisition under the purchase method of accounting. The excess of purchase price over the limited partners' capital accounts of \$127.4 million was allocated to intangible assets. Following the reorganization, LaBranche & Co Inc. is a holding corporation whose assets consist primarily of its ownership interests in LaBranche & Co. and LaB Investing Co. L.L.C.

Simultaneously with the reorganization, we completed an initial public offering of 10.5 million shares of our common stock at a price of \$14.00 per share. In addition, we incurred indebtedness of approximately \$100.0 million through our Senior Note offering and \$16.0 million through the issuance of other senior indebtedness. In addition, LaBranche & Co. incurred \$350,000 of subordinated indebtedness. As a result of this increased indebtedness, our interest expense following the reorganization transactions has been higher than historical levels.

Income Taxes

As a partnership, we were generally not subject to U.S. federal, state and local income taxes, apart from the 4% New York City unincorporated business tax. As part of our restructuring to a corporation, we are subject to U.S. federal, state and local income taxes.

Completed Acquisitions

In the third quarter of 1998, we acquired substantially all the assets of Fowler, Rosenau & Geary, L.L.C. (or "Fowler, Rosenau"). The acquisition was accounted for under the purchase method, and the excess of cost over estimated fair value of the net assets acquired, totaling \$25.8 million, was allocated to goodwill. The results of the Specialist operations formerly conducted by Fowler, Rosenau have been included in our consolidated financial statements since July 1, 1998.

In August 1997, we admitted Ernst & Company as a limited partner in connection with our acquisition of the joint Specialist operations of Ernst, Homans & Co. and Ware & Keelips, Inc. In connection with these transactions, we also hired as Specialists and admitted as members of LaB Investing Co. L.L.C. several individuals who had previously worked as Specialists for Ernst, Homans and Ware & Keelips. These transactions were accounted for under the purchase method, and the excess of cost over estimated fair value of the net assets acquired, totaling \$172 million, was allocated to goodwill. The results of these Specialist operations have been included in our consolidated financial statements since August 1, 1997.

In July 1997, Thomas Shanley, James Stack and Mark Soltz, formerly Specialists on behalf of Stern Bros., L.L.C., were admitted as members of LaB Investing Co. L.L.C. In connection with their admission, Messrs. Shanley, Stack and Soltz contributed capital to LaB Investing Co. L.L.C., which was, in turn, contributed to LaBranche & Co. This transaction was accounted for under the purchase method, and the excess of cost over estimated fair value of the net assets acquired, totaling \$7.8 million, was allocated to goodwill. The results of these Specialist operations have been included in our consolidated financial statements since July 1, 1997.

Acquisitions Subsequent to Year End

In March 2000, we completed the acquisition of Henderson Brothers Holdings, Inc. The cash transaction was valued at approximately \$230 million, and was financed by the issuance of 12% senior subordinated notes due in 2007. The acquisition was accounted for under the purchase method, and the excess of cost over estimated fair value of the net assets acquired of approximately \$199.4 million will be allocated to intangible assets.

In March 2000, we completed the acquisition of Webco Securities, Inc. The consideration for the transaction, valued at approximately \$48 million, consisted of approximately \$10.9 million in cash and approximately 2.8 million shares of LaBranche common stock, and promissory notes in the aggregate principal amount of approximately \$3 million. The acquisition was accounted for under the purchase method, and the excess of cost over estimated fair value of the net assets acquired of \$27.6 million will be allocated to intangible assets.

The results of Specialist operations of each of these acquired companies will be included in our consolidated financial statements beginning in March 2000.

Results of Operations

The following table sets forth the statement of operations data for the years indicated as a percentage of total revenues:

| YEAR ENDED DECEMBER 31, | 1999 | 1998 | 1997 |
|--|--------------|--------------|--------------|
| REVENUES: | | | |
| Net Gain on Principal Transactions | 75.1% | 75.2% | 70.7% |
| Commissions..... | 18.5 | 21.0 | 22.5 |
| Other..... | 6.4 | 3.8 | 6.8 |
| TOTAL REVENUES | 100.0 | 100.0 | 100.0 |
| EXPENSES: | | | |
| Employee Compensation and Benefits | 17.0 | 11.0 | 12.4 |
| Lease of Exchange Memberships | 4.2 | 5.2 | 5.5 |
| Interest | 4.1 | 2.8 | 2.3 |
| Amortization of Intangibles | 2.3 | 2.0 | 1.1 |
| Exchange, Clearing and Brokerage Fees | 1.8 | 2.3 | 3.0 |
| Legal and Professional Fees | 0.8 | 0.7 | 0.9 |
| Occupancy..... | 0.7 | 0.9 | 0.7 |
| Communications..... | 0.6 | 0.8 | 1.0 |
| Other | 1.5 | 1.8 | 2.5 |
| Total Expenses Before Managing Directors' Compensation, Limited Partners' Interest in Earnings of Subsidiary and Provision for Income Taxes | 33.0 | 27.5 | 29.4 |
| Income Before Managing Directors' Compensation, Limited Partners' Interest in Earnings of Subsidiary and Provision for Income Taxes..... | 67.0 | 72.5 | 70.6 |
| Managing Directors' Compensation | 28.0 | 46.5 | 44.4 |
| Income Before Limited Partners' Interest in Earnings of Subsidiary and Provision for Income Taxes | 39.0 | 26.0 | 26.2 |
| Limited Partners' Interest in Earnings of Subsidiary..... | 12.6 | 20.8 | 21.1 |
| Income Before Provision for Income Taxes | 26.4 | 5.2 | 5.1 |
| Provision for Income Taxes..... | 11.9 | 3.1 | 2.8 |
| NET INCOME..... | 14.5% | 2.1% | 2.3% |

YEAR ENDED DECEMBER 31, 1999, COMPARED TO YEAR ENDED DECEMBER 31, 1998

Following the discussion of our historical results of operations, we have provided a discussion of the results of operations for 1999 compared to 1998 on a pro forma basis giving effect to certain transactions.

Revenues

Total revenues increased 59.0% to \$201.0 million for 1999, from \$126.4 million for 1998, principally due to the increase in revenue from net gain on principal transactions. Net gain on principal transactions increased 58.9% to \$151.0 million for 1999, from \$95.0 million for 1998. This increase was primarily due to an increase in share volume for our Specialist stocks traded on the NYSE. This increase, in turn, was primarily due to the Fowler, Rosenau acquisition on July 1, 1998, under which we became the Specialist for 76 additional common stock listings, and to increased share volume as principal in our existing Specialist stocks traded on the NYSE. Our share volume as principal increased 62.7% to 9.6 billion shares for 1999, from 5.9 billion shares for 1998.

Commission revenue increased 39.8% to \$37.2 million for 1999, from \$26.6 million for 1998. This increase was due to an increase in share volume in which we acted as agent. This increase, in turn, was primarily due to the increase in the number of our common stock listings as a result of the Fowler, Rosenau acquisition on July 1, 1998, and to increased share volume in our existing Specialist stocks traded on the NYSE. The share volume executed by us as agent in our Specialist stocks increased 41.4% to 4.1 billion shares for 1999, from 2.9 billion shares for 1998.

Other revenue increased 166.7% to \$12.8 million for 1999, from \$4.8 million for 1998. This increase was primarily due to net gains in proprietary trading of non-Specialist securities and realized gains from a limited partnership investment in a hedge fund.

Expenses

Total expenses before managing directors' compensation and limited partners' interest in earnings of subsidiary and provision for income taxes increased 91.4% to \$66.6 million for 1999, from \$34.8 million for 1998.

Employee compensation and related benefits increased 146.8% to \$34.3 million for 1999, from \$13.9 million for 1998. This increase was due to the Fowler, Rosenau acquisition on July 1, 1998, which resulted in our employment of 36 additional individuals, and to the inclusion of managing director salary, incentive-based bonus and related benefits in employee compensation from the date of our reorganization in August 1999. As a percentage of total revenues, employee compensation increased to 17.0% of total revenues for 1999, from 11.0% of total revenues for 1998.

Lease of exchange memberships expense increased 27.3% to \$8.4 million for 1999, from \$6.6 million for 1998. This increase was due to the increase in the number of leased memberships from 44 to 48, primarily as a result of the hiring of additional Specialists and to an increase in the average annual leasing cost of the memberships from approximately \$180,000 to \$192,000 per membership. As a percentage of total revenues, lease of exchange memberships expense decreased to 4.2% for 1999, from 5.2% for 1998.

