BODY CENTRAL CORP
Form 10-K
March 31, 2011

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended January 1, 2011

or

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission file number 001-34906

BODY CENTRAL CORP.

(Exact name of registrant as specified in its charter)

Delaware	**14-1972231**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

Securities Registered Pursuant to Section 12(b) of the Act:

Common Stock, par value $0.001 per share	**The NASDAQ Stock Market LLC**
(Title of Class)	(Name of each exchange where registered)

Securities Registered Pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

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

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

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.) Yes o No ý

The registrant commenced the initial public offering of its common stock in October 2010. Accordingly, there was no public market for the registrant's common stock as of the last business day of the registrant's most recently completed second fiscal quarter.

The number of shares outstanding of the registrant's common stock as of March 30, 2011 was 15,655,957 shares.

Documents Incorporated by Reference

Portions of the registrant's Proxy Statement for the Annual Meeting of Stockholders to be held on May 25, 2011 (hereinafter referred to as the 2011 Proxy Statement) are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements concerning our business, operations and financial performance and condition as well as our plans, objectives and expectations for our business operations and financial performance and condition that are subject to risks and uncertainties. All statements other than statements of historical fact included in this Annual Report on Form 10-K are forward-looking statements. You can identify these statements by words such as "aim," "anticipate," "assume," "believe," "could," "due," "estimate," "expect," "goal," "intend," "may," "objective," "plan," "potential," "positioned," "predict," "should," "target," "will," "would" and other similar expressions that are predictions of or indicate future events and future trends. These forward-looking statements are based on current expectations, estimates, forecasts and projections about our business and the industry in which we operate and our management's beliefs and assumptions. These statements are not guarantees of future performance or development and involve known and unknown risks, uncertainties and other factors that are in some cases beyond our control. All forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially from those that we expected, including:

- our ability to identify and respond to new and changing fashion trends, customer preferences and other related factors;
- failure to execute successfully our growth strategy;
- changes in consumer spending and general economic conditions;
- changes in the competitive environment in our industry and the markets we serve, including increased competition from other retailers;
- failure of our new stores or existing stores to achieve sales and operating levels consistent with our expectations;
- the success of the malls and shopping centers in which our stores are located;
- our dependence on a strong brand image;
- failure of our direct business to grow consistent with our growth strategy;
- failure of our information technology systems to support our business;
- our dependence upon key executive management or our inability to hire or retain additional personnel;
- disruptions in our supply chain and distribution facility;
- our indebtedness and lease obligations;
- our reliance upon independent third-party transportation providers for all of our product shipments;

hurricanes, natural disasters, unusually adverse weather conditions, boycotts and unanticipated events;

the seasonality of our business;

increases in costs of fuel, or other energy, transportation or utilities costs as well as in the costs of raw materials, labor and employment;

the impact of governmental laws and regulations and the outcomes of legal proceedings;

restrictions imposed by our indebtedness and lease obligations on our current and future operations;

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- our failure to maintain effective internal controls; and

- our inability to protect our trademarks or other intellectual property rights.

Body Central Corp. (herein "we", "our", "us" or the "Company") derives many of its forward-looking statements from its operating budgets and forecasts, which are based upon many detailed assumptions. While we believe that our assumptions are reasonable, we caution that it is very difficult to predict the impact of known factors, and, it is impossible for us to anticipate all factors that could affect our actual results. For the discussion of these risks and uncertainties that could cause actual results to differ materially from those contained in our forward-looking statements, please refer to "Risk Factors" in this Annual Report on Form 10-K. The forward-looking statements included in this Annual Report on Form 10-K are made only as of the date hereof. We undertake no obligation to publicly update or revise any forward-looking statement as a result of new information, future events or otherwise, except as otherwise required by law.

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PART I.

ITEM 1. BUSINESS

Our Company

Founded in 1972, Body Central Corp. is a multi-channel specialty retailer offering on-trend, quality apparel and accessories at value prices. We operate over 200 specialty apparel stores in fashion retail venues primarily located in the South, Mid-Atlantic and Midwest under the Body Central and Body Shop banners, as well as a direct business comprised of our Body Central catalog and our e-commerce website at www.bodyc.com. We target women in their late teens and twenties from diverse cultural backgrounds, who seek the latest fashions and a flattering fit. Our stores feature an assortment of tops, dresses, bottoms, jewelry, accessories and shoes sold primarily under our exclusive Body Central® and Lipstick® labels. We continually update our merchandise and floor sets with an emphasis on coordinated outfits presented by lifestyle to give our customers a reason to shop our stores frequently. We believe our multi-channel strategy supports our brand building efforts and provides us with synergistic growth opportunities across all of our sales channels.

Our Strengths

We believe that the following strengths are critical to our continued success:

Established and Differentiated Brand. With over 35 years of operating experience, we have built the Body Central brand around our strategy of providing the right fashion and quality, with a flattering fit at a value price. We believe our core customer is passionate about finding current fashions typically offered in higher-end specialty stores and boutiques at value prices in an exciting store environment. We also believe that the look and feel of our stores, in-store graphics, fashion assortment, product labeling and overall shopping experience are critical to building our brand image. All of these factors create a unique Body Central experience.

Exciting Fashion Delivered at Compelling Value. We deliver a carefully edited selection of quality, fashionable apparel and accessories for most occasions at value prices. Our broad product assortment of apparel, jewelry, accessories and footwear allows our customers to purchase complete outfits. We do not dictate fashion trends, but respond quickly to offer the best selling styles. We maintain a fresh and exciting shopping experience by continually refreshing our inventory through almost daily shipments to our stores. We design our windows, displays and floor sets to emphasize outfit ideas and refresh them every two to three weeks to drive repeat store visits.

Multiple Sales Channel Synergies. We complement our retail stores with a direct business, which consists of both catalog and internet sales, which we have operated since 2005. We believe our catalog differentiates us from most competitors. We select our best selling products from our stores to sell through our direct channel. We believe our multi-channel strategy builds brand awareness and drives sales across all of our channels. We operate retail stores in 23 states and have direct sales in all 50 states. In fiscal year 2010, our two highest volume states for direct sales were outside of our retail store geography. For fiscal year 2010, direct sales represented 14.0% of our net revenues.

Powerful New Store Economics. We have a store model that works across a variety of market sizes, demographics, climates, real estate venues, store sizes and mall classifications. Our flexible store format allows us to adapt to available locations and store footprints quickly with a low investment cost that has delivered attractive returns and short payback periods. The majority of our stores range from approximately 3,200 to 5,200 square feet with an average size of 4,300 square feet. Our average net out-of-pocket investment for a new store, including inventory, is approximately $100,000. We have instituted a rigorous process for determining new store

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locations based on projected sales potential, investment returns and key performance indicators of competitors combined with site visits. We believe our store economics, flexible real estate model and disciplined new store development process allow us to expand our store footprint on a profitable basis.

Disciplined Inventory Management. We test the vast majority of all new products on a limited basis prior to a broader roll out of the best selling items. This test-and-reorder strategy serves as the foundation of our merchandising philosophy and instills discipline in our inventory management. Our ability to interpret the amount of merchandise we will be able to sell to our customers by color, classification and size, combined with our vendors' short production lead time, allows us to respond rapidly to changing trends. In addition, our extensive vendor base provides us with access to a large number of designers and enables us to have products in our stores in a timely fashion. From this vast supply of new designs we can select merchandise to test, which we believe has the distinctive Body Central look, feel and fit.

Proven Management Team. Allen Weinstein, our President and Chief Executive Officer, Beth Angelo, our Chief Merchandising Officer and President of Direct Sales, and Richard Walters, our Chief Financial Officer, have an average of more than 25 years of retail experience, including in design, marketing, sourcing, merchandising and real estate, and have been instrumental in our strong performance in recent years. In addition, experience and tenure run deep within the Body Central organization. Our regional and district managers average over 20 years and 10 years of experience, respectively.

Growth Strategy

We believe we are well positioned to take advantage of opportunities to increase revenues, capture market share and drive net income growth, including:

Expand Our Store Base. We believe our concept has broad appeal and significant expansion opportunity. With only 209 stores in 23 states as of January 1, 2011, we have considerable opportunity to expand in existing and adjacent markets. We opened 27 stores in fiscal year 2010. We expect to open approximately 30 to 35 new stores in fiscal year 2011, net of store closings. We closed three stores, most of which were underperforming, during fiscal year 2010. We believe we can continue to open new stores at an annual unit rate of 15% for the next several years.

Increase Comparable Store Sales and Enhance Brand Awareness. We plan to grow our comparable store sales by merchandising our stores with the latest fashion trends and maintaining focus on store level execution. We believe our ability to test products quickly and to rapidly replenish the best selling items keeps our shopping experience exciting and drives repeat customer visits and purchases. We believe we will be able to enhance our brand awareness through our continued marketing efforts and in-store experience. In addition, we believe our catalog distribution helps build our Body Central brand awareness.

Expand Operating Margin. As we grow, we believe we can improve our operating margin. We expect to leverage our infrastructure and buying power and streamline processes through the implementation of our new point-of-sale system and catalog and warehouse management systems. In addition, we will continue to refine our inventory disciplines and upgrade information technology to enhance our productivity.

Grow Our Direct Business. In July 2010, we implemented a new software system for our direct business. This new system allows us to process more orders, offers a more dynamic merchandise presentation on our website and enhances our marketing efforts by including, among other things, the ability to target specific customer groups. In addition, we implemented a new

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point-of-sale software system in fiscal year 2010 which is expected to increase the synergies between our direct business and our retail stores.

Products

We offer a broad selection of apparel and accessories targeted to young women who seek the latest fashion styles at value prices. The majority of our products are sold under our exclusive Body Central® and Lipstick® labels. We also sell a select assortment of branded merchandise, primarily denim, to complement our exclusive label merchandise.

Our products are presented to emphasize coordinated outfits. Our assortment of tops, dresses, bottoms, jewelry, accessories and shoes fits the many lifestyles of our customers casual, club, dressy and active. The majority of our products are priced under $20 and we believe represent real values. We strategically price some of our best selling tops and our jewelry to drive customer traffic. The table below indicates our product mix as a percentage of net sales in our stores derived from our two major product categories, as of the fiscal year end for each of the years indicated below:

	Fiscal Year Ended		
	January 1, 2011	January 2, 2010	January 3, 2009
Apparel	75.9%	76.6%	75.2%
Accessories	24.1	23.4	24.8
Total	100.0%	100.0%	100.0%

Typically, our direct business features an edited selection of our best selling store merchandise targeted to a slightly broader customer base. We monitor trends in our stores in order to optimize our direct merchandise offerings.

Merchandising

Our merchandising team seeks to identify current fashion trends and merchandise consistent with our brand image. We do not dictate fashion trends; rather we focus on quickly adapting to the latest trends to provide the right merchandise at value prices every day. Our merchandising team consists of our Chief Merchandising Officer, buyers and assistant buyers organized by product category, as well as a team focused on our direct business. Our merchandising team is responsible for selecting and sourcing our product assortments, managing inventory levels, and allocating merchandise to stores. We build our product assortments after careful review and consideration and select products that can be displayed in our stores in a coordinated manner to encourage our customers to purchase complete outfits.

We have access to the design expertise of numerous designers through our broad vendor base who provide us with hundreds of new styles each week to review. The merchandising team selects new style items from the styles presented to us and makes necessary changes based on current fashion trends and preferences of our customer. Before placing an order, every item is evaluated for style, quality and fit to ensure standards consistent with our Body Central brand. Our vendor relationships provide us the ability to introduce these fashion-right products to our stores quickly. Once in the stores, our buyers use an array of retail intelligence tools to track the performance of each item and class, and then take appropriate action.