Interest expense increased 130.6% to \$8.3 million for 1999, from \$3.6 million for 1998. This increase was primarily due to the issuance of \$116.4 million of indebtedness, which began accruing interest from August 24, 1999.

Amortization of intangibles increased 84.0% to \$4.6 million for 1999, from \$2.5 million for 1998. Amortization of intangibles increased as a result of the Fowler, Rosenau acquisition, as well as the \$127.4 million of intangible assets recorded as a result of our acquisition of all of the limited partnership interests in LaBranche & Co. in connection with our reorganization transactions.

Exchange, clearing and brokerage fees consist primarily of fees paid by us as a Specialist to the NYSE and to clearing houses. Fees paid by us to the NYSE include primarily fees based on the volume of transactions executed as principal and as agent, as well as a flat annual fee. Exchange, clearing and brokerage fees expense increased 27.6% to \$3.7 million for 1999, from \$2.9 million for 1998. This increase was primarily attributable to an increase in share volume.

Legal and professional fees increased 74.7% to \$1.6 million for 1999, from \$916,000 for 1998. This increase was primarily the result of increased legal and accounting fees due to our reorganization transactions.

Occupancy expense increased 27.3% to \$1.4 million for 1999, from \$1.1 million for 1998. This increase was primarily the result of the leasing of additional office space.

Communications expense increased 20.0% to \$1.2 million for 1999, from \$1.0 million for 1998. This increase was primarily the result of additional telephone, data retrieval and informational services utilized due to the growth of our business.

Other expenses increased 30.4% to \$3.0 million for 1999, from \$2.3 million for 1998. The increase was primarily due to an increase in advertising and promotional expenses.

Income before managing directors' compensation and limited partners' interest in earnings of subsidiary and provision for income taxes increased 46.8% to \$134.5 million for 1999, from \$91.6 million for 1998.

Managing directors' compensation decreased 4.4% to \$56.2 million for 1999, from \$58.8 million for 1998, as a result of the inclusion of managing director salary, incentive-based bonus and related benefits in employee compensation from the date of our reorganization transactions.

Limited partners' interest in earnings of subsidiary decreased 3.8% to \$25.3 million for 1999, from \$26.3 million for 1998, as a result of our reorganization, at which time we acquired all of the limited partnership interests in LaBranche & Co.

Provision for income taxes increased 512.8% to \$23.9 million for 1999, from \$3.9 million for 1998, as a result of an increase in our profitability and the federal, state and local income taxes to which we are subject as a result of our reorganization from partnership to corporate form.

YEAR ENDED DECEMBER 31, 1998, COMPARED TO YEAR ENDED DECEMBER 31, 1997

Revenues

Total revenues increased 87.0% to \$126.4 million for 1998, from \$67.6 million for 1997, due primarily to the increase in revenue from net gain on principal transactions. Net gain on principal transactions increased 98.8% to \$95.0 million for 1998, from \$47.8 million for 1997. This increase was primarily due to an increase in share volume. This increase in share volume, in turn, was primarily due to increased share volume as principal in our existing Specialist stocks traded on the NYSE, and was also due to the increase in the number of our common stock listings due to the Fowler, Rosenau acquisition. Our share volume as principal increased 136.0% to 5.9 billion shares for 1998, from 2.5 billion shares for 1997.

Commission revenue increased 75.0% to \$26.6 million for 1998, from \$15.2 million for 1997. This increase was due to an increase in share volume in which we acted as agent. This increase, in turn, was primarily due to increased share volume in our existing Specialist stocks traded on the NYSE, and was also due to the increase in the number of our common stock listings due to the Fowler, Rosenau acquisition. The share volume executed by us as agent in our Specialist stocks increased 70.6% to 2.9 billion shares for 1998, from 1.7 billion shares for 1997.

Other revenue increased 4.3% to \$4.8 million for the 12 months ended December 31, 1998, from \$4.6 million for the same period in 1997. This increase was primarily due to net gains in proprietary trading of non-Specialist securities.

Expenses

Total expenses before managing directors' compensation, limited partners' interest in earnings of subsidiary and unincorporated business taxes increased 74.9% to \$34.8 million for 1998, from \$19.9 million for 1997.

Employee compensation and related expenses increased 71.6% to \$13.9 million for 1998, from \$8.1 million for 1997. Our number of employees increased to 152 as of December 31, 1998, from 95 as of December 31, 1997, primarily due to the Fowler, Rosenau acquisition. As a percentage of total revenues, employee compensation decreased to 11.0% of total revenues for 1998, from 12.4% of total revenues for 1997.

Lease of exchange memberships expense increased 78.4% to \$6.6 million for 1998, from \$3.7 million for 1997. This increase was due to the increase in the number of leased memberships from 32 to 44, resulting from the Fowler, Rosenau acquisition, and due to an increase in the average annual leasing cost of the memberships from approximately \$150,000 to \$180,000 per membership. As a percentage of total revenues, lease of exchange memberships expense decreased to 5.2% for 1998, from 5.5% for 1997.

Interest expense increased 125.0% to \$3.6 million for 1998, from \$1.6 million for 1997. This increase was primarily due to an increase in outstanding subordinated indebtedness to \$48.1 million at December 31, 1998, from \$31.4 million at December 31, 1997.

Amortization of intangibles increased 239.2% to \$2.5 million for 1998, from \$737,000 for 1997. Amortization of intangibles increased due to the Fowler, Rosenau acquisition. In addition, amortization of intangibles arising from the Ernst and Stern acquisitions was incurred for the full year of 1998 and was only incurred during the second half of 1997.

Exchange, clearing and brokerage fees expense increased 45.0% to \$2.9 million for 1998, from \$2.0 million for 1997. This increase was primarily attributable to an increase in share volume.

Legal and professional fees increased 47.7% to \$916,000 for 1998, from \$620,000 for 1997. This increase was primarily the result of increased legal and accounting fees due to the Fowler, Rosenau acquisition and consulting services we obtained to comply with data processing testing required by the NYSE in anticipation of the acquisition.

Occupancy expense increased 136.6% to \$1.1 million for 1998, from \$465,000 for 1997. This increase was primarily the result of the leasing of additional office space.

Communications expense increased 36.0% to \$964,000 for 1998, from \$709,000 for 1997. This increase was the result of additional telephone, data retrieval and informational services utilized due to the growth of our business.

Other expenses increased 43.8% to \$2.3 million for 1998, from \$1.6 million for 1997. This was the result of payments made to Fowler, Rosenau in 1998 under a profit-sharing arrangement for trading in a Specialist stock. This contractual arrangement was terminated when we acquired Fowler, Rosenau in July 1998.

Income before managing directors' compensation, limited partners' interest in earnings of subsidiary and unincorporated business taxes increased 92.0% to \$91.6 million for 1998, from \$47.7 million for 1997.

Managing directors' compensation increased 96.0% to \$58.8 million for 1998, from \$30.0 million for 1997, as a result of the increased profitability of the firm.

Unincorporated business tax expense increased 105.3% to \$3.9 million in 1998, from \$1.9 million for 1997, as a result of the increased profitability of the firm.

SUMMARY PRO FORMA CONSOLIDATED FINANCIAL DATA

The following information compares our operating results for 1999 and 1998 on both a historical and a pro forma basis, assuming our acquisition of Fowler, Rosenau had occurred on January 1, 1998, instead of July 1, 1998, and assuming our reorganization from partnership to corporate form and the related transactions had occurred as of January 1, 1998. This pro forma information does not give effect to our acquisitions of Henderson Brothers and Webco in March 2000. The following pro forma consolidated financial information has been prepared by our management and is not necessarily indicative of the results that would have been achieved had the above-described transactions occurred on the dates indicated or that may be achieved in the future.