Sourcing

Our test-and-reorder strategy enables us to respond rapidly to changing trends. This strategy allows us to minimize our inventory risk by testing small quantities in our stores before placing larger purchase orders for a broader roll out, which minimizes fashion risk and inventory markdowns. We believe this flexible sourcing model enables us to maintain a smaller percentage of our inventory on clearance.

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We do not own or operate any manufacturing facilities and buy our merchandise from third-party vendors on an order-by-order basis. We have relationships with approximately 240 U.S. vendors. Our top 10 vendors sourced approximately 47.2% of our merchandise in fiscal year 2010, with our two largest vendors collectively representing approximately 23.2%. We continue to expand our vendor network, which gives us access to a broad variety of merchandise from a multitude of designers and vendors at competitive prices. We believe our vendors view us as an important retail partner given our scale and market position.

We believe our sourcing strategy has been successful because we have a balance of domestic and import production by which our U.S. vendors place orders and supply merchandise to us from both U.S. manufacturers and foreign manufacturers that are located in such countries as China, pursuant to purchase orders. This strategy provides us with lead times as short as four to six weeks for domestic purchases and eight to twelve weeks for imports.

Every vendor that supplies our merchandise is required to adhere to our vendor manual, which is designed to ensure that our vendor's business is conducted in a legal, ethical and responsible manner. Our vendor manual requires that each of our suppliers operates in compliance with applicable wage, benefit, working hours and other local laws, and forbids the use of practices such as child labor or forced labor. See "Risk Factors Risks Related to Our Business We may suffer risks if our vendors fail to comply with applicable laws, including a failure to use acceptable labor practices, or if our vendors suffer disruptions in their businesses" for more information.

Sales Channels

We conduct our business through two primary sales channels: retail stores and direct, which consists of the Body Central catalog and our website, *www.bodyc.com*. We do not incorporate the information contained on, or accessible through, our website into this Annual Report on Form 10-K, and you should not consider it part of this Annual Report on Form 10-K.

Stores

For fiscal year 2010, our stores generated net sales of $209.4 million, which represented 86.0% of our total net revenues.

As of January 1, 2011, we had 209 retail stores under the names Body Central and Body Shop in 23 states, located primarily in the South, Mid-Atlantic and Midwest. The majority of our stores range in size from 3,200 to 5,200 square feet, with an average of approximately 4,300 square feet. The stores we opened during fiscal year 2010 achieved annualized sales per store and sales per gross square foot in excess of our average store sales. Our stores have historically been located in regional malls and lifestyle centers in small, medium and metropolitan markets. The nature of our fashion merchandise enables us to be successful in markets across hot, warm and cold climates.

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The following store list shows the number of stores we operated in each state as of January 1, 2011:

State	Number of Stores	State	Number of Stores
Alabama	10	Maryland	5
Arizona	1	Mississippi	4
Arkansas	4	Missouri	4
Delaware	1	North Carolina	13
Florida	33	Ohio	9
Georgia	17	Oklahoma	3
Illinois	9	Pennsylvania	17
Indiana	11	South Carolina	8
Iowa	1	Tennessee	8
Kansas	2	Texas	25
Kentucky	5	Virginia	10
Louisiana	9	Total	209

Store Design and Environment

Our stores are designed to effectively present our merchandise and create an exciting atmosphere to draw customers into our store, similar to fashion boutiques. The stores feature a vibrant look with colorful displays, popular music and aspirational lifestyle photos. Our stores are constructed to allow us to efficiently shift merchandise displays for each season and major holiday. Our open floor design enables customers to easily view most of our merchandise. We use a large number of body forms to provide customers with full outfit ideas. We believe by constantly changing our products and floor sets with new merchandise, we give our customers a reason to shop our stores frequently.

We maintain a consistent look in our stores, including signature blue LED storefront signs, blue mosaic tiles on the storefront columns and a well-lit selling area. High ceilings and slat walls allow us to stock and display our merchandise effectively. We seek site locations that have a store front of at least 30 feet wide to create an inviting open floor feel, complete with visually appealing glass line presentations.

Site Selection and Store Growth

In selecting a location for a new store, we target malls as well as lifestyle, power and outlet centers in areas with suitable demographics and where similar fashion retailers have performed well. We have a real estate committee that utilizes a disciplined approach to analyze factors that include mall productivity, mall-specific competitive environment, average sales of junior retailers and configuration of available space for potential new store locations. We seek prominent locations in high-traffic areas of the mall and in close proximity to other retailers targeting juniors and young women as we have found that when we have locations in malls with certain key competitors our net sales in those stores typically exceed the net sales of stores that are not located in proximity to those key competitors. Our flexible store format allows us to utilize both new and second-generation retail locations. We also evaluate new store locations based on projected sales, anticipated capital investment and estimated store level contribution which satisfies our targeted return threshold. We negotiate leases with a variety of term lengths, often with an early termination right held by us if certain sales goals are not achieved.

We enhance our existing store base by relocating or closing underperforming stores that we believe are not profitable or located in underperforming markets as well as remodeling our older stores. In fiscal year 2010, we closed three stores and relocated three stores. We have currently identified a

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number of potential sites for new stores with appropriate market characteristics. In fiscal year 2011, we anticipate opening approximately 30 to 35 stores, net of store closings, with approximately 15% new store unit growth over the next several years. Our new store model assumes average unit revenue of $850,000 to $1,100,000 in the first 12 months and an average net out-of-pocket initial cash investment of approximately $100,000 which includes $75,000 of average build-out costs, including equipment and fixtures (net of landlord contributions), and $25,000 of initial inventory (net of payables).

The table below highlights certain information regarding our new store openings, store closings, relocations and remodels as of the fiscal year end for each of the years indicated below:

	January 1, 2011	**January 2, 2010**	**January 3, 2009**
Stores at beginning of period	185	180	188
Stores opened during period	27	15	6
Stores closed during period	(3)	(10)	(14)
Stores at end of period	209	185	180
Remodeled stores			4
Relocated stores	3	4	5

Direct

Our direct business consists of Body Central catalogs and our *www.bodyc.com* website and enables us to reach customers by phone, mail or the Internet in all states and further build our Body Central brand. For fiscal year 2010, our direct business generated revenues of $34.0 million or 14.0% of our net revenues.

We currently obtain customer information from both catalog and Internet customers as well as mail and email customer lists that we purchase. We currently have a database containing approximately 1.2 million mailing addresses and approximately 811,000 email addresses.

We implemented a new system for our direct business in July 2010, which is expected to enhance our capabilities and support growth. For example, this system supports a more dynamic presentation of merchandise, allows us to process more orders and enhances our marketing efforts by including, among other things, the ability to target specific customer groups based on their shopping history and spending habits.

Catalog

Since the majority of our competitors do not offer a catalog, we believe our Body Central catalog differentiates us from them. We believe our catalog reinforces the Body Central brand image and drives sales across all of our sales channels. For example, following the delivery of our catalogs, we have historically experienced an increase in orders on our website. In fiscal year 2010, we distributed ten catalog editions and approximately 21.9 million catalogs.

All creative work on the Body Central catalog is developed in-house, which we believe allows us to consistently reinforce our brand image. Photography is shot both on location and in studios, and page layout and copywriting are executed by us. Digital images are transmitted directly to outside printers, thereby reducing lead times and improving reproduction quality.

Internet

Our customers are able to purchase our merchandise through our website as well as obtain current information on our store locations. Most of our direct business purchases are made online although

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often tied to a catalog distribution. As with our catalog, we believe our website reinforces our Body Central brand.

Marketing and Advertising

While our products appeal to women of varying ages and diverse backgrounds, our core customer is a young woman in her late teens or twenties who enjoys shopping for the latest fashions. According to the U.S. Census Bureau, there were estimated to be approximately 25.0 million women as of July 2009 between the ages of 18 to 29. Our target customer represents a growing segment of the U.S. population and we believe that she spends a higher proportion of her income on fashion than the general population.

Our marketing approach aims to increase customer traffic and build our brand image. We believe one of our strongest marketing pieces is our Body Central catalog. Additionally, we use email communications, in-store graphics, our website and social networking sites, such as Facebook and Twitter to achieve our marketing goals. We often coordinate marketing efforts with the malls and shopping centers in which our stores are located.

We believe that the look and feel of our stores, our in-store graphics, product labeling, customer service and overall shopping experience are critical to building our brand image. Merchandise is presented with a cohesive marketing theme, often around seasons and holidays, which unifies the store presentation and emphasizes both on-trend fashions and fashion basics. For example, we display large posters throughout each store that feature aspirational photos of our models wearing complete Body Central outfits, as well as a large number of body forms featuring current merchandise.

Distribution

We distribute all of our merchandise from our corporate headquarters in Jacksonville, Florida, which occupies approximately 179,000 square feet, consisting of approximately 146,000 square feet of warehouse space and approximately 33,000 square feet of office space. All of our merchandise is received, inspected, managed, stored and distributed through our warehouse. Most of our merchandise is currently pre-ticketed and pre-assorted by our vendors, which allows us to distribute the merchandise quickly and reduce labor costs. Merchandise is shipped almost daily to our stores to ensure a steady flow of new inventory. We believe that the capacity of our distribution center is sufficient to support our expected growth plans for the foreseeable future.

Information Technology Systems

Our information technology systems provide support and information to our management team. We believe our systems provide us with improved operational efficiencies, scalability, increased management control and timely reporting that allows us to identify and respond to trends in our business. We use a combination of customized and industry-standard software systems to support the following functions:

- store point-of-sale;
- e-commerce and catalog;
- inventory management; and
- financial reporting.

We replaced our point-of-sale software system in the second half of fiscal year 2010. We expect this upgrade to enhance customer service, improve operational efficiency, increase management reporting and control and increase synergies between our direct business and our retail stores. Our new system complements our core functions of purchasing, merchandising, finance and accounting, inventory

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and order management and warehousing and distribution. This new system was deployed across all of our stores in advance of the 2010 holiday shopping season.

In July 2010, we upgraded our systems that support our direct business and redesigned our website. This system supports a more dynamic presentation of merchandise, allows us to streamline our order processing and enhances our marketing efforts by including, among other things, the ability to target specific customer groups based on their shopping history and spending habits. We expect to continue to invest in and upgrade our systems to provide improved support of our current operations and position us for future growth.

Competition

The specialty-apparel retail market is highly competitive. We compete primarily with other specialty retailers and Internet and catalog businesses that specialize in women's apparel and accessories targeting customers in their late teens and twenties. We believe the principal basis upon which we compete is by offering quality, current fashions at value prices. We believe that our success is dependent on our in-store experience, our Body Central brand, our current fashions and desirable store locations.

Our success also depends in substantial part on our ability to respond quickly to fashion trends so that we can meet the changing demands of our customers. We believe our competitors include other specialty retailers such as Forever 21, Wet Seal, rue21, Charlotte Russe and Aéropostale. Our market is highly competitive and many of these retailers have substantially greater name recognition, as well as financial, marketing, and other resources, and devote greater resources to the sale of their products than we do. We may face new competitors and increased competition from existing competitors as we expand into new markets and increase our presence in existing markets.

Intellectual Property

We have registered numerous trademarks with the U.S. Patent and Trademark Office, including Body Central® and Lipstick®. In addition, we own domain names, including *www.bodyc.com*, and we own unregistered copyright rights in our website content. We believe our material trademarks have value, and we protect them against infringement. We will also continue to file new applications as appropriate to protect our intellectual property rights.