| | Year Ended December 31, 1999 | | Year Ended December 31, 1998 | |
|---|------------------------------|-----------------------|------------------------------|--------------------------|
| | Historical | Pro Forma | Historical | Pro Forma ^(A) |
| STATEMENT OF OPERATIONS DATA (in thousands) | | | | |
| REVENUES: | | | | |
| Net Gain on Principal Transactions | \$150,971 | \$150,971 | \$ 95,048 | \$ 98,736 |
| Commissions | 37,222 | 37,222 | 26,576 | 33,963 |
| Other | 12,844 | 12,844 | 4,787 | 5,151 |
| Total Revenues | 201,037 | 201,037 | 126,411 | 137,850 |
| EXPENSES: | | | | |
| Employee Compensation and Benefits | 34,268 | 59,482 ^(B) | 13,921 | 40,445 ^(B) |
| Lease of Exchange Memberships | 8,416 | 8,416 | 6,568 | 7,064 |
| Interest | 8,286 | 15,144 ^(C) | 3,577 | 14,535 ^(C) |
| Amortization of Intangibles | 4,623 | 6,866 ^(D) | 2,256 | 6,863 ^(D) |
| Exchange, Clearing and Brokerage Fees | 3,709 | 3,709 | 2,898 | 3,233 |
| Other Operating Expenses | 7,267 | 7,267 | 5,286 | 6,281 |
| Total Operating Expenses | 66,569 | 100,884 | 34,776 | 78,421 |
| Income Before Managing Directors' Compensation, Limited Partners' Interest in Earnings of Subsidiary and Provision for Income Taxes | 134,468 | 100,153 | 91,635 | 59,429 |
| Managing Directors' Compensation | 56,191 | — ^(E) | 58,783 | — ^(E) |
| Income Before Limited Partners' Interest in Earnings of Subsidiary and Provision for Income Taxes | 78,277 | 100,153 | 32,852 | 59,429 |
| Limited Partners' Interest in Earnings of Subsidiary | 25,344 | — ^(F) | 26,292 | — ^(F) |
| Income Before Provision for Income Taxes | 52,933 | 100,153 | 6,560 | 59,429 |
| Provision for Income Taxes | 23,899 | 46,165 ^(G) | 3,900 | 27,638 ^(G) |
| Net Income | \$ 29,034 | \$ 53,988 | \$ 2,660 | \$ 31,791 |
| EBITDA^(H) | \$ 91,911 | \$122,888 | \$ 12,914 | \$ 81,321 |

NOTES TO STATEMENT OF OPERATIONS DATA

(A) Includes the pro forma pre-acquisition results of Fowler, Rosenau for the six months ended June 30, 1998.

(B) Employee compensation and benefits was adjusted to reflect managing directors' compensation based on the revised compensation policies, which were implemented at the time of the reorganization. Under this policy, a compensation pool of up to 30% of pre-tax income is set aside for managing directors. The pro forma compensation adjustment reflects managing directors' compensation, which is comprised of an annual base salary of approximately \$8.5 million (34 managing directors at \$250,000), and the remaining balance as bonus. The pro forma adjustment also includes compensation expenses related to employee restricted stock awards of \$14.8 million, which vest over five years and result in an annual expense of approximately \$3.0 million. The pro forma adjustment does not include any other compensation expenses related to employees who are not managing directors.

(C) Reflects pro forma repayment of \$5.0 million of subordinated liabilities owed to a limited partner and reverses the related interest expense. Reflects the issuance of Senior Notes of \$100.0 million, the issuance of a \$16.0 million note and \$350,000 of subordinated indebtedness and the related interest expense.

(D) Reflects amortization of intangibles related to redemption of limited partners' interests and the Fowler, Rosenau acquisition for a full year of 1998.

(E) Managing directors' compensation was adjusted to reverse the actual amounts previously recorded.

(F) Reflects reversal of limited partners' interest in earnings of subsidiary.

(G) Reflects federal, state and local income taxes at estimated corporate tax rates.

(H) EBITDA means net income (loss) before interest expense, taxes, depreciation and amortization. EBITDA is not a generally accepted accounting principles measure and may not be comparable to similarly titled items of other companies. EBITDA should not be considered as an alternative to net income (loss) or any other generally accepted accounting principles measure of performance, an indicator of our operating performance or as a measure of liquidity. EBITDA does not represent funds available for management's discretionary use because certain future cash expenditures are not reflected in the EBITDA presentation. Some investors use these data as an indicator of a company's ability to service debt.

RESULTS OF OPERATIONS ON A PRO FORMA BASIS

Results that were not significantly affected by the pro forma Fowler, Rosenau acquisition or reorganization transactions are not presented in this section.

Revenues

On a pro forma basis, total revenues increased 45.8% to \$201.0 million for 1999, from \$137.9 million for 1998, principally due to the increase in revenue from net gain on principal transactions. Net gain on principal transactions increased 53.0% to \$151.0 million for 1999, from \$98.7 million for 1998. This increase was primarily due to an increase in share volume for our Specialist stocks traded on the NYSE. Our share volume as principal increased 62.7% to 9.6 billion shares for 1999, from 5.9 billion shares for 1998.

Commission revenue increased 9.4% to \$37.2 million for 1999, from \$34.0 million for 1998. This increase was due to an increase in share volume in which we acted as agent and to increased share volume in our Specialist stocks traded on the NYSE. The share volume executed by us as agent in our Specialist stocks increased 41.4% to 4.1 billion shares for 1999, from 2.9 billion shares for 1998.

Other revenue increased 146.2% to \$12.8 million for 1999, from \$5.2 million for 1998. This increase was primarily due to net gains in proprietary trading of non-Specialist securities and realized gains from a limited partnership investment in a hedge fund.

Expenses

Employee compensation and related benefits increased 47.3% to \$59.5 million for 1999, from \$40.4 million for 1998. This increase was due to our increased profitability, which, in turn, led to an increase in our managing director incentive-based bonus pool as described in Note A above. As a percentage of total revenues, employee compensation increased to 29.6% of total revenues for 1999, from 29.3% of total revenues for 1998.

Interest expense increased 4.1% to \$15.1 million for 1999, from \$14.5 million for 1998. This increase was the result of additional interest on increased subordinated debt borrowings. For both 1999 and 1998, pro forma interest expense reflects the issuance of Senior Notes of \$100.0 million, the issuance of a \$16.0 million note and \$350,000 of subordinated indebtedness and the related interest expense as described in Note B.

Provision for income taxes increased 67.4% to \$46.2 million for 1999, from \$27.6 million for 1998 as a result of an increase in our profitability.

LIQUIDITY

Prior to our initial public offering of common stock and our Senior Note offering, we had financed our business primarily through members' capital and the issuance of subordinated indebtedness. As of December 31, 1999, we had \$505.1 million in assets, \$109.2 million of which consisted of cash and short-term investments, which primarily consist of commercial paper maturing within seven days. As of December 31, 1998, we had \$272.2 million in assets, \$25.8 million of which consisted of cash and short-term investments.

In February 2000, a U.S. commercial bank increased and extended its committed line-of-credit to LaBranche & Co. to \$200.0 million. Amounts outstanding under this credit facility are secured by our inventory of Specialist stocks and bear interest at the U.S. commercial bank's broker loan rate. To date, we have not utilized this facility. The credit facility matures on February 2, 2001.

As of December 31, 1999, the subordinated debt of LaBranche & Co. totaled \$46.5 million (excluding subordinated liabilities related to contributed exchange memberships). Of this amount, \$35.0 million represented senior subordinated debt privately placed pursuant to several note purchase agreements. Of this \$35.0 million, \$20.0 million matures on September 15, 2002, and bears interest at an annual rate of 8.17%, payable on a quarterly basis, and \$15.0 million matures on June 3, 2008, and bears interest at an annual rate of 7.69%, payable on a quarterly basis. These notes are senior to all other subordinated notes of LaBranche & Co. Subordinated debt totaling \$11.5 million represents junior subordinated debt of LaBranche & Co. placed with former limited partners, their family members and certain of our employees. This debt has maturities ranging from the second half of 2000 through the first half of 2001, and bears interest at an annual rate between 8.0% and 10.0%, payable on a quarterly basis. The agreements relating to the junior subordinated debt generally have automatic rollover provisions, which extend the maturities for an additional year, unless the lender provides notice at least seven months prior to maturity.

Concurrently with the initial public offering of our common stock and our Senior Note offering and as part of the reorganization of our firm from partnership to corporate form, we acquired all the limited partnership interests in LaBranche & Co. and the entire membership interest in LaB Investing Co. L.L.C. for shares of our common stock, cash in the aggregate amount of \$149.2 million and subordinated debt.

On August 24, 1999, we issued \$100.0 million aggregate principal amount of Senior Notes. The Senior Notes bear interest at a rate of 9.5% annually and mature in August 2004. The indenture covering the Senior Notes includes certain covenants that, among other things, limit our ability to borrow money; pay dividends on our stock or purchase our stock; make investments; engage in transactions with stockholders and affiliates; create liens on our assets; and sell assets or engage in mergers and consolidations.

At approximately the same time as our Senior Note offering and the initial public offering of our common stock, we issued a \$16.0 million Senior Note as partial payment for the acquisition of a certain limited partnership interest in LaBranche & Co. The note is payable in installments of \$6.0 million on the first anniversary of issuance, \$5.0 million on the second anniversary of issuance and \$5.0 million on the third anniversary of issuance, and bears interest at the annual rate of 9.5%. LaBranche & Co. also entered into a \$350,000 cash

subordinated loan agreement, bearing interest at an annual rate of 8.0%, in connection with the acquisition of a certain limited partner interest. In addition, on September 30, 1999, we repaid \$1.1 million in indebtedness owed in connection with our retirement plans, which amount had been reflected in our historical consolidated statement of financial condition.

As a broker-dealer, LaBranche & Co. 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. 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% 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% 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 detrimental to the financial integrity of the broker-dealer.

At December 31, 1999, LaBranche & Co. had net capital of \$161.4 million, which was \$159.9 million in excess of its required net capital of \$1.4 million.

The NYSE generally requires members registered as Specialists to maintain a minimum dollar regulatory capital amount in order to establish that they can meet, with their own net liquid assets, their position requirement. During November 1999, subject to SEC approval, the NYSE approved changes to Rule 104, its minimum net liquid asset requirements. These changes require Specialist units that exceed 5% in any of the NYSE's four concentration measures to maintain minimum net liquid assets based upon the securities for which they act as the Specialist. The requirements state that the net liquid assets must be equivalent to \$4.0 million for each stock in the Dow Jones Industrial Average; \$2.0 million for each stock in the S&P 100 Stock Price Index, excluding stocks included in the previous classification; \$1.0 million for each stock in the S&P 500 Stock Price Index, excluding stock included in the previous classifications; \$500,000 for each common stock, excluding bond funds and stocks included in the previous classifications; and \$100,000 for each stock not included in any of the above classifications. In addition, the NYSE has proposed to require any new Specialist entities that result from a merger, acquisition, consolidation or other combination of Specialist assets, to maintain net liquid assets equivalent to the greater of either: (1) the aggregate net liquid assets of the Specialist entities prior to their combination or (2) the new capital requirements prescribed under Rule 104. As a result of our acquisition of Henderson Brothers and Webco in March 2000, our current net liquid asset requirement is \$284.3 million. "Net liquid assets" for a Specialist who also engages in transactions other than Specialist activities is based upon its excess net capital as determined in accordance with SEC Rule 15c3-1. As of December 31, 1999, our NYSE minimum required dollar amount of net liquid assets was \$93.6 million compared to actual net liquid assets of approximately \$175.9 million.

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

During the fourth quarter of 1999, we contributed additional capital to LaBranche & Co. in a net aggregate amount of approximately \$30.1 million.

We currently anticipate that our available cash resources and credit facilities will be sufficient to meet our anticipated working capital, regulatory capital and capital expenditure requirements through the end of 2000.

As a clearing broker for customers of introducing brokers, pursuant to SEC Rule 15c3-1, Henderson Brothers is required to maintain minimum net capital of \$250,000. Subsequent to our acquisition of Henderson Brothers, the clearing operations of Henderson Brothers will function as a separate subsidiary and will remain subject to this requirement.

MARKET RISK

A majority of our Specialist-related revenues are derived from trading by us as principal. These activities involve primarily the purchase, sale or short sale of securities for our own account. These activities are subject to a number of risks, including risks of price fluctuations and rapid changes in the liquidity of markets. In any period, we may incur trading losses in our Specialist stocks for a variety of reasons, including price declines of our Specialist stocks, lack of trading volume in our Specialist stocks and the performance of our Specialist obligations. From time to time, we have large position concentrations in securities of a single issuer or issuers engaged in a specific industry. In general, because our inventory of securities is marked to market on a daily basis, any downward price movement in these securities will result in a reduction of our revenues and operating profits. We also operate a proprietary trading desk separately from our NYSE Specialist operations, which represented 3.3% of our total revenues in 1999. We may incur trading losses as a result of these trading activities.

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

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

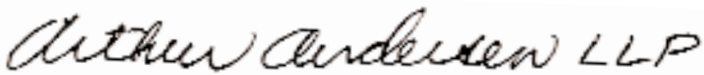
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

TO THE STOCKHOLDERS OF LABRANCHE & CO INC. AND SUBSIDIARIES:

We have audited the accompanying consolidated statements of financial condition of LaBranche & Co Inc. and Subsidiaries (collectively, the "Company") as of December 31, 1999 and 1998, and the related consolidated statements of operations, changes in stockholders' equity/ members' capital and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of LaBranche & Co Inc. and Subsidiaries as of December 31, 1999 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

A handwritten signature in cursive script that reads "Arthur Andersen LLP". The signature is written in dark ink on a light-colored background.

New York, New York

January 24, 2000

LABRANCHE & CO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
[000's omitted, except share data]

| FOR THE YEARS ENDED DECEMBER 31, | 1999 | 1998 |
|--|-------------------|-------------------|
| ASSETS | | |
| Cash and Cash Equivalents | \$ 83,774 | \$ 4,722 |
| Securities Purchased Under Agreements to Resell | 25,422 | 21,100 |
| Receivable from Brokers, Dealers and Clearing Organizations | 33,662 | 54,808 |
| Securities Owned, at Market Value: | | |
| Corporate Equities | 148,563 | 114,994 |
| United States Government Obligations | 1,471 | 1,468 |
| Other | 2,515 | 1,360 |
| Commissions Receivable | 3,835 | 3,009 |
| Exchange Memberships Contributed for Use, at Market Value | 20,700 | 12,250 |
| Exchange Memberships Owned, at Cost (Market Value of \$9,200 and \$4,900, Respectively) | 6,300 | 6,300 |
| Office Equipment and Leasehold Improvements, at Cost, Less Accumulated Depreciation and Amortization of \$1,250 and \$729, Respectively | 1,355 | 1,647 |
| Intangible Assets | 170,341 | 47,532 |
| Other Assets | 7,187 | 3,011 |
| Total Assets | \$ 505,125 | \$ 272,201 |
| LIABILITIES AND STOCKHOLDERS' EQUITY/MEMBERS' CAPITAL | | |
| LIABILITIES: | | |
| Payable to Brokers and Dealers | \$ 7,726 | \$ 3,892 |
| Securities Sold, But Not Yet Purchased, at Market Value | 36,900 | 67,896 |
| Accrued Compensation | 12,016 | 17,735 |
| Accounts Payable and Other Accrued Expenses | 5,522 | 6,347 |
| Other Liabilities | 7,959 | 1,341 |
| | 70,123 | 97,211 |
| Long-Term Debt | 115,822 | — |
| Commitments | — | — |
| Subordinated Liabilities: | | |
| Exchange Memberships, at Market Value | 20,700 | 12,250 |
| Other Subordinated Indebtedness | 46,508 | 48,073 |
| | 67,208 | 60,323 |
| Limited Partners' Interest in Subsidiary | — | 37,574 |
| STOCKHOLDERS' EQUITY: | | |
| Preferred Stock (\$.01 Par Value, 10,000,000 Shares Authorized; None Issued and Outstanding) | — | — |
| Common Stock (Par Value \$.01 Per Share; 200,000,000 Shares Authorized, 45,875,000 Shares Issued and Outstanding) | 459 | — |
| Additional Paid-in-Capital | 228,771 | — |
| Retained Earnings | 22,742 | — |
| Stockholders' Equity/Members' Capital | 251,972 | 77,093 |
| Total Liabilities and Stockholders' Equity/Members' Capital | \$ 505,125 | \$ 272,201 |