In some regions of the U.S., our stores are located in the same malls and shopping centers as stores operated by a company doing business under the name The Body Shop®, which is a cosmetics and beauty store. We are not affiliated with this company. In 1991, we granted this company a license to use our Body Shop trademark which is held by us in connection with retail store services for the sale of women's apparel and apparel accessories. Under the terms of this license agreement, we granted an exclusive, royalty-free license to the cosmetics and beauty store company to use our "Body Shop" mark for its business as follows: as a service mark for mail order retail sales of t-shirts and sweatshirts in 49 states and territories and of other apparel in 38 states and territories; as a service mark for retail store sales of apparel in 38 states and territories; and as a trademark for apparel in 38 states and territories. This license was non-exclusive as to certain uses and our agreements with this company permit us to continue to use our "Body Shop" mark in our stores located in Alabama, Arkansas, Florida, Georgia, Kentucky, Louisiana, Mississippi, North Carolina, South Carolina, Tennessee and Texas. We currently operate under the Body Central banner and, in a minority of stores in certain states, we operate under the Body Shop banner. Our current business is focused on developing the Body Central® and Lipstick® brands and we are moving away from the use of the Body Shop name in our stores. We currently operate 60 stores under the Body Shop banner, and we expect that this number will decline as we remodel or update older stores and transition to Body Central signs and banners.

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Regulation and Legislation

We are subject to labor and employment laws, laws governing advertising and promotions, privacy laws, safety regulations, consumer protection regulations and other laws that regulate retailers and govern the promotion and sale of merchandise and the operation of stores and warehouse facilities. We monitor changes in these laws and believe that we are in material compliance with applicable laws.

Insurance

We use a combination of insurance and self-insurance for a number of risk management activities, including workers' compensation, general liability, automobile liability and employee-related health care benefits, a portion of which is paid by the employees. We evaluate our insurance requirements on an ongoing basis to maintain adequate levels of coverage.

Employees

As of March 17, 2011, we had approximately 2,410 total employees. Out of our total employees, approximately 130 were based at our corporate headquarters in Jacksonville, Florida, and approximately 2,280 were store employees. We had approximately 750 full-time employees and approximately 1,660 part-time employees, who are primarily store employees. None of our employees are represented by a labor union, and we have had no labor-related work stoppages as of March 17, 2011. Our relationship with our employees is a key to our success, and we believe that relationship is strong.

Seasonality

Due to the seasonal nature of the retail industry, we have historically experienced and expect to continue to experience some fluctuations in our revenues and net income reflecting increased demand during the year-end holiday season, other holidays, such as Easter, the beginning of spring and peak shopping periods, such as the back-to-school season. Revenues generated during the holiday selling season generally contribute to our relatively higher fourth quarter net income. Revenues generated around Easter and the beginning of spring generally contribute to the relatively higher second quarter net income. If for any reason our revenues were below seasonal norms or expectations during these quarters, our annual results of operations could be adversely affected. The level of our working capital reflects the seasonality of our business. We expect inventory levels, along with an increase in accounts payable and accrued expenses, generally to reach their highest levels in anticipation of the increased revenues during these periods.

Privacy Policy

In the course of our business, we collect information about our customers, including customer data submitted to us in connection with purchases of our products at stores as well as from our direct business. We respect the privacy of our customers and take steps to safeguard the confidentiality of the information that they provide to us.

Available Information

We make available free of charge on our Internet website, *www.bodyc.com*, copies of our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and all amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after filing such material electronically with, or otherwise furnishing it to, the Securities and Exchange Commission (the "SEC"). The public may also read and copy any materials that we have filed with the SEC at the SEC's Public

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Reference Room at 100 F Street, NE, Washington, D.C. 20549. In addition, these materials may be obtained at the web site maintained by the SEC at www.sec.gov.

The reference to our website address does not constitute incorporation by reference of the information contained on the website, and the information contained on the website is not part of this document.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

Our success depends on our ability to anticipate, identify and respond quickly to changing fashion trends, and our failure to respond to changing fashion trends could have a material adverse effect on our business, financial condition and results of operations.

Our core market, apparel and accessories for women in their late teens and twenties, is subject to rapidly shifting fashion trends, customer tastes and demands. Accordingly, our success is heavily dependent on our ability to anticipate, identify and capitalize on the latest fashion trends and customer demands, including merchandise, styles and materials that will appeal and be saleable to our customers. A small number of our employees, including our Chief Merchandising Officer and our team of buyers, are primarily responsible for performing this analysis and making product purchase decisions. Our failure to anticipate, identify or react swiftly to changes in styles, trends or desired image preferences or to anticipate demand is likely to lead to lower demand for our merchandise, which could cause, among other things, sales declines, excess inventories and a greater number of markdowns. If we do not accurately forecast fashion trends and sales levels, our business, financial condition and results of operations will be adversely affected.

Our growth strategy depends upon our ability to successfully open and operate new stores each year in a timely and cost-effective manner without affecting the success of our existing store base.

Our strategy to grow our business depends partly on continuing to open new stores for the foreseeable future. Our future operating results will depend largely upon our ability to find a sufficient number of suitable locations that will allow us to successfully open and operate new stores each year in a timely and cost-effective manner. We believe there are many opportunities to expand our store base from our 209 locations as of January 1, 2011. In fiscal year 2011, we plan to open approximately 30 to 35 new stores, net of store closings. Our expansion plans are only targets, and the actual number of new stores we open could differ significantly from these estimates.

Our ability to successfully open and operate new stores depends on many factors including, among others, our ability to:

- identify desirable store locations, primarily in regional malls as well as outlet, lifestyle and power centers;
- negotiate acceptable lease terms, including desirable tenant allowances;
- maintain out-of-pocket, build-out costs in line with our store economic model, including through leveraging landlords' reimbursements for a portion of our construction expenses, as well as managing these costs at reasonable levels;
- hire, train and retain a growing workforce of store managers, sales associates and other personnel;
- successfully integrate new stores into our existing control structure and operations, including our information technology systems; and

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efficiently expand the operations of our distribution facility to meet the needs of a growing store network.

Our near-term expansion plans have us opening new stores in or near the areas where we already have existing stores. As a result, we may face risks associated with market saturation of our merchandise. Also, if we expand into new geographic areas, we will need to successfully identify and satisfy the fashion preferences of our target customers in these areas. In addition, we will need to address competitive, merchandising, marketing, distribution and other challenges encountered in connection with any expansion.

Finally, we cannot assure you that any newly opened stores will be received as well as, or achieve net sales or profitability levels comparable to those of, our existing stores in our estimated time periods, or at all. If our stores fail to achieve, or are unable to sustain, acceptable net sales and profitability levels, our business may be materially harmed and we may incur significant costs associated with closing or relocating stores. If we fail to successfully open and operate new stores and execute our growth plans, the price of our common stock could decline.

Our business is sensitive to consumer spending and economic conditions.

Consumer purchases of apparel, accessories and particularly discretionary retail items, including our fashion merchandise, may be adversely affected by economic conditions such as employment levels, salary and wage levels, the availability of consumer credit, inflation, high interest rates, high tax rates, high fuel prices and consumer confidence with respect to current and future economic conditions. Consumer purchases may decline during recessionary periods or at other times when unemployment is higher or disposable income is lower. These risks may be exacerbated for retailers like us that focus significantly on selling discretionary fashion merchandise. Consumer willingness to make discretionary purchases may decline, may stall, or may be slow to increase due to national and regional economic conditions. Our financial performance is particularly susceptible to economic and other conditions in regions or states where we have a significant number of stores, such as Florida, Texas, Pennsylvania and Georgia. Future slowdowns or disruptions in the economy could adversely affect mall traffic and new mall and shopping center development and could materially and adversely affect us and our growth plans. We may not be able to maintain our recent rate of growth in net revenues if there is a decline in consumer spending patterns.

We operate in the highly competitive specialty retail apparel industry and the size and resources of some of our competitors may allow them to compete more effectively than we can, which could impact our ability to grow our business or result in loss of our market share.

We face intense competition in the specialty retail apparel industry. We compete on the basis of a combination of factors, including price, breadth, quality and style of merchandise, as well as our brand image and ability to respond to fashion trends. While we believe that we compete primarily with specialty retailers, catalog retailers and Internet businesses that specialize in wom"> 7,129

Amortization of debt issuance costs and bond discount

814 997

Charge on early extinguishment of debt

6,005

Stock-based compensation expense

2,109 2,661

Deferred tax benefit

(44,892) (180,130)

Goodwill impairment

164,100

Stock list impairment

335,264

Changes in operating assets and liabilities:

Cash and securities segregated under federal regulations

382 3,970

Securities purchased under agreements to resell

30,000

Receivable from brokers, dealers and clearing organizations

(13,250) 11,318

Receivable from customers

2,421

Financial instruments owned, at fair value

586,018 (560,191)

Commissions and other fees receivable

23 3,530

Income tax receivable

8,590 (4,437)

Other assets

2,767 1,219

Payable to brokers, dealers and clearing organizations

76,398 693,180

Payable to customers

(57) (4,167)

Financial instruments sold, but not yet purchased, at fair value

(533,910) (170,693)

Accrued compensation

9,115 6,967

Accounts payable and other accrued expenses

(7,516) (7,353)

Other liabilities

(306) (42)

Excess tax benefit from vesting of stock based compensation

(99)

Net cash provided by (used in) operating activities

32,509 (38,855)

CASH FLOWS FROM INVESTING ACTIVITIES:

Payments for purchases of office equipment and leasehold improvements

(966) (2,305)

Payments for purchases of exchange memberships

(1)

Proceeds from sale of business unit

2,250

Net cash used in investing activities

(966) (56)

CASH FLOWS FROM FINANCING ACTIVITIES:

Principal payments of short term debt

(5,700) (17,338)

Early extinguishment of long term debt

(249,923)

Premium on early extinguishment of debt

(3,739)

Excess tax benefit from vesting of stock based compensation

99

Net cash used in financing activities

(259,362) (17,239)

Effect of exchange rate changes on cash and cash equivalents

42

Decrease in cash and cash equivalents

(227,777) (56,150)

CASH AND CASH EQUIVALENTS, beginning of period

504,654 557,352

CASH AND CASH EQUIVALENTS, end of period

$276,877 $501,202

SUPPLEMENTAL DISCLOSURE OF CASH PAID DURING THE PERIOD FOR:

Interest

$72,701 $179,164

Income taxes

$1,122 $2,268

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

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LaBRANCHE & CO INC. and SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. ORGANIZATION AND DESCRIPTION OF BUSINESS

The condensed consolidated financial statements include the accounts of LaBranche & Co Inc., a Delaware corporation (the Holding Company), and its subsidiaries, LaBranche & Co. LLC, a New York limited liability company, LaBranche Financial Services, LLC, a New York limited liability company (LFS), LaBranche Structured Holdings, Inc., a Delaware corporation (LSHI), LABDR Services, Inc., a Delaware corporation (LABDR), and LaBranche & Co. B.V., a Netherlands private limited liability company (BV). The Holding Company is the sole member of LaBranche & Co. LLC and LFS, the 100% stockholder of LSHI and LABDR and the sole owner of BV. LSHI is a holding company that is the sole member of LaBranche Structured Products, LLC, a New York limited liability company (LSP), and LaBranche Structured Products Specialists LLC, a New York limited liability company (LSPS), the 100% owner of LaBranche Structured Products Europe Limited, a United Kingdom single member private company (LSPE), and LaBranche Structured Products Hong Kong Limited, a Hong Kong single member private company (LSPH), and the sole stockholder of LaBranche Structured Products Direct, Inc., a New York corporation (LSPD and collectively with the Holding Company, LaBranche & Co. LLC, LFS, LSHI, LABDR, BV, LSP, LSPS, LSPE, LSPD and LSPH, the Company).