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

LABRANCHE & CO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

(000's omitted, except per share data)

| FOR THE YEARS ENDED DECEMBER 31, | 1999 | 1998 | 1997 |
|--|-----------|-----------|-----------|
| REVENUES | | | |
| Net Gain on Principal Transactions | \$150,971 | \$ 95,048 | \$ 47,817 |
| Commissions | 37,222 | 26,576 | 15,186 |
| Other | 12,844 | 4,787 | 4,637 |
| Total Revenues | 201,037 | 126,411 | 67,640 |
| EXPENSES | | | |
| Employee Compensation and Benefits | 34,268 | 13,921 | 8,108 |
| Lease of Exchange Memberships | 8,416 | 6,568 | 3,727 |
| Interest | 8,286 | 3,577 | 1,566 |
| Amortization of Intangibles | 4,623 | 2,526 | 737 |
| Exchange, Clearing and Brokerage Fees | 3,709 | 2,898 | 2,042 |
| Legal and Professional Fees | 1,622 | 916 | 620 |
| Occupancy | 1,411 | 1,121 | 465 |
| Communications | 1,193 | 964 | 709 |
| Other | 3,041 | 2,285 | 1,934 |
| Total Expenses Before Managing Directors' Compensation, Limited Partners' Interest in Earnings of Subsidiary and Provision for Income Taxes | 66,569 | 34,776 | 19,908 |
| Income Before Managing Directors' Compensation, Limited Partners' Interest in Earnings of Subsidiary and Provision for Income Taxes | 134,468 | 91,635 | 47,732 |
| Managing Directors' Compensation | 56,191 | 58,783 | 30,008 |
| Income Before Limited Partners' Interest in Earnings of Subsidiary and Provision for Income Taxes | 78,277 | 32,852 | 17,724 |
| Limited Partners' Interest in Earnings of Subsidiary | 25,344 | 26,292 | 14,354 |
| Income Before Provision for Income Taxes | 52,933 | 6,560 | 3,370 |
| Provision for Income Taxes | 23,899 | 3,900 | 1,881 |
| Net Income | \$ 29,034 | \$ 2,660 | \$ 1,489 |
| Weighted-Average Shares Outstanding | 40,443 | 24,318 | 10,329 |
| Basic and Diluted Earnings Per Share | \$ 0.72 | \$ 0.11 | \$ 0.14 |

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

LABRANCHE & CO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN
STOCKHOLDERS' EQUITY/MEMBERS' CAPITAL
(000's omitted)

| | Common Stock | | Additional Paid-in- Capital | Retained Earnings | Members' Capital | |
|---|--------------|--------|-----------------------------------|----------------------|---------------------|------------|
| | Shares | Amount | | | Capital | Total |
| BALANCE , December 31, 1996..... | — | \$ — | \$ — | \$ — | \$ 13,735 | \$ 13,735 |
| Net Income..... | — | — | — | — | 1,489 | 1,489 |
| Contributions to Capital..... | — | — | — | — | 28,574 | 28,574 |
| Distributions of Capital..... | — | — | — | — | (6,140) | (6,140) |
| BALANCE , December 31, 1997..... | — | — | — | — | 37,658 | 37,658 |
| Net Income..... | — | — | — | — | 2,660 | 2,660 |
| Contributions to Capital..... | — | — | — | — | 66,563 | 66,563 |
| Distributions of Capital..... | — | — | — | — | (29,788) | (29,788) |
| BALANCE , December 31, 1998..... | — | — | — | — | 77,093 | 77,093 |
| Net Income Through August 23, 1999..... | — | — | — | — | 6,292 | 6,292 |
| Contributions to Capital..... | — | — | — | — | 18,096 | 18,096 |
| Distributions of Capital..... | — | — | — | — | (8,095) | (8,095) |
| BALANCE , Pre-Reorganization..... | — | — | — | — | 93,386 | 93,386 |
| Exchange of Membership Interests for Shares of Common Stock..... | 35,375 | 354 | 93,032 | — | (93,386) | — |
| Initial Public Offering of Common Stock..... | 10,500 | 105 | 134,689 | — | — | 134,794 |
| BALANCE , Post-Reorganization and Initial Public Offering..... | 45,875 | 459 | 227,721 | — | — | 228,180 |
| Net Income (August 24, 1999, Through December 31, 1999)..... | — | — | — | 22,742 | — | 22,742 |
| Compensation Related to Restricted Stock Units..... | — | — | 1,050 | — | — | 1,050 |
| BALANCE , December 31, 1999..... | 45,875 | \$ 459 | \$ 228,771 | \$ 22,742 | \$ — | \$ 251,972 |

LABRANCHE & CO INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(000's omitted)

| FOR THE YEARS ENDED DECEMBER 31, | 1999 | 1998 | 1997 |
|---|-----------|-----------|-----------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Net Income | \$ 29,034 | \$ 2,660 | \$ 1,489 |
| Adjustments to Reconcile Net Income to Net Cash (Used in) Operating Activities | | | |
| Depreciation and Amortization | 5,348 | 3,020 | 909 |
| Undistributed Limited Partners' Interest in Earnings of Subsidiary | — | 3,646 | 1,241 |
| Compensation Related to the Restricted Stock Units | 1,050 | — | — |
| Deferred Tax Provision | 335 | — | — |
| Changes in Assets and Liabilities | | | |
| Securities Purchased Under Agreements to Resell | (4,322) | (6,100) | (8,500) |
| Receivable from Brokers, Dealers and Clearing Organizations | 21,146 | 3,366 | (40,188) |
| Corporate Equities | (33,569) | (77,967) | (6,338) |
| United States Government Obligations | (3) | 998 | 1 |
| Other Securities Owned | (1,155) | — | — |
| Commissions Receivable | (826) | — | — |
| Other Assets | (4,161) | (1,970) | (2,047) |
| Payable to Brokers and Dealers | 3,834 | 2,231 | (2,731) |
| Securities Sold, But Not Yet Purchased | (30,996) | 28,569 | 20,591 |
| Accrued Compensation | (5,719) | 8,891 | (5,322) |
| Accounts Payable and Other Accrued Expenses | (2,166) | 2,379 | 1,371 |
| Income Taxes Payable | 7,624 | — | — |
| Net Cash (Used in) Operating Activities | (14,546) | (30,277) | (39,524) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Payments for Purchases of Office Equipment and Leasehold Improvements | (228) | (1,550) | (278) |
| Payments to Limited Partners for Redemption of Interests | (140,186) | — | — |
| Net Cash (Used in) Investing Activities | (140,414) | (1,550) | (278) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Proceeds from the Issuance of Subordinated Debt | 3,435 | 16,750 | 28,900 |
| Repayment of Subordinated Debt | (5,000) | — | (896) |
| Net Proceeds from the Initial Public Offering | 134,794 | — | — |
| Proceeds from the Issuance of Long-Term Debt | 99,807 | — | — |
| Payments to Members Upon Reorganization | (9,025) | — | — |
| Proceeds from Contributions of Capital | 18,096 | 46,598 | 10,948 |
| Payments for Distributions of Capital | (8,095) | (29,788) | (6,140) |
| Net Cash Provided by Financing Activities | 234,012 | 33,560 | 32,812 |
| Increase (Decrease) in Cash and Cash Equivalents | 79,052 | 1,733 | (6,990) |
| Cash and Cash Equivalents, Beginning of Year | 4,722 | 2,989 | 9,979 |
| Cash and Cash Equivalents, End of Year | \$ 83,774 | \$ 4,722 | \$ 2,989 |
| Supplemental Disclosure of Cash Paid for: | | | |
| Interest | \$ 4,557 | \$ 8,788 | \$ 4,360 |
| Income Taxes | \$ 17,989 | \$ 2,244 | \$ 2,161 |
| SUPPLEMENTAL NON-CASH FINANCING ACTIVITIES | | | |
| Excess of Purchase Price Over Fair Value of Assets Acquired for Issuance of Membership Interest and Limited Partnership Interests in Subsidiary | \$ — | \$ 25,815 | \$ 24,980 |
| Exchange of Membership Interests for Shares of Common Stock | \$ 93,386 | \$ — | \$ — |
| Issuance of Subordinated Debt and Shares of Common Stock for Redemption of Limited Partner Interests upon Reorganization | \$ 23,821 | \$ — | \$ — |

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS/LABRANCHE & CO INC. AND SUBSIDIARIES**1. ORGANIZATION AND DESCRIPTION OF BUSINESS**

The consolidated financial statements include the accounts of LaBranche & Co Inc., a Delaware corporation (the "Holding Company"), and its subsidiaries, LaB Investing Co. L.L.C., a New York limited liability company ("LaB Investing"), and LaBranche & Co., a New York limited partnership (collectively, the "Company"). LaB Investing is the sole general partner of LaBranche & Co. and has a partnership interest in LaBranche & Co. of 84.1%. The Holding Company is the sole limited partner of LaBranche & Co. and owns the remaining partnership interest of 15.9%. The Holding Company is also the sole member of LaB Investing, thereby providing the Holding Company with 100.0% ownership in LaBranche & Co. LaBranche & Co. operates primarily as a Specialist in certain equity securities listed on the New York Stock Exchange, Inc. ["NYSE"].

2. INITIAL PUBLIC OFFERING AND DEBT ISSUANCE

On August 24, 1999, the Company reorganized from partnership to corporate form, upon the members of LaB Investing exchanging their membership interests for common stock in the Holding Company, and completed its initial public offering. In that offering, the Company sold 10.5 million shares of common stock and received net proceeds of \$134.8 million. Concurrently with the offering, the Company issued \$100.0 million aggregate principal amount of Senior Notes. See Note 12 for further information regarding the long-term debt.

3. SIGNIFICANT ACCOUNTING POLICIES*Basis of Presentation*

The preparation of consolidated financial statements in conformity with 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Management does not believe that actual results will differ materially from these estimates.

Intangible Assets

Intangible assets are comprised of the Company's Specialist stock list, trade name, and goodwill from acquisitions and the limited partner buy-out that occurred in concurrence with our reorganization to corporate form. The Specialist stock list and trade name are being amortized on a straight-line basis over 40 years and the goodwill is being amortized on a straight-line basis over 15 years. The allocation of purchase price and determination of useful lives were based upon an independent appraisal. The useful life of the Specialist stock list was determined based upon analysis of historical turnover characteristics of the Specialist stocks.

The Company continually evaluates whether later events and circumstances have occurred that indicate the remaining estimated useful life may warrant revision or that the remaining balance may not be recoverable. When factors indicate that intangible assets should be evaluated for possible impairment, the Company uses an estimate of undiscounted net income over the remaining life in measuring whether the assets are recoverable.

Exchange Memberships

Exchange memberships owned by the Company are carried at cost.

Certain members of the Company have contributed the use of nine memberships on the NYSE to the Company. These memberships are subordinated to claims of general creditors and are carried at market value with a corresponding amount recorded in subordinated liabilities. Lease payments are paid by the Company to its members for the use of the exchange memberships at a rate that is commensurate with the rent paid to nonaffiliated parties for the use of their exchange memberships.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and highly liquid investments with original maturities of less than three months.

Securities Transactions

Securities transactions and the related revenues and expenses are recorded on a trade date basis. Securities owned and securities sold, but not yet purchased, are reflected at market value, and unrealized gains and losses are reflected in net gain on principal transactions. Dividends and Securities and Exchange Commission ("SEC") fees are also included in net gain on principal transactions. Dividend income and expense are recognized on the payable date, which does not differ materially from the ex-date.

Depreciation and Amortization

Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of office equipment and leasehold improvements.

Collateralized Financing Transactions

Securities purchased and sold under agreements to resell and repurchase, as well as securities borrowed and loaned for which cash is deposited or received, are treated as collateralized financing transactions and are recorded at contract amount.

Collateral

The Company continues to report assets as owned when they are pledged as collateral in secured financing arrangements and the secured party cannot sell or repledge the assets or the Company can substitute collateral or otherwise redeem it on short notice. The Company continues not to report securities received as collateral in secured financing arrangements because the debtor typically has the right to substitute or redeem the collateral on short notice.

Reportable Operating Segment

The Company considers its present operations to be one reportable segment for purposes of presenting consolidated financial information and for evaluating its performance. The financial statement information presented in the accompanying consolidated financial statements is consistent with the preparation of financial information for the purpose of internal use.

Managing Directors' Compensation

Prior to the reorganization on August 24, 1999, the managing directors of LaBranche & Co. were the members of LaB Investing. LaBranche & Co. paid out substantially all of its earnings as compensation expense to its managing directors. Subsequent to August 24, 1999, the managing directors of the Company are compensated based on an annual salary as well as an incentive-based compensation pool, which is determined based upon a certain percentage of pre-tax income.

New Accounting Pronouncement

The Financial Accounting Standard Board has issued Statement of Financial Accounting Standards No. 133 ("SFAS No. 133"), "Accounting for Derivative Instruments and Hedging Activities," which is effective for periods beginning after June 15, 2000. Management does not believe the impact of the adoption of SFAS No. 133 on the Company's financial position or results of operations, will be material.

4. RECEIVABLE FROM AND PAYABLE TO BROKERS, DEALERS AND CLEARING ORGANIZATIONS

The balances presented as receivables from and payables to brokers, dealers and clearing organizations consist of the following at December 31, 1999 and 1998:

| YEARS ENDED DECEMBER 31, | 1999 | 1998 |
|---|-----------------|-----------------|
| RECEIVABLE FROM BROKERS, DEALERS AND CLEARING ORGANIZATIONS | | |
| Pending Trades, Net | \$ — | \$ 34,390 |
| Securities Borrowed | 26,230 | 17,386 |
| Receivable from Clearing Organizations | 3,373 | 1,813 |
| Securities Failed to Deliver | 827 | 1,219 |
| Other Receivables from Brokers and Dealers | 3,232 | — |
| | \$33,662 | \$54,808 |
| PAYABLE TO BROKERS AND DEALERS | | |
| Pending Trades, Net | \$ 6,435 | \$ — |
| Securities Failed to Receive | 1,264 | 3,892 |
| Other Payables to Brokers and Dealers | 27 | — |
| | \$ 7,726 | \$ 3,892 |

5. INCOME TAXES

Prior to its conversion to corporate form, LaBranche & Co. operated as a partnership and generally was not subject to U.S. federal and state income taxes. The earnings of LaBranche & Co., however, were subject to local unincorporated business taxes. The members were taxed on their proportionate share of the partnership's taxable income or loss. Effective with its conversion from partnership to corporate form on August 24, 1999, the Company became subject to U.S. federal, state and local corporate income taxes. The Company accounts for taxes in accordance with Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which requires the recognition of tax benefits or expenses on temporary differences between the financial reporting and tax bases of its assets and liabilities. Deferred tax assets and liabilities relate to stock-based compensation and amortization of intangibles. As a result of its conversion to corporate form, the Company recognized the tax effect of the change in its income tax rate on the earnings attributable to the period from August 24, 1999, to December 31, 1999. The Company's effective tax rate differs from the federal statutory rate primarily due to its conversion to corporate form and non-deductible amortization of intangibles. The components of provision for income taxes reflected on the consolidated statements of operations are set forth below:

| YEARS ENDED DECEMBER 31, | 1999 | 1998 | 1997 |
|---|----------|---------|---------|
| Current Federal, State and Local Income Taxes | \$18,346 | \$ — | \$ — |
| Unincorporated Business Tax | 5,218 | 3,900 | 1,881 |
| Deferred Tax Provision | 335 | — | — |
| Total Provision for Income Taxes | \$23,899 | \$3,900 | \$1,881 |

6. CAPITAL AND NET LIQUID ASSET REQUIREMENTS

LaBranche & Co., as a Specialist and member of the NYSE, is subject to SEC Rule 15c3-1 as adopted and administered by the NYSE and the SEC. LaBranche & Co. 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, 1999 and 1998, LaBranche & Co.'s net capital, as defined under SEC Rule 15c3-1, was \$161.4 million and \$86.5 million, respectively, and exceeded minimum requirements by \$159.9 million and \$85.2 million, respectively. LaBranche & Co.'s aggregate indebtedness to net capital ratio, as of December 31, 1999 and 1998, was .13 to 1 and .24 to 1, respectively.

The NYSE also requires members registered as regular Specialists to establish that they can meet, with their own net liquid assets, a minimum dollar amount, which shall be the greater of \$1.0 million or 25% of their position requirement ("Rule 104.2"). In 1998, due to the concentration of LaBranche & Co.'s Specialist book, the NYSE required LaBranche & Co. to maintain minimum net liquid assets of the greater of 120% of LaBranche & Co.'s Rule 104.2 position requirement, or \$90.0 million, adjusted by the amount of the position requirement for any new stock allocations. The position requirement is the ability to assume positions in stocks in which they are registered of 30,000 shares of each S&P 500 common stock, 22,500 shares in all other common stocks, 4,500 shares in each convertible preferred stock and 1,800 shares in each nonconvertible preferred stock. The term "net liquid assets" for a Specialist who also engages in transactions other than Specialist activities is based on its excess net capital determined in accordance with SEC Rule 15c3-1.

As of December 31, 1999 and 1998, LaBranche & Co.'s NYSE minimum required dollar amount of net liquid assets, as defined, was \$93.6 million and \$90.6 million, respectively, compared to actual net liquid assets, as defined, of \$175.9 million and \$103.1 million, respectively.