LaBranche & Co. LLC is a registered broker-dealer that operates primarily as a specialist in equity securities and rights listed on the New York Stock Exchange (NYSE). LFS is a registered broker-dealer and a member of the NYSE and other exchanges and primarily provides securities execution and brokerage services to institutional investors. LSP is a registered broker-dealer that operates as a specialist in options, futures and Exchange-Traded Funds (ETFs) on several exchanges, and as a market-marker in options, ETFs and futures on several exchanges. LSPE operates as a market-maker for ETFs traded on the London Stock Exchange and the Euroex and Euronext exchanges, and is registered as a broker-dealer with the United Kingdom s Financial Services Authority. LSPH is registered as a market-maker for ETFs in Hong Kong and is registered as a broker-dealer with Hong Kong s Securities and Futures Commission. LSPD is a registered broker-dealer and Financial Industry Regulatory Authority (FINRA) member firm that was acquired by LSH in April 2006 and is primarily an institutional execution firm in equities and structured products. LABDR is an investment company with a minority ownership in a New Jersey aviation partnership. BV represented LaBranche & Co. LLC in European markets and provided client services to LaBranche & Co. LLC s European listed companies until June 30, 2007, when it ceased operations. LSPS has been inactive since October 31, 2007.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Certain of the Company s December 31, 2007 statement of financial condition balances have been reclassified to conform to the presentation in the current period. Pursuant to SFAS No. 109 the Company netted its deferred tax assets against deferred tax liabilities by taxing jurisdiction to determine net deferred taxes. This reclassification did not affect previously reported net income before provision for income taxes, net income applicable to common stockholders or stockholders equity.

Cash and Cash Equivalents

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

Use of Estimates

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

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

Adoption of SFAS 157 Fair Value Measurements

The Company adopted SFAS No. 157, Fair Value Measurements (SFAS 157), as of January 1, 2008. SFAS 157 defines fair value, expands disclosure requirements around fair value and specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company s market assumptions (see Note 11).

3. INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS AND FINANCIAL INFORMATION

The unaudited interim condensed consolidated financial information as of June 30, 2008 and for the three months and six months ended June 30, 2008 and 2007 is presented in the accompanying condensed consolidated financial statements. The unaudited interim condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with the instructions to

Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial information. The unaudited interim condensed consolidated financial information reflects all adjustments which are, in the opinion of management, necessary for a fair presentation of the results for such periods. The preparation of condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and assumptions. The unaudited interim condensed consolidated financial information as of June 30, 2008 should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2007 included in the Company s Annual Report on Form 10-K for the year ended December 31, 2007 filed with the Securities and Exchange Commission (SEC) on March 17, 2008 (the 2007 10-K). Results of the second quarter 2008 interim period are not necessarily indicative of results to be obtained for the full fiscal year.

4. INCOME TAXES

The Company accounts for income taxes in accordance with SFAS No. 109, Accounting for Income Taxes and FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 (FIN 48). SFAS No. 109 requires the recognition of tax benefits or expenses based on the estimated future tax effects of temporary differences between the financial statement and tax bases of its assets and liabilities. Deferred tax assets and liabilities primarily relate to tax basis differences on unrealized gains on corporate equities, not readily marketable, stock-based compensation, other compensation accruals, amortization periods of certain intangible assets and differences between the financial statement and tax bases of assets acquired.

The components of the provision for income taxes reflected on the condensed consolidated statements of operations are set forth below (000 s omitted):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Current federal, state and local taxes	$ 1,180	$ (7,115)	$ 126	$ (4,851)
Deferred tax (benefit) provision	(14,751)	(174,427)	(44,892)	(180,130)
Total (benefit) provision for income taxes	$ (13,571)	$ (181,542)	$ (44,766)	$ (184,981)

Included in the current federal, state and local taxes are foreign taxes of $37 and $1,706 for the three months and six months ended June 30, 2008 respectively. The foreign taxes represent taxes payable to the United Kingdom for LSPE, the Company s single member private equity company in the UK that is a controlled foreign corporation as of January 1, 2008.

The Company has a $4.1 million federal net operating loss carryforward from 2007 expiring in 2027. In addition, the Company has the following state and city net operating loss carryforwards (000 s omitted):

Year	NYS	NYC	Expiring
2004	$ 20,549	$ 18,083	2024
2007	$ 34,478	$ 34,681	2027

5. CAPITAL AND NET LIQUID ASSET REQUIREMENTS

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

As of June 30, 2008 and December 31, 2007, LaBranche & Co. LLC s net capital, as defined under SEC Rule 15c3-1, was $103.8 million and $306.8 million, respectively, which exceeded the minimum requirements by $103.4 million and $306.4 million, respectively. LaBranche & Co. LLC s aggregate indebtedness to net capital ratio on those dates was .05 to 1 and .02 to 1, respectively.

The NYSE generally requires its specialist firms to maintain a minimum dollar regulatory capital amount in order to establish that they can meet, with their own Net Liquid Assets (NLA), their position requirement. As of June 30, 2008 LaBranche & Co. LLC s NYSE minimum required dollar amount of NLA, as defined, was $69.8 million and its actual NLA, as defined, was $99.3 million. As of December 31, 2007, LaBranche & Co. LLC s NYSE minimum required dollar amount of NLA, as defined was $276.2 million, and LaBranche & Co. LLC s actual NLA, as defined was $300.1 million. As of June 30, 2008 and December 31, 2007, LaBranche & Co. LLC s actual NLA exceeded the NLA requirement, thus satisfying its NLA requirement as of each of those dates. LaBranche & Co. LLC s NLA as of June 30, 2008 and December 31, 2007 included approximately $72.1 million and $74.7 million, respectively, in NYX shares (after the risk-based haircuts required to be taken in connection with those securities).

The minimum required dollar amount of NLA fluctuates daily and is computed by adding two components. The first component is equal to $0.25 million for each one tenth of one percent (.1%) of the aggregate NYSE transaction dollar volume in a cash equities specialist organization s allocated securities, as adjusted at the beginning of each month based on the prior month transaction dollar volume. Prior to February 8, 2008 the first component was equal to $1.0 million for each one tenth of one percent (.1%). The second component is calculated either by multiplying the average haircuts on a specialist organization s proprietary positions over the most recent twenty days by three, or by using an NYSE-approved value at risk (VAR) model. Based on this two part calculation, LaBranche & Co. LLC s NLA requirement could increase or decrease in future periods based on its own trading activity and all other specialists trading as a respective percentage of overall NYSE transaction dollar volume. In February 2008, pursuant to the SEC approved reduction in the NLA requirement LaBranche & Co. LLC s NLA requirement was reduced by approximately $205.0 million. The majority of the amended NLA requirement is met by the shares of NYSE Euronext, Inc. common stock (the NYX shares) held by LaBranche & Co. LLC. The amended NLA requirements enabled LaBranche & Co. LLC to make a dividend distribution of $200.0 million to LaBranche & Co

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Inc. in the first quarter of 2008. LaBranche & Co. LLC has approximately $27.2 million in cash and other liquid assets over and above the NYX shares used to meet its continuing NLA requirements. This $27.2 million includes a cushion over and above the required NLA to account for potential fluctuations in LaBranche & Co. LLC s NLA requirement, as well as fluctuations in the fair value of its NYX shares, as described above.

As a registered broker-dealer and member firm of the NYSE, LFS is subject to SEC Rule 15c3-1, as adopted and administered by the SEC and the NYSE. Under the alternative method permitted by this rule, the minimum required net capital is equal to the greater of $1.0 million or 2.0% of aggregate debit items, as defined. As of June 30, 2008 and December 31, 2007, LFS net capital, as defined, was $33.6 million and $16.6 million, respectively, which exceeded minimum requirements by $32.6 million and $15.6 million, respectively. In February 2008, the Company contributed an additional $20.0 million in capital to LFS in order to enable LFS to conduct increased trading activities in connection with its institutional execution business. A portion of the net capital at LFS is met with the value of the NYX shares held by that broker/dealer.

As a registered broker-dealer and AMEX member firm, LSP is subject to SEC Rule 15c3-1, as adopted and administered by the SEC and the AMEX. LSP is required to maintain minimum net capital, as defined, equivalent to the greater of $100,000 or $^1/_{15}$ of aggregate indebtedness, as defined. As of June 30, 2008 and December 31, 2007, LSP s net capital, as defined, was $107.9 million and $62.6 million, respectively, which exceeded minimum requirements by $106.1 million and $60.9 million, respectively. LSP s aggregate indebtedness to net capital ratio on those dates was .25 to 1 and .41 to 1, respectively.

As a registered broker-dealer and AMEX and FINRA member firm, LSPD is subject to SEC Rule 15c3-1, as adopted and administered by the SEC, AMEX and FINRA. LSPD is required to maintain minimum net capital, as defined, equivalent to the greater of $5,000 or $^1/_{15}$ of aggregate indebtedness, as defined. As of June 30, 2008 and December 31, 2007, LSPD s net capital, as defined, was $2.8 million and $3.0 million, respectively, which exceeded its minimum requirements by $2.8 million and $3.0 million, respectively.

As a registered broker dealer, LSPE is subject to the capital adequacy and capital resources as managed and monitored in accordance with the regulatory capital requirements of the Financial Services Authority (FSA) in the United Kingdom. In calculating regulatory capital, the Company s capital consists wholly of Tier 1 capital. Tier 1 capital is the core measure of a Company s financial strength from a regulator s point of view. It consists of the type of financial capital considered the most reliable and liquid, primarily Shareholder s Equity. As of June 30, 2008 Tier 1 capital, as defined, was $34.7 million which exceeded the total variable capital requirement by $3.7 million. At December 31, 2007 Tier 1 capital, as defined, was $14.2 million which resulted in a deficit of $1.2 million. The December 31, 2007 calculation did not include accumulated profits for the year ended December 31, 2007 which was in excess of the deficit. With those results now audited they can be included in Tier 1 regulatory capital. In addition, the Company had injected an additional $9.9 million of share capital in January 2008, further enhancing regulatory capital.

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As a licensed corporation registered under the Hong Kong Securities and Futures Ordinance, LSPH is subject to the capital requirements of the Hong Kong Securities and Futures (Financial Resources) Rules (FRR). The minimum paid-up share capital requirement is HKD 5,000,000 ($0.6 million at June 30, 2008 and December 31, 2007) and the minimum liquid capital requirement is the higher of HKD 3,000,000 ($0.4 million at June 30, 2008 and December 31, 2007) and the variable required liquid capital as defined in the FRR. The company monitors its compliance with the requirements of the FRR on a daily basis. As of June 30, 2008 and December 31, 2007, LSPH s liquid capital, as defined was $0.9 and $0.7 million, respectively, which exceeded its minimum requirements by $0.5 and $0.3 million, respectively. In addition, the Company had injected an additional $0.5 million of share capital in June 2008 further enhancing regulatory capital.

6. LOSS PER SHARE

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator for basic and diluted loss per share net loss applicable to common stockholders	$ (21,341)	$ (368,944)	$ (61,578)	$ (374,499)
Denominator for basic loss per share weighted-average number of common shares outstanding	61,993	61,471	61,924	61,370
Dilutive shares:				
Stock options				
Restricted stock units				
Denominator for diluted loss per share weighted-average number of common shares outstanding	61,993	61,471	61,924	61,370
Loss per share:				
Basic	$ (0.34)	$ (6.00)	$ (0.99)	$ (6.10)
Diluted	$ (0.34)	$ (6.00)	$ (0.99)	$ (6.10)

Options to purchase an aggregate of 1,090,000 and 1,409,389 shares of common stock were outstanding at June 30, 2008 and 2007, respectively, but were not included in the computation of diluted earnings per share because the options exercise prices were greater than the market price of the Company s common stock. For the 2008 and 2007 second quarters, respectively, 932,564 and 837,184 potentially dilutive shares from restricted stock units were not included in the computation of diluted net loss per share because to do so would be anti-dilutive.

7. EMPLOYEE INCENTIVE PLANS

SFAS No. 123(R) requires compensation costs related to share-based payment transactions to be recognized in the financial statements over the period that an employee provides service in exchange for the award.

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The following disclosures are also being provided pursuant to the requirements of SFAS No. 123(R):

The Company sponsors one share-based employee incentive plan the LaBranche & Co Inc. Equity Incentive Plan (the 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. The fair value of the restricted stock awards is determined by using the closing price of the Company s common stock on the respective dates on which the awards are granted. Grant date is determined to be the date the compensation committee of the Board of Directors approves the grant, except in circumstances where the approval by the compensation committee is contingent upon a future event, such as the negotiation and execution of an employment agreement, in which case the grant date is the date is the date the condition is satisfied. Amortization of compensation costs for grants awarded under the Plan recognized during the three and six months ended June 30, 2008 was approximately $1.0 million and $1.8 million compared to $1.0 million and $2.4 million for the same periods in 2007. The tax benefit realized in the Consolidated Statements of Operations for the Plan was approximately $0.4 million and $0.7 million for the three and six months ended June 30, 2008 compared to $0.4 million and $1.0 million for the same periods in 2007, respectively.

Unrecognized compensation cost related to the Company s non-vested stock option and restricted stock unit awards totaled $5.7 million at June 30, 2008 and $4.9 million at December 31, 2007. The cost of these non-vested awards is generally expected to be recognized over period of approximately three years.

SFAS No. 123(R) generally requires share-based awards granted to retirement-eligible employees to be expensed immediately. The Company did not grant any share-based awards prior to our adoption of SFAS No. 123(R) to retirement-eligible employees or those with non-substantive non-compete agreements. In addition, no grants of any stock options or RSUs were changed or amended after the Company s adoption of SFAS No. 123(R) to reflect retirement eligibility or non-compete agreements.

The total number of shares of the Company s common stock that may be issued under the Plan through fiscal 2009 may not exceed 7,687,500 shares. As of June 30, 2008 and December 31, 2007, 3,284,200 shares and 3,187,613 shares, respectively, were available for grant under the Plan.

Restricted Stock Units

All of the RSUs outstanding as of June 30, 2008 and 2007 require future service as a condition to the delivery of the underlying shares of common stock on their respective vesting dates. The RSUs are granted under the Company s Equity Incentive Plan and vest over varying numbers of years. An employee who receives RSUs does not have any ownership rights with respect to the underlying shares until the shares vest pursuant to the terms of an RSU agreement. In all cases, delivery of the underlying shares of common stock is conditioned on the grantees satisfying certain requirements outlined in the agreements. Generally, the RSUs become fully vested if the grantee s employment with the Company terminates by reason of

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death or disability prior to vesting. The grantee forfeits the unvested portion of the RSUs upon the termination of employment for any reason other than death or disability. When delivering the underlying shares of stock to employees, the Company generally issues new shares of common stock, as opposed to reissuing treasury shares.

The following table provides information about grants of RSUs:

	Number of Shares	Weighted Average Price per Share
RSUs Outstanding as of December 31, 2007	1,083,484	$ 9.44
Granted		
Vested	(444,340)	9.12
Forfeited	(24,997)	9.12
RSUs Outstanding as of March 31, 2008	614,147	$ 9.68
Granted	692,000	5.55
Vested		
Forfeited	(54,828)	9.43
RSUs Outstanding as of June 30, 2008	1,251,319	$ 7.41

Under SFAS No. 123(R), the Company is required to estimate forfeitures of RSUs for purposes of determining the Company s share-based award expense. Applying SFAS No. 123(R) as of June 30, 2008, for purposes of determining share-based award expense, RSUs with respect to 1,215,851 shares of the Company s common stock were expected to vest based on the original shares issued of 3,393,500, with a weighted average price of $7.92 per share.

Stock Options

As of June 30, 2008, all stock options granted to employees were fully vested and exercisable. In general, all stock options expire on the tenth anniversary of grant, although they may be subject to earlier termination or cancellation in certain circumstances under the Plan and the stock option agreement, such as death, disability or other termination of employment prior to the tenth anniversary of grant. The dilutive effect, if any, of the Company s outstanding stock options is included in Weighted Average Common Shares Outstanding Diluted on the Condensed Consolidated Statement of Operations.

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

	Number of Shares	Weighted Average Exercise Price per Share
Options Outstanding as of December 31, 2007	1,165,000	$ 23.77
Options Granted		
Options Exercised		
Options Forfeited		
Options Outstanding as of March 31, 2008	1,165,000	$ 23.77
Options Granted		
Options Exercised		
Options Forfeited	(75,000)	27.50

Options Outstanding as of June 30, 2008	1,090,000	$	23.51
Options Exercisable as of:			
March 31, 2008	1,165,000	$	23.77
June 30, 2008	1,090,000	$	23.51

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The following table summarizes information about stock options outstanding as of June 30, 2008:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Shares	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share	Number of Shares	Weighted Average Exercise Price per Share
$11.00 $20.99	600,000	1.14	$ 14.00	600,000	$ 14.00
$31.00 $40.99	490,000	3.52	$ 35.15	490,000	$ 35.15
	1,090,000			1,090,000	

No options were exercised during the six months ended June 30, 2008 and June 30, 2007.

8. BUSINESS SEGMENTS

Segment information is presented in accordance with SFAS No. 131, Disclosures About Segments of an Enterprise and Related Information. The Company s business segments are based upon the nature of the financial services provided, their revenue source and the Company s management organization.

The Company s Specialist and Market-Making segment operates as a specialist in equities and rights listed on the NYSE, as a specialist in equities, options, ETFs and futures on several exchanges as well as a market-maker in ETFs, futures and options on several exchanges. The Specialist and Market-Making segment currently includes the operations of LaBranche & Co. LLC, LSP, LSPE, LSPH and LSPD.

The Company s Institutional Brokerage segment (formerly called the Execution and Clearing segment) provides mainly securities execution and brokerage services to institutional investors, and currently includes the operations of LFS. Until June 8, 2007, the Institutional Brokerage segment also provided securities clearing services to its own customers and customers of introducing brokers, when it outsourced its clearing operations to a major Wall Street financial services firm.

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

Revenues and expenses directly associated with each segment are included in determining its operating results. Other expenses, including corporate overhead, which are not directly attributable to a particular segment, generally are allocated to each segment based on

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its resource usage levels or other appropriate measures. Interest with respect to the Company s outstanding senior notes, certain administrative expenses, corporate overhead expenses and other sources of revenues are not specifically allocated by management when reviewing the Company s segments performance, and appear in the Other section. Selected financial information for each segment is set forth below (000 s omitted):

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Specialist and Market-Making Segment:				
Total Revenues, net of interest expense	$ 13,486	$ 6,909	$ 25	$ 48,591
Operating expenses	28,761	37,033	67,551	70,056
Goodwill impairment		164,100		164,100
Specialist stock list impairment		335,264		335,264
Depreciation and amortization	85	2,721	171	5,487
Loss before taxes	(15,360)	(532,209)	(67,697)	(526,316)
Segment goodwill	84,218	84,218	84,218	84,218
Segment assets	$ 4,203,195	$ 4,953,910	$ 4,203,195	$ 4,953,910
Institutional Brokerage Segment:				
Total, Revenues, net of interest expense	$ 1,708	$ 2,295	$ 1,063	$ 9,282
Operating expenses	6,354	7,573	12,195	15,771
Depreciation and amortization	13	56	37	121
Loss before taxes	(4,659)	(5,334)	(11,169)	(6,610)
Segment assets	51,824	69,874	$ 51,824	$ 69,874
Other:				
Total Revenues, net of interest expense	$ (7,404)	$ (10,386)	$ (15,991)	$ (21,173)
Operating expenses	1,561	1,715	3,893	3,860
Early extinguishment of debt	5,119		6,005	
Depreciation and amortization	809	842	1,589	1,521
Loss before taxes	(14,893)	(12,943)	(27,478)	(26,554)
Segment assets	$ 227,837	$ 276,985	$ 227,837	$ 276,985
Total:				
Total, Revenues, net of interest expense	$ 7,790	$ (1,182)	$ (14,903)	$ 36,700
Operating expenses	36,676	46,321	83,639	89,687
Goodwill impairment		164,100		164,100
Specialist stock list impairment		335,264		335,264
Early extinguishment of debt	5,119		6,005	
Depreciation and amortization	907	3,619	1,797	7,129
Loss before taxes	(34,912)	(550,486)	(106,344)	(559,480)
Goodwill	84,218	84,218	84,218	84,218
Assets	$ 4,482,856	$ 5,300,769	$ 4,482,856	$ 5,300,769

9. NYSE GROUP RESTRICTED STOCK EXCHANGE TRANSACTION

The Company holds, in aggregate, 3,126,903 NYX shares collectively through its subsidiaries, LaBranche & Co. LLC and LFSL.

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On April 4, 2007, the NYSE Group consummated its merger with Euronext N.V. (the NYSE/Euronext merger) to form NYSE Euronext, Inc., and the Company s 3,126,903 shares of NYSE Group, Inc. common stock were exchanged for an equal number of the NYX shares, all of which continue to be owned by LaBranche & Co. LLC and LFSL. Following the NYSE/Euronext merger, the restricted NYX shares continued to be subject to the same restrictions on transfer as had existed before the NYSE/Euronext merger. The restriction with respect to the second tranche of the NYX shares was removed by NYSE Euronext in June 2007. The restriction on the remaining one-third of the Company s restricted NYX shares will be removed on March 7, 2009, unless removed earlier by the board of directors of NYSE Euronext in its sole discretion.

The Company has accounted for its investment in NYX restricted shares as corporate equities not readily marketable at the estimated fair value of such restricted shares pursuant to SFAS No. 157, Fair Value Measurements (SFAS 157). At June 30, 2008, the NYSE closing market price for the NYX shares was $50.66 per share as compared to the closing price of NYX shares at March 31, 2008 which was $61.71 per share. This resulted in the Company s recognition of an unrealized pre-tax loss of $33.2 million for the quarter ended June 30, 2008, which includes the effects of a valuation allowance due to the share restrictions and is included in net loss on investments in the Company s condensed consolidated statement of operations. There is no valuation allowance on shares without transfer restrictions, which are reported in financial instruments owned, at fair value.

On June 11, 2008, a quarterly dividend of $0.30 per share was paid to shareholders of record of NYSE Euronext as of the close of business on June 11, 2008. The aggregate dividend payment with respect to the Company s 3,126,903 NYX shares was $0.9 million in the second quarter of 2008 and is reported in the Company s other revenues.

10. FINANCIAL INSTRUMENTS

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

	June 30, 2008	December 31, 2007
FINANCIAL INSTRUMENTS OWNED:		
Corporate equities, not readily marketable	$ 48,853	$ 83,945
Corporate equities	1,690,544	2,016,380
Options	906,119	1,025,670
Exchange-traded funds	793,110	1,000,600
Government and corporate bonds	237,931	138,159
Investment in limited partnerships	4,820	2,641
	$ 3,681,377	$ 4,267,395
FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED:		
Corporate equities	$ 1,661,402	$ 1,980,040
Options	1,091,574	1,183,884
Exchange-traded funds	714,158	769,094
Government and corporate bonds	61,951	129,977
	$ 3,529,085	$ 4,062,995

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11. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards, or SFAS No. 157 Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 applies only to fair value measurements already required or permitted by other accounting standards and does not impose requirements for additional fair value measures. Our adoption of SFAS No. 157 did not have a material impact on our financial condition or results of operations. Pursuant to SFAS No. 157, the fair value of a financial instrument is defined as the amount that would be received to sell an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants at the measurement date.

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

We may be required to record at fair value other assets or liabilities on a non-recurring basis, such as our trade name and goodwill. These non-recurring fair value adjustments involve the application of fair value measurements in assessing whether these and other nonfinancial assets or nonfinancial liabilities are impaired.

The Company has elected to apply the deferral provisions in FSP No. 157-2 and therefore have only partially applied the provisions of SFAS No. 157. FSP No. 157-2 defers the effective date for the disclosure fair value measurements related to nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008.