7. ACQUISITIONS

Effective July 1, 1997, LaBranche & Co. acquired a portion of the Specialist operations of Stern Bros., L.L.C., for an aggregate purchase price of approximately \$9.3 million, representing an 8.3% total general partners' interest in LaBranche & Co. The goodwill associated with the acquisition was approximately \$7.8 million.

Effective August 1, 1997, LaBranche & Co. acquired the Specialist operations of Ernst, Homans, and Ware & Keelips for an aggregate purchase price of approximately \$18.5 million, representing general and limited partnership interests totaling 16.4%. The excess purchase price over fair value of net assets acquired was approximately \$17.2 million.

Effective July 1, 1998, LaBranche & Co. acquired the Specialist operations of Fowler, Rosenau & Geary, L.L.C. ("Fowler"), for an aggregate purchase price of approximately \$45.0 million, representing a 22.4% total general and limited partners' interest in LaBranche & Co. The excess purchase price over fair value of net assets acquired was approximately \$25.8 million.

Effective August 24, 1999, the limited partnership interests of \$37.1 million in LaBranche & Co. were acquired at an excess purchase price of \$127.4 million over the limited partners' capital balances. The redemption of the limited partners' interests is accounted for as a step acquisition under the purchase method of accounting. The excess of purchase price over the limited partners' capital balances was allocated to intangible assets and assigned lives as follows:

| | AMOUNT | LIFE |
|-----------------------------|------------------------|----------|
| Specialist Stock List | \$ 93.6 million | 40 years |
| Trade Name | 26.6 million | 40 years |
| Goodwill | 7.2 million | 15 years |
| | \$127.4 million | |

8. COMMITMENTS

During 1998, LaBranche & Co. secured a \$75.0 million committed line of credit with a U.S. commercial bank. The agreement matured on June 25, 1999. In June 1999, the U.S. commercial bank amended and extended the committed line of credit to \$100.0 million through June 23, 2000.

Minimum rental commitments under existing noncancellable leases for office space and equipment are as follows:

| YEARS ENDING DECEMBER 31: | |
|---------------------------|-------------|
| 2000 | \$ 673,006 |
| 2001 | 771,750 |
| 2002 | 801,750 |
| 2003 | 807,750 |
| 2004 | 807,750 |
| Thereafter | \$3,372,000 |

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

9. SUBORDINATED LIABILITIES

LaBranche & Co. is a party to subordinated loan agreements under which it has indebtedness approved by the NYSE for inclusion as net capital, as defined. Interest is payable quarterly at various annual rates. Eleven of the agreements representing \$6,823,000 mature within the last six months of 2000 and seven agreements representing \$3,385,000 mature within the first six months of 2001. These agreements all have automatic rollover provisions, and each scheduled maturity date will be extended an additional year, unless the lender gives LaBranche & Co. seven months' advance notice that the maturity date will not be extended. Interest expense incurred for the years ended December 31, 1999, 1998 and 1997, on these agreements was approximately \$1.1 million, \$1.3 million and \$1.2 million, respectively. Two of the holders representing \$850,000 of subordinated loan agreements maturing in November 2000 have notified LaBranche & Co. that the scheduled maturity date will not be extended.

LaBranche & Co. also issued seven notes representing aggregate indebtedness of \$20 million, which mature on September 15, 2002, and bear interest at an annual rate of 8.17% payable on a quarterly basis. LaBranche & Co. also issued five notes representing aggregate indebtedness of \$15 million, which mature on June 3, 2008, and bear interest at an annual rate of 7.69% payable on a quarterly basis. These notes are senior to all other subordinated notes of LaBranche & Co. Interest expense incurred for the years ended December 31, 1999, 1998 and 1997, on these notes was approximately \$2.8 million, \$2.3 million and \$340,000, respectively. The agreements covering these subordinated notes require the Company to comply with certain covenants that, among other things, restrict the type of business in which the Company may engage, set certain net capital levels and prohibit certain restricted payments.

LaBranche & Co. also issued a subordinated note for \$1.3 million due March 2, 2001, with an annual rate of 10.0%, payable on a quarterly basis. Interest expense incurred for the year ended December 31, 1999, on the note was approximately \$123,333. This agreement has an automatic rollover provision, and the scheduled maturity date will be extended an additional year, unless the lender gives LaBranche & Co. seven months' advance notice that the maturity date will not be extended.

Exchange memberships contributed pursuant to subordination agreements in the amount of \$20.7 million comprise the remaining subordinated liabilities.

10. EARNINGS PER SHARE

Earnings per share ("EPS") are computed in accordance with SFAS No. 128, "Earnings Per Share." Basic EPS is calculated by dividing net income by the weighted-average number of common shares outstanding. For purposes of determining weighted-average shares outstanding for periods prior to the Company's reorganization from partnership to corporate form, the outstanding shares were determined based on the conversion ratio of members' capital to common stock issued to the members upon reorganization.

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

| YEARS ENDED DECEMBER 31, | 1999 | 1998 | 1997 |
|--|----------|----------|----------|
| Numerator for Basic and Diluted Earnings Per Share—Net Income | \$29,034 | \$ 2,660 | \$ 1,489 |
| Denominator for Basic and Diluted Earnings Per Share—Weighted-Average Number of Common Shares..... | 40,443 | 24,318 | 10,329 |
| Basic and Diluted Earnings Per Share | \$ 0.72 | \$ 0.11 | \$ 0.14 |

Under the treasury stock method of accounting, restricted stock units representing 1,062,600 shares of common stock and options to purchase an aggregate of 1.2 million shares of common stock were not included in the calculation of diluted earnings per share due to their antidilutive effect.

11. EMPLOYEE INCENTIVE PLANS*Equity Incentive Plan*

The Company has elected to account for stock-based employee compensation plans in accordance with Accounting Principles Board Opinion ("APB") No. 25 as permitted by SFAS No. 123, "Accounting for Stock-Based Compensation." In accordance with APB No. 25, compensation expense is not recognized for stock options that have no intrinsic value on the date of grant.

The Company sponsors an Equity Incentive Plan, which provides for grants of incentive stock options, nonqualified stock options, restricted shares of common stock, restricted stock units, unrestricted shares and stock appreciation rights.

A maximum of 4,687,500 shares of common stock has been reserved for issuance under the Equity Incentive Plan. The maximum number of shares of common stock with respect to which options, restricted stock, restricted stock units or other equity-based awards may be granted under the Equity Incentive Plan during any calendar year to any employee may not exceed 500,000 shares, subject to adjustment upon certain corporate transactions.

On August 18, 1999, restricted stock units with respect to 1,059,000 shares of common stock were granted to employees who were not managing directors with an issue cost of \$0 to the employees and a fair market value of \$14 per share. In October 1999, restricted stock units for an additional 3,600 shares of common stock were issued to an employee with an issue cost of \$0. The restricted stock units, which are subject to continuing service with the Company and other restrictions, will generally vest in three annual installments commencing on the third anniversary of the grant date. Compensation expense is being recognized over the five-year vesting period on a straight-line basis. For the year ended December 31, 1999, the Company recorded compensation expense and a credit to additional paid-in capital of approximately \$1.1 million related to these restricted stock units.

Stock Options

On August 18, 1999, options to purchase an aggregate of 1.2 million shares of common stock were granted to executive officers of the Company at market value. Of these options, options to purchase 1 million shares, which are subject to continuing service with the Company and other restrictions, will become exercisable in three equal annual installments commencing on the first anniversary of the date of grant. The options to purchase the remaining 200,000 shares vested on January 7, 2000, and 100,000 shares become exercisable on July 7, 2000, and 100,000 shares on July 7, 2001. As of December 31, 1999, there were no options exercisable. These options will generally expire 10 years from the date of grant, unless sooner terminated or exercised. Pursuant to APB No. 25, no compensation expense was recognized since, on the date of grant, these options had no intrinsic value. As of December 31, 1999, the outstanding options had an exercise price of \$14 and a remaining life of approximately 10 years.