SFAS No 157 outlines a fair value hierarchy. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (which are considered level 1 measurements) and the lowest priority to unobservable inputs (which are considered level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are as follows:

Level 1 Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 Quoted prices for similar instruments in active markets, quoted prices in markets that are not active or financial instruments for which all significant inputs are observable, either directly or indirectly;

Level 3 Valuation is generated from model-based techniques that use significant assumptions not observable in the market. These unobservable assumptions would reflect our own estimates of assumptions that market participants would use in pricing the asset or liability. Such valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

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The following table represents the Company s fair value hierarchy for those assets and liabilities measured at fair value on a recurring basis as of June 30, 2008 (000 s omitted):

	Level 1	Level 2	Level 3	Total
ASSETS:				
Financial instruments owned, at fair value:				
Corporate equities	$ 1,601,383	$ 142,834	$	$ 1,744,217
Government and corporate bonds	143,466	94,465		237,931
Options	890,600	15,519		906,119
Exchange-traded funds	658,007	135,103		793,110
Total financial instruments owned	$ 3,293,456	$ 387,921	$	$ 3,681,377
Cash equivalents	190,525			190,525
Securities segregated under federal regulations	1,189			1,189
Total assets, at fair value	$ 3,485,170	$ 387,921	$	$ 3,873,091
LIABILITIES:				
Government and corporate bonds	$ 46,676	$ 15,276	$	$ 61,952
Corporate equities	1,634,369	27,033		1,661,402
Options	1,079,875	11,698		1,091,573
Exchange-traded funds	362,956	351,202		714,158
Total financial instruments sold, not yet purchased	$ 3,123,876	$ 405,209	$	$ 3,529,085

Determining the fair value of our financial securities was determined from a variety of sources as follows:

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

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

For options, the fair values are based on the NBBO mid point average. Those included in Level 2 are valued based on broker quotes when a price could not be confirmed due to the security not being actively traded.

12. CONTINGENCIES

There have been no material new developments in the Company s legal proceedings since the March 17, 2008 filing of its Annual Report on Form 10-K for the year ended December 31, 2007 (the 2007 10-K) and the May 12, 2008 filing of its Quarterly Report on Form 10-Q for the first quarter of 2008 (the First Quarter 10-Q).

The Company believes that the claims asserted against it by the plaintiffs in the pending proceedings described in the 2007 10-K and First Quarter 10-Q are without merit, and the Company denies all allegations of wrongdoing. There can be no assurance, however, as to the outcome or timing of the resolution of these proceedings. Therefore, the Company is unable to estimate the amount or potential range of any loss that may arise out of these proceedings. The range of possible resolutions could include determinations and judgments against the Company or settlements that could require substantial payments by the Company that could have a material adverse effect on the Company s financial condition, results of operations and cash flows.

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In addition to the proceedings described in the 2007 10-K and First Quarter 10-Q, the Company and its operating subsidiaries have been the target, from time to time, of various claims, lawsuits and regulatory inquiries in the ordinary course of their respective businesses. While the ultimate outcome of those claims and lawsuits which are currently pending cannot be predicted with certainty, the Company believes, based on its understanding of the facts of these proceedings, that their ultimate resolution will not, in the aggregate, have a material adverse effect on the Company s financial condition, results of operations or cash flows.

13. SUBSEQUENT EVENTS

On June 17, 2008, NYSE Euronext, Inc. and the American Stock Exchange (the AMEX) announced that members of the AMEX Membership Corporation (the AMC) approved the adoption of the merger agreement between AMC and NYSE Euronext and certain of their subsidiaries. In July 2008, the AMEX submitted proposed rule changes in connection with the trading of AMEX- listed securities following the merger, including on which market each class of securities will trade following the merger. The SEC must still approve the rule changes in connection with the transaction and related AMEX-proposed trading rules before the merger becomes final. We currently unable to estimate how those new rules will affect our operations until they are finalized by the SEC. Under the terms of the merger agreement, NYSE Euronext will pay $260 million in NYSE Euronext common stock for the Amex. In addition, Amex members will be entitled to receive additional shares of NYSE Euronext common stock calculated by reference to net proceeds, if any, from the expected sale of the AMEX s lower Manhattan headquarters. The Company owns one AMEX seat and, upon consummation of the merger, would be entitled to a pro rata portion of the NYX shares issued in the merger, based on the one seat it owns, plus its pro rata portion of any proceeds from the sale of the AMEX s lower Manhattan headquarters.

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

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

This Management s Discussion and Analysis of Financial Condition and Results of Operations should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended December 31, 2007 (the 2007 10-K) and our Condensed Consolidated Financial Statements and the Notes thereto contained in this report.

Executive Overview

For the second quarter of 2008, our US GAAP net loss was $21.3 million, or $0.34 per share, compared to a net loss of $368.9 million, or $6.00 per share for the same period in 2007. These GAAP earnings were affected by significant unrealized losses of $33.2 million and $54.6 million, in the second quarter of 2008 and 2007, respectively, in connection with the decline in value of our NYX shares, as well as by a $5.1 million pre-tax loss on early extinguishment of our senior indebtedness in the second quarter of 2008 and a non-cash pre-tax impairment charge related to the Company s goodwill and stock listing rights of $164.1 million and $335.3 million, respectively, in the second quarter of 2007. Excluding these losses in each quarter, our pro-forma net income for the second quarter of 2008 was $1.7 million, or $0.03 per share, compared to pro-forma net income for the second quarter of 2007 of $6.6 million, or $0.11 per share.

Excluding the unrealized losses on our NYX shares in the first half of 2008 and 2007, the tax losses on early extinguishment of our debt in 2008 and the non-cash pre-tax impairment charges in the second quarter of 2008, our pro-forma net income for the first six months of 2008 was $9.5 million, or $0.15 per diluted share, compared to pro-forma net income of $3.4 million, or $0.06 per share, for the first six months of 2007.

As noted in our analysis of cash flows, we generated positive cash of $25.0 million from operating income, the majority of which was derived from our Specialist and Market-Making segment. Our cash equities specialist business over the first six months of 2008 yielded positive results and continue to generate cash. In addition, our specialist and market-making operations outside of our traditional cash equities business also continue to generate strong earnings and continue to represent an increasing percentage of our total company revenues. We continue to believe that new trading venues will grow as the securities markets globalize and converge, and that global securities markets will increasingly interact with each other. As such, our liquidity-providing activities outside the NYSE floor operations are increasingly becoming a major component of our specialist and market-making operations, especially as we continue to rely upon and further develop electronic trading strategies to interact with the global electronic marketplace.

We are also continuing to build our Institutional Brokerage business. Although our Institutional Brokerage segment showed a loss in the second quarter of 2008, we believe much of these results are mainly attributable to start-up costs and our initial facilitation trading results. We have made key hires of sales and position traders that we believe are important to transform our Institutional Brokerage business into a more rounded operation that specializes in a range of high-touch services.

We are actively taking steps to reduce our operating expenses. The largest of these expenses is the interest on our public debt, which was approximately $47.6 million per year until 2008. Following the repurchases and retirement of $249.9 million of our outstanding in the first half of 2008, only $209.9 million of our 11% Senior Notes due 2012 remain outstanding, with a remaining annual interest expense of approximately $23.1 million versus $47.6 million in 2007. Historically, the operating expense related to our outstanding debt has been the negative carry on our debt, which is the interest we pay on our outstanding indebtedness, less the interest income we receive as a result of having that cash on-hand. Prior to the repurchases described above, our negative carry would have been $10.2 million per quarter, based on current short-term interest rates. Following our 2008 repurchases, the negative carry will be reduced to approximately $4.7 million per quarter, based on current short-term interest rates, for the second half of 2008. We also believe that we will have flexibility on our negative carry going forward, as we manage our balance sheet. The repurchase of our public debt also has enabled us to improve our consolidated fixed charge coverage ratio to 3.2:1 at June 30, 2008, which evidences our growing flexibility to strategically utilize our capital by considering a broader spectrum of opportunities.

As we have explained in the past, our ownership of 3,126,903 shares of NYSE Euronext Inc. common stock (the NYX shares) resulted from the exchange of our NYSE memberships, or seats in connection with the NYSE s mergers with Archipelago Holdings and Euronext. Before the exchange of our NYSE seats into the NYX shares, we believed that our seat ownership was integral to our position in the industry. Though the value of our NYX shares has been volatile over the past two years, the value of our seats prior to their exchange were volatile as well. Our management will remain flexible regarding our continued ownership of NYX shares, and we currently use a majority of the unrestricted NYX shares, rather than cash, to satisfy our regulatory capital requirements, thereby enabling us to more efficiently deploy our cash working capital. We are also mindful that our ownership of exchange seats and exchange-related securities, such as our NYX shares, have been beneficial to our company over time.

Our balance sheet is strong and very liquid. We believe we have ample capital to maintain and grow our business. We are continuing to concentrate on building our business in London and Hong Kong, in which we see trading opportunities in those markets in ETFs and other derivative products.

The NYSE has filed a proposed rule with the SEC to further change its market model, changing the role of specialists to designated market makers who will still provide liquidity, but without some of the negative and affirmative obligations that could, at times, adversely affect our profitability. The purported rule changes would change the timing of when the designated market-maker can see orders, but would provide us more flexibility in trading for our own account. We believe that some of these possible market structure changes would allow us to interact in the market more efficiently and also allow us to benefit from organizational changes and integration, because some of these changes presumably would remove the

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informational barriers that have caused us to maintain our specialist and market-making businesses as separate broker-dealers. We currently are unable to project if or when any of these market structure changes, or other informational barrier changes will be formally proposed or passed, if at all.

The restructuring of certain of our specialist and market-making subsidiaries has allowed us to develop those operations across various domestic and international exchanges and marketplaces. The organizational structure of our Specialist and Market-Making segment, therefore, is intended to enable us to better allocate and deploy our capital, workforce and technology across our operations in order to more efficiently seek out opportunities as they arise.

Regulation G Reconciliation of Non-GAAP Financial Measures

In evaluating our financial performance as described above in Executive Overview, management reviews operating results from operations, which excludes non-operating charges. Pro-forma earnings per share is a non-GAAP (generally accepted accounting principles) performance measure, but we believe that it is useful to assist investors in gaining an understanding of the trends and operating results for our core business. In this report, our pro-forma operating results in the periods presented exclude certain extraordinary and/or non-recurring items, such as, for example, the unrecognized loss on the Company s NYX shares and the costs associated with the early retirement of our Company s outstanding senior indebtedness, neither of which are, in management s belief, reflective of the Company s day-to-day operating performance or cash generation, and nether of which affect the Company s actual income or cash. Pro-forma earnings per share should be viewed in addition to, and not in lieu of our reported results under U.S. GAAP.