The estimated fair value of options granted was \$4.97 per option. Fair value is estimated as of the grant date based on a binomial option pricing model using the following assumptions:

| | |
|-------------------------------|---------|
| Risk-Free Interest Rate | 5.25% |
| Expected Life | 7 years |
| Expected Volatility..... | 40% |
| Dividend Yield..... | 0% |

In accordance with SFAS No. 123, compensation expense was not recognized on the date of the grant of the options since these options had no intrinsic value. If the Company were to recognize compensation expense under the fair-value-based method of SFAS No. 123, the net income would have decreased by approximately \$843,000, resulting in pro forma net income and earnings per share as follows (000's omitted, except per share data):

| YEAR ENDED DECEMBER 31, | 1999 |
|-------------------------------|-----------|
| Net Income, as Reported | \$ 29,034 |
| Pro Forma Net Income..... | 28,191 |
| EPS, as Reported..... | \$ 0.72 |
| Pro Forma EPS..... | 0.70 |

The effect of applying SFAS No. 123 in the pro forma disclosure above may not be representative of the potential pro forma effect on net income in future periods.

Annual Incentive Plan

The Company also sponsors an Annual Incentive Plan. Managing directors and other employees designated by management will be eligible to participate. Under this plan, a compensation pool of up to 30% of the Company's pre-tax income, or such lesser percentage determined by the compensation committee, will be set aside for managing directors and other employees selected by the compensation committee to participate in this plan. In determining the compensation pool, the compensation expense relating to the grant of restricted stock units at the time of the reorganization of the Company to corporate form is deducted. Under the plan, no individual participant may receive more than 25% of the compensation pool for any fiscal year. The compensation expense under the Annual Incentive Plan for the years ended December 31, 1999, 1998 and 1997, were approximately \$8.0 million, \$0, and \$0, respectively.

12. LONG-TERM DEBT

Effective August 24, 1999, the Holding Company issued \$100.0 million aggregate principal amount of Senior Notes. The notes bear interest at a rate of 9.5% annually and mature on August 15, 2004. The carrying value of the Senior Notes as of December 31, 1999, is \$99.8 million. The discount on the debt is being amortized as an adjustment to interest expense over the life of the Senior Notes. Debt issuance costs incurred as a result of the Senior Note offering are approximately \$2.5 million, which are being amortized on a straight-line basis over the life of the Senior Notes. Interest expense incurred for the year ended December 31, 1999, was approximately \$3.3 million. The indenture covering the Senior Notes includes certain covenants that, among other things, limit the Company's ability to: borrow money; pay dividends or repurchase stock; make investments; engage in transactions with stockholders and affiliates; create liens on assets; and sell assets or engage in mergers and consolidations except in accordance with certain specified conditions, as defined.

In addition, in connection with the reorganization of the Company from partnership to corporate form on August 24, 1999, the Holding Company issued a note in an aggregate principal amount of \$16.0 million as partial payment for the acquisition of a limited partner interest. Of the \$16.0 million total, \$6.0 million is payable on the first anniversary of issuance, \$5.0 million is payable on the second anniversary of issuance and \$5.0 million is payable on the third anniversary of issuance. The note bears interest at the annual rate of 9.5%. Interest expense incurred for the year ended December 31, 1999, was approximately \$538,000.

13. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments," requires companies to report the fair value of financial instruments for certain assets and liabilities. Substantially all of the Company's financial instruments are short-term in nature or carry market interest rates and, accordingly, approximate fair value.

The fair value of the senior and fixed rate notes at December 31, 1999, in millions, is as follows:

| | CARRYING VALUE | FAIR VALUE |
|-----------------------|----------------|------------|
| Senior Notes..... | \$99.8 | \$ 97.0 |
| Fixed Rate Note | \$ 16.0 | \$ 15.9 |

The fair value of the Senior Notes was determined based upon its market value as of December 31, 1999. The fair value of the fixed rate note was determined using current market rates to discount its cash flows.

14. FINANCIAL INSTRUMENTS WITH CONCENTRATION OF CREDIT AND OFF-BALANCE SHEET RISK

As a Specialist on the NYSE, LaBranche & Co. is engaged in various securities trading and lending activities. In connection with its activities as a Specialist, LaBranche & Co. assumes positions in stocks for which it is responsible. LaBranche & Co. is exposed to credit risk associated with the nonperformance of counterparties in fulfilling their contractual obligations pursuant to these securities transactions. LaBranche & Co. is exposed to market risk associated with the sale of securities not yet purchased, which can be directly impacted by volatile trading on the NYSE. Additionally, in the event of nonperformance and unfavorable market price movements, LaBranche & Co. may be required to purchase or sell financial instruments, which may result in a loss to LaBranche & Co.

LaBranche & Co. enters into collateralized financing agreements in which it extends short-term credit to major financial institutions. LaBranche & Co. controls access to the collateral pledged by the counterparties, which generally consists of U.S. equity and government securities. The value and adequacy of the collateral are continually monitored. Consequently, the risk of credit loss from counterparties' failure to perform in connection with collateralized lending activities is minimal.

15. PRO FORMA FINANCIAL INFORMATION (UNAUDITED)

The 1998 pro forma consolidated results give effect to LaBranche & Co.'s July 1998 acquisition of Fowler, Rosenau and the reorganization of LaBranche & Co. from partnership to corporate form and related transactions, which include the acquisition of LaBranche & Co.'s limited partnership interests, and the application of the net proceeds from the Company's August 1999 initial public offering and Senior Note offering (the "Reorganization Transactions") as if the Reorganization Transactions occurred as of January 1, 1998. The 1999 pro forma consolidated results give effect to the August 1999 Reorganization Transactions as if they occurred as of January 1, 1999. The pro forma impact on revenues, pre-tax income and earnings are as follows (000's omitted, except per share data):

| YEARS ENDED DECEMBER 31, (PRO FORMA) | 1999 | 1998 |
|--------------------------------------|-----------|-----------|
| Revenues | \$201,037 | \$137,850 |
| Pre-Tax Income | 100,153 | 59,429 |
| Net Income | 53,988 | 31,791 |
| EPS | \$ 1.18 | \$ 0.69 |

16. SUBSEQUENT EVENTS (UNAUDITED)

Subsequent to year-end the Company acquired Henderson Brothers Holdings, Inc. ("Henderson"), a Specialist firm on the NYSE. Under the terms of the acquisition, the Company acquired all of the outstanding capital stock of Henderson for approximately \$230 million in cash. In addition, the Company has acquired Webco Securities, Inc. ("Webco"), another Specialist firm on the NYSE. Under the terms of the acquisition, the Company acquired Webco for approximately \$10.9 million in cash, an aggregate of approximately \$3 million in senior promissory notes, and approximately 2.8 million shares of the Company's common stock. Both of these acquisitions will be accounted for under the purchase method.

During February 2000, a U.S. commercial bank increased and extended its committed line of credit to LaBranche & Co. from \$100.0 million to \$200.0 million through February 2, 2001.

C O R P O R A T E I N F O R M A T I O N

DIRECTORS AND OFFICERS

Michael LaBranche / Chairman, Chief Executive Officer and President

James G. Gallagher / Director and Executive Vice President

Al Hayward / Director and Executive Vice President

S. Lawrence Prendergast / Director and Executive Vice President, Finance

Vincent Flaherty / Senior Vice President, Floor Operations

Michael J. Naughton / Senior Vice President, Specialist Operations

Harvey S. Traison / Director and Senior Vice President and Chief Financial Officer*

E. Margie Filter / Director / Vice President, Treasurer and Secretary of Xerox Corporation /
President and Chief Executive Officer of Xerox Credit Corporation

Thomas E. Dooley / Director* / Deputy Chairman and Executive Vice President of Viacom, Inc.

*As of March 2000

INVESTOR RELATIONS CONTACTS

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S. Lawrence Prendergast

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Forms 10K & 10Q are available at
www.labranche.com or upon request.

STOCK TRADING INFORMATION

Our common stock is quoted on the New York Stock Exchange under the symbol "LAB." The following table sets forth the range of high, low and closing prices for our common stock on the NYSE for the periods indicated since August 19, 1999:

| FISCAL 1999 | HIGH | LOW | CLOSE |
|---|-----------------------------------|-----------------------------------|------------------------------------|
| Third Quarter (August 19, 1999 to September 30, 1999) | \$ 14 ⁷ / ₈ | \$ 11 ¹ / ₈ | \$ 11 ³ / ₁₆ |
| Fourth Quarter (October 1, 1999 to December 31, 1999) | \$ 13 ¹ / ₂ | \$ 9 ¹ / ₁₆ | \$ 12 ³ / ₄ |

As of March 10, 2000, we had 119 shareholders of record of our common stock.

LEGAL COUNSEL

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New York, NY

INDEPENDENT AUDITORS

Arthur Andersen LLP
New York, NY

STOCK TRANSFER AGENT AND REGISTRAR

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LaBranche & Co Inc.

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