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

	Three Months Ended June 30,					
	2008			2007		
	Amounts as reported	(1) (2) Adjustments	Pro forma amounts	Amounts as reported	(1) Adjustments	Pro forma amounts
Revenues, net of interest expense	$ 7,790	$ 33,206(1)	$ 40,996	$ (1,182)	$ 54,618(1)	$ 53,436
Total expenses	42,702	(5,119)(2)	37,583	549,304	(499,364)(3)	49,940
(Loss) income before (benefit) provision for income taxes	(34,912)	38,325	3,413	(550,486)	553,982	3,496
(Benefit) provision for income taxes	(13,571)	15,330	1,759	(181,542)	178,425	(3,117)
Net (loss) income applicable to common stockholders	$ (21,341)	$ 22,995	$ 1,654	$ (368,944)	$ 375,557	$ 6,613
Basic per share	$ (0.34)	$ 0.37	$ 0.03	$ (6.00)	$ 6.11	$ 0.11
Diluted per share	$ (0.34)	$ 0.37	$ 0.03	$ (6.00)	$ 6.11	$ 0.11

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	Six Months Ended June 30, 2008			2007		
	Amounts as reported	(1) (2) Adjustments	Pro forma amounts	Amounts as reported	(1) Adjustments	Pro forma amounts
Revenues, net of interest expense	$ (14,903)	$ 112,452(1)	$ 97,549	$ 36,700	$ 58,787(1)	$ 95,487
Total expenses	91,441	(6,005)(2)	85,436	596,180	(499,364)(3)	96,816
(Loss) income before (benefit) provision for income taxes	(106,344)	118,457	12,113	(559,480)	558,151	(1,329)
(Benefit) provision for income taxes	(44,766)	47,383	2,617	(184,981)	180,239	(4,742)
Net (loss) income applicable to common stockholders	$ (61,578)	$ 71,074	$ 9,496	$ (374,499)	$ 377,912	$ 3,413
Basic per share	$ (0.99)	$ 1.14	$ 0.15	$ (6.10)	$ 6.16	$ 0.06
Diluted per share	$ (0.99)	$ 1.14	$ 0.15	$ (6.10)	$ 6.16	$ 0.06

(1) Revenue adjustment reflects loss in each accounting period, based on the change in fair market value of the Company s restricted and unrestricted NYX shares at the end of each such period versus the beginning of such period.

(2) Expense adjustment reflects costs associated with early extinguishment of debt in accounting period.

(3) Relates to the write-down of the carrying value of the Company s goodwill and stock listing rights to reflect the results of the Company s impairment evaluation under SFAS No s 142 and 144.

New Accounting Developments

Fair Value Measurements

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value and enhances disclosures about fair value measurements required under other accounting pronouncements, but does not change existing guidance as to whether or not an instrument is carried at fair value. SFAS 157 nullifies the guidance in EITF 02-3 which precluded the recognition of a trading profit at the inception of a derivative contract, unless the fair value of such derivative is obtained from a quoted market price, or other valuation technique incorporating observable market data. SFAS 157 also precludes the use of a liquidity or block discount, when measuring instruments traded in an active market at fair value. SFAS 157 requires that costs related to acquiring financial instruments carried at fair value should not be capitalized, but rather should be expensed as incurred. SFAS 157 also clarifies that an issuer s credit standing should be considered when measuring liabilities at fair value. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and was adopted by the Company as of January 1, 2008. SFAS 157 must be applied prospectively, except that the provisions related to block discounts and the guidance in EITF 02-3 are to be applied as a one time cumulative effect adjustment to opening retained earnings in the first interim period for the fiscal year in which SFAS 157 is initially applied. The adoption of SFAS 157 resulted in no cumulative change to the retained deficit. Please refer to Footnote 11 of our Condensed Consolidated Financial Statements for additional information and disclosure.

In February of 2008, the FASB issued FSP FAS 157-2 which delays the effective date of Statement 157 to all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in an entity s financial statements on a recurring basis (at least annually to fiscal years beginning after November 15, 2008. Such items include a) nonfinancial assets acquired and liabilities assumed in purchase business combinations and b) intangible assets and goodwill.

Accounting for Fair Value Option for Financial Assets and Financial Liabilities

In February 2007, the FASB issued SFAS No. 159, Accounting for Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. We currently report the majority of our financial assets and liabilities at fair value in compliance with industry guidelines for brokers and dealers in securities. The company elected not to apply the fair value option for any applicable assets or liabilities.

Derivative Instruments and Hedging Activities

In April 2007, the FASB issued a Staff Position (FSP) FIN No. 39-1, Amendment of FASB Interpretation No. 39. FSP FIN No. 39-1 defines right of setoff and specifies what conditions must be met for a derivative contract to qualify for this right of setoff. It also addresses the applicability of a right of setoff to derivative instruments and clarifies the circumstances in which it is appropriate to offset amounts recognized for those instruments in the statement of financial position. In addition, this FSP permits offsetting of fair value amounts recognized for multiple derivative instruments executed with the same counterparty under a master netting arrangement and fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable) arising from the same master netting arrangement as the derivative instruments. The provisions of this FSP are consistent with our current accounting practice. This interpretation is effective for fiscal years beginning after November 15, 2007, with early application permitted. The adoption of FSP FIN No. 39-1 did not have a material impact on our consolidated financial statements.

In March 2008, the FASB issued FASB Statement No 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement 133. SFAS 161 amends and expands the disclosures required by SFAS 133 so that they provide an enhanced understanding of 1) how and why an entity uses derivative instruments, 2) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations, and 3) how derivative instruments affect an entity s financial position, financial performance, and cash flows. SFAS 161 is effective for both interim and annual reporting periods beginning after November 15, 2008, with early adoption encouraged. The Company is not subject to SFAS 133 at this time. Since this amendment relates solely to disclosures related to SFAS 133, there is no potential effect on the financial position of the Company.

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The Hierarchy of Generally Accepted Accounting Principles

In May 2008, the FASB issued SFAS No. 162, The Hierarchy of Generally Accepted Accounting Principles (SFAS 162). SFAS 162 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States (the GAAP hierarchy). SFAS 162 is effective 60 days following the SEC s approval of the Public Company Accounting Oversight Board amendments to AU Section 411, *The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles.* The Adoption of SFAS 162 will not have a material effect on the Consolidated Financial Statements.

Critical Accounting Estimates

Goodwill and Other Intangible Assets

We determine the fair value of each of our reporting units and the fair value of each reporting unit s goodwill under the provisions of SFAS No. 142, Goodwill and Other Intangible Assets. In determining fair value, we use standard analytical approaches to business enterprise valuation (BEV), such as the market comparable approach and the income approach. The market comparable approach is based on comparisons of the subject company to similar companies engaged in an actual merger or acquisition or to public companies whose stocks are actively traded. As part of this process, multiples of value relative to financial variables, such as earnings or stockholders equity, are developed and applied to the appropriate financial variables of the subject company to indicate its value. The income approach involves estimating the present value of the subject company s future cash flows by using projections of the cash flows that the business is expected to generate, and discounting these cash flows at a given rate of return. Each of these BEV methodologies requires the use of management estimates and assumptions. For example, under the market comparable approach, we assigned a certain control premium to the public market price of our common stock as of the valuation date in estimating the fair value of our specialist reporting unit. Similarly, under the income approach, we assumed certain growth rates for our revenues, expenses, earnings before interest, income taxes, depreciation and amortization, returns on working capital, returns on other assets and capital expenditures, among others. We also assumed certain discount rates and certain terminal growth rates in our calculations. Given the subjectivity involved in selecting which BEV approach to use and in determining the input variables for use in our analyses, it is possible that a different valuation model and the selection of different input variables could produce a materially different estimate of the fair value of our goodwill.

We review the reasonableness of the carrying value of our goodwill annually as of December 31, unless an event or change in circumstances requires an interim reassessment of impairment. During the six months ended June 30, 2008, there were no changes in circumstances that necessitated goodwill impairment testing prior to our required year-end test date. We cannot provide assurance that a change in circumstances requiring an interim assessment or future goodwill impairment testing will not result in impairment charges in subsequent periods.

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

We review the reasonableness of the carrying amount of our trade name on an annual basis in conjunction with our goodwill impairment assessment. During the six months ended June 30, 2008, there were no changes in circumstances that necessitated trade name impairment testing prior to our required year-end test date. We cannot provide assurance that a change in circumstances requiring an interim assessment or future trade name and stock listing rights impairment testing will not result in impairment charges in subsequent periods.

Financial Instruments

Financial instruments owned, at fair value and Financial instruments sold, but not yet purchased, at fair value are reported in our consolidated financial statements, at fair value, on a recurring basis. Pursuant to SFAS No. 157, the fair value of a financial instrument is defined as the amount that would be received to sell an asset or paid to transfer a liability, or the exit price, in an orderly transaction between market participants at the measurement date.

Effective January 1, 2008, the Company adopted Statement of Financial Accounting Standards, or SFAS, No. 157 Fair Value Measurements, which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS No. 157 outlines a fair value hierarchy that is used to determine the value to be reported. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (which are considered level 1 measurements) and the lowest priority to unobservable inputs (which are considered level 3 measurements). The three levels of the fair value hierarchy under SFAS No. 157 are as follows:

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

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Non-Marketable Securities

The measurement of non-marketable investments is a critical accounting estimate. Investments in non-marketable securities consist of investments in equity securities of private companies and limited liability company interests and are included in other assets in the condensed consolidated statements of cash flows. Certain investments in non-marketable securities are initially carried at cost, unless there are third-party transactions evidencing a change in value. For certain other investments in non-marketable investments we adjust their carrying value by applying the equity method of accounting pursuant to APB 18. Under the equity method the investor recognizes its share of the earnings and losses of an investee in the periods for which they are reported by the investee in its financial statements. The assets included in this section represent limited liability companies that are service providers and whose value is affected by nonfinancial components. In addition, if and when available, management considers other relevant factors relating to non-marketable investments in estimating their value, such as the financial performance of the entity, its cash flow forecasts, trends within that entity s industry and any specific rights associated with our investment such as conversion features among others.

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

Use of Estimates

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

We estimate and provide for potential losses that may arise out of litigation, regulatory proceedings and tax audits to the extent that such losses are probable and can be estimated, in accordance with SFAS No. 5, Accounting for Contingencies and FIN 48, Accounting for Uncertainty in Income Taxes . Significant judgment is required in making these estimates and our final liabilities may ultimately be materially different. Our total liability in respect of litigation and regulatory proceedings is determined on a case-by-case basis and represents an estimate of probable losses after considering, among other factors, the progress of each case or proceeding, our experience and the experience of others in similar cases or proceedings, and the opinions and views of legal counsel. Given the inherent difficulty of predicting the outcome of our litigation and regulatory matters, particularly in cases or proceedings in which substantial or indeterminate damages or fines are sought, we cannot estimate losses or ranges of losses for cases or proceedings where there is only a reasonable possibility that a loss may be incurred. See Legal Proceedings in Part II, Item 1 of this Quarterly Report on Form 10-Q for information on our judicial, regulatory and arbitration proceedings.

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Completed Purchases of Outstanding Indebtedness

On May 23, 2008, we completed the optional redemption of all of our remaining outstanding 9 1/2% Senior Notes due 2009, in the aggregate principal amount of $169.1 million, at a redemption price of 102.375%, plus accrued and unpaid interest thereon. The repurchase will result in the reduction of our annual interest expense by approximately $16.1 million. Prior to the optional redemption, in January and February 2008, we also purchased an aggregate of $30.7 million aggregate principal amount of our then-outstanding 9 1/2% Senior Notes due 2009 and $50.1 million aggregate principal amount of our outstanding 11% Senior Notes due 2012. The purchase of the debt resulted in an annual interest savings of approximately $8.4 million. Following the redemption and the above-described January and February 2008 purchases, approximately $209.9 million of our 11% Senior Notes due 2012 remain outstanding under the indenture. Our management and board of directors continue to monitor the opportunities to purchase our remaining outstanding 11% Senior Notes due 2012 at or below the call price.

On June 3, 2008, we extinguished all of our remaining outstanding subordinated debt in the amount of $3.0 million, plus accrued and unpaid interest. Therefore, we no longer have any subordinated debt outstanding as of June 30, 2008.

Results of Operations

Specialist and Market-Making Segment Operating Results

(000 s omitted)	For the Three Months Ended June 30, 2008	For the Three Months Ended June 30, 2007	For the Six Months Ended June 30, 2008	For the Six Months Ended June 30, 2007	Three Months 2008 vs. 2007 Percentage Change	Six Months 2008 vs. 2007 Percentage Change
Revenues:						
Net gain on principal transactions	$ 44,671	$ 63,754	$ 104,153	$ 112,649	(29.9)%	(7.5)%
Commissions and other fees	3,839	6,145	9,108	12,184	(37.5)	(25.2)
Net loss on investments	(31,308)	(49,267)	(106,472)	(53,972)	(36.5)	97.3
Interest income	15,966	64,323	43,877	125,947	(75.2)	(65.2)
Other	1,181	1,026	1,148	1,061	15.1	8.2
Total segment revenues	34,349	85,981	51,814	197,869	(60.1)	(73.8)
Fixed interest on debt	58	123	176	(23)	(52.8)	(865.2)
Inventory financing	20,805	78,949	51,613	149,301	(73.6)	(65.4)
Revenues, net of interest expense	13,486	6,909	25	48,591	95.2	(99.9)
Goodwill impairment		164,100		164,100	(100.0)	(100.0)
Specialist stock list impairment		335,264		335,264	(100.0)	(100.0)
Operating expenses	28,846	39,754	67,722	75,543	(27.4)	(10.4)
Loss before taxes	$ (15,360)	$ (532,209)	$ (67,697)	$ (526,316)	(97.1)%	(87.1)%

Revenues from our Specialist and Market-Making segment consist primarily of net gains and losses resulting from our specialist activities in stocks and options, market-making activities in ETFs, options and futures, the net gains and losses resulting from trading of foreign currencies, futures and equities underlying the rights, ETFs and options for which we act as specialist, and accrued dividends receivable or payable on our equity positions.

Additionally, a significant component of the overall trading revenues is revenue generated by our Specialist and Market-Making segment consisting primarily of interest earned in securities lending transactions and inventory financing in connection with our trading in options, futures and ETFs which is aggregated with interest income and interest expense, respectively. These revenues are primarily affected by changes in share volume traded and fluctuations in prices of stocks, rights, options, ETFs and futures in which we are the specialist or in which we make a market.

Net gain on principal transactions represents trading gains net of trading losses and certain exchange imposed trading activity fees, where applicable, and are earned by us when we act as principal buying and selling our specialist stocks, rights, options, ETFs and futures.

Commissions and other fees revenue generated by our Specialist and Market-Making segment consists primarily of fees earned by our cash equity specialists for providing liquidity on the NYSE and, through July 9, 2007, for executing limit orders on the AMEX. The other fees in this line item are related to a specialist liquidity provision payment (the LPP) program implemented on September 1, 2007, which varies month-to-month depending on our principal trading activities on the NYSE and an interim specialist allocation pool payment to us in the amount of $2.1 million per month by the NYSE for the period from December 2006 through August 2007. The new LPP system involves a two tier fee structure based on (1) the firms proportional share of 100% of the consolidated tape revenue earned by the NYSE for quoting at the national best bid and offer, and (2) a subjective allocation from the NYSE of the LPP pool which consists of 25% of the NYSE s listed stock transaction revenue on matched volume. This monthly payment, in the aggregate, has been approximately $1.5 million for each of the first six months of 2008.

Net loss on investments reflects the aggregate losses generated from our investments in restricted and unrestricted NYX shares and other investments not derived specifically from specialist and market-making activities.

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

Interest expense attributable to our Specialist and Market-Making segment is the result of inventory financing costs relating to positions taken in connection with our options, futures and ETFs specialist and market-making operations and interest on subordinated indebtedness that has been approved by the NYSE for inclusion in the net capital of LaBranche & Co. LLC.

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

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Three Months Ended June 30, 2008 versus June 30, 2007

The decrease in our net gain on principal transactions was attributable to a decline in our option and ETF specialist and market-making principal trading revenue for the three months ended June 30, 2008 as compared to the same period in 2007. This decrease in principal trading revenues was directly related to challenging trading conditions.

Commission and other fees revenue during the second quarter of 2008 decreased as the result of the NYSE rule change in December 2006 implementing the rebate program for certain specialist limit order transactions. In 2007, we received a specialist allocation pool payment in the amount of $2.1 million per month from the NYSE, versus the average monthly commission in the second quarter of 2008 of approximately $1.3 million.

Net loss on investments is mainly the result of the unrealized loss on our NYX shares of $33.2 million, net of a valuation allowance for transfer restrictions, which represents the decline in the fair value of the NYX shares since March 31, 2008.

Interest income decreased primarily due to decreased trade finance interest income from stock borrow activity and lower interest rates during the second quarter of 2008 as compared to the second quarter of 2007.

Other revenue is mainly comprised of our receipt of the second quarterly dividend declared in June 2008 by the NYSE Euronext with respect to its common stock.

Interest expense decreased primarily as a result of decreased inventory financing costs relating to a decrease in our positions and lower interest rates relating to inventory financing costs such as margin interest.

Six Months Ended June 30, 2008 versus June 30, 2007

The decrease in our net gain on principal transactions reflects a decline in our option and ETF specialist principal trading revenue for the six months ended June 30, 2008 as compared to the same period in 2007. This decrease in principal trading revenues was directly related to challenging trading conditions.

Commission and other fees revenue during the first half of 2008 decreased as the result of the NYSE rule change in December 2006 implementing the rebate program for certain specialist limit order transactions. In 2007, we received a specialist allocation pool payment in the amount of $2.1 million per month from the NYSE, versus the average monthly commission in the first half of 2008 of approximately $1.5 million.

Net (loss) gain on investments is directly related to a decrease in the share price of the NYX stock during the second half 2008.

Stock borrow interest decreased mainly due to the decreased trading inventories for our non-cash equities specialist and market-making activities.

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Other revenue is mainly comprised of gains on non trading investments and our receipt of the NYSE quarterly dividend declared in June 2007.

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

Institutional Brokerage Segment Operating Results

(000 s omitted)	For the Three Months Ended June 30, 2008	2007	For the Six Months Ended June 30, 2008	2007	Three Months 2008 vs. 2007 Percentage Change	Six Months 2008 vs. 2007 Percentage Change
Revenues:						
Net gain on principal transactions	$ 246	$ 260	$ 944	$ 284	(5.4)%	232.4%
Commissions	6,111	5,782	10,851	12,504	5.7	(13.2)
Net loss on investments	(4,905)	(4,201)	(11,137)	(4,522)	16.8	146.3
Interest income	161	744	221	1,854	(78.4)	(88.1)
Other	97	32	191	62	203.1	208.1
Total segment revenues	1,710	2,617	1,070	10,182	(34.7)	(89.5)
Inventory financing	2	322	7	900	(99.4)	(99.2)
Revenues, net of interest expense	1,708	2,295	1,063	9,282	(25.6)	(88.5)
Operating expenses	6,367	7,629	12,232	15,892	(16.5)	(23.0)
Loss before taxes	$ (4,659)	$ (5,334)	$ (11,169)	$ (6,610)	(12.7)%	69.0%

Our Institutional Brokerage segment s commission revenue for 2007 includes fees charged to customers for execution, clearance (through June 8, 2007) and direct-access floor brokerage activities.

Net loss on investments reflects the aggregated losses generated from our investments in restricted and unrestricted NYX shares and other investments not derived specifically from institutional brokerage activities.

Three Months Ended June 30, 2008 versus June 30, 2007

Commissions revenue increased primarily as a result of an increase of our institutional execution group s order-flow and trading volume.

Net loss on investments is directly related to a decrease in the share price of shares of NYX stock during the second quarter of 2008 as well as proprietary trading losses.

Effective June 8, 2007, LFS exited the clearing business. Therefore, there were no more stock borrow/loan transactions generating interest income/expense in 2008.

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Six Months Ended June 30, 2008 versus June 30, 2007

Net gain on principal transactions increased as a result of LFS trading and market making activity in OTC Bulletin Board and Pink Sheet securities containing six months of activity in 2008 compared to two months in 2007.

Commissions revenue decreased primarily as a result of a reduction in the number of our direct access customers. This decrease was partially offset by our growing institutional execution business commencing in May 2008 and the increase in commissions order flow in connection with this growing business.

Net loss on investments is directly related to a decrease in the share price of shares of NYX stock during the first six months of 2008 as well as proprietary trading losses.

Effective June 8, 2007, LFS exited the clearing business. Therefore, there were no more stock borrow/loan transactions generating interest income/expense in 2008.

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

Other Segment Operating Results

(000 s omitted)	For the Three Months Ended June 30, 2008	For the Three Months Ended June 30, 2007	For the Six Months Ended June 30, 2008	For the Six Months Ended June 30, 2007	Three Months 2008 vs. 2007 Percentage Change	Six Months 2008 vs. 2007 Percentage Change
Interest	$ 1,342	$ 2,282	$ 3,296	$ 4,205	(41.2)%	(21.6)%
Net loss on investments	(131)	(204)	(159)	(34)	(35.8)	367.6
Other	(168)	100	64	159	(268.0)	(59.7)
Total segment revenues	1,043	2,178	3,201	4,330	(52.1)	(26.1)
Fixed interest on debt	8,447	12,564	19,192	25,503	(32.8)	(24.7)
Revenues, net of interest expense	(7,404)	(10,386)	(15,991)	(21,173)	(28.7)	(24.5)
Early extinguishment of debt	5,119		6,005		100.0	100.0
Operating expenses	2,370	2,557	5,482	5,381	(7.3)	1.9
Loss before taxes	$ (14,893)	$ (12,943)	$ (27,478)	$ (26,554)	15.1%	3.5%

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

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

Interest expense mainly relates to the effective yield on our public debt inclusive of our debt issuance costs.

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

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Three Months Ended June 30, 2008 versus June 30, 2007

Interest revenues decreased primarily as a result of cash balances decreasing by approximately $49.0 million due to the repurchase of our 9.5% outstanding debt offset by return of capital for subsidiaries, as well as decreases in interest rates on our short term investments.

Net loss on investments decreased as a result of decreased losses on our non-marketable investments.

Six Months Ended June 30, 2008 versus June 30, 2007

Interest revenues decreased primarily as a result of cash balances decreasing by approximately $49.0 million due to the repurchase of all our 9.5% and portions of our 11% public debt offset by return of capital for subsidiaries, as well as decreases in interest rates on our short term investments.

Net loss on investments increased as a result of increased losses on our non-marketable investments.

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

Our Operating Expenses

(000 s omitted)	For the Three Months Ended June 30, 2008	For the Three Months Ended June 30, 2007	For the Six Months Ended June 30, 2008	For the Six Months Ended June 30, 2007	Three months 2008 vs. 2007 Percentage Change	Six months 2008 vs. 2007 Percentage Change
Expenses:						
Employee compensation and related benefits	$ 19,594	$ 24,188	$ 48,124	$ 48,086	(19.0)%	0.1%
Exchange, clearing and brokerage fees	9,743	10,597	20,401	19,651	(8.1)	3.8
Lease of exchange memberships and trading license fees	416	630	843	1,312	(34.0)	(35.8)
Depreciation and amortization	907	3,617	1,797	7,129	74.9	(74.8)
Goodwill impairment		164,100		164,100	(100.0)	(100.0)
Specialist stock list impairment		335,264		335,264	(100.0)	(100.0)
Restructuring		849		1,073	(100.0)	(100.0)
Extinguishment of debt	5,119		6,005		100.0	100.0
Other	6,923	10,059	14,271	19,565	(31.2)	(27.1)
Total expenses	42,702	549,304	91,441	596,180	(92.2)	(84.7)
Benefit for income taxes	$ (13,571)	$ (181,542)	$ (44,766)	$ (184,981)	(92.5)%	(75.8)%

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

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

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

Three Months Ended June 30, 2008 versus June 30, 2007

Employee compensation and related benefits decreased primarily as a result of reduction of headcount and as a result of our bonus and incentive compensation being lower than the prior year based on a decrease in trading results.

Lease of exchange memberships and trading license fees decreased due to the reduced headcount in our cash equity specialist operations, which resulted in a decrease of the number of our NYSE trading licenses, and a decrease in the monthly fee per license.

Depreciation and amortization decreased as a result of the elimination of amortization related to our specialist stock list due to impairment in 2007.

Goodwill and stock list impairment charges were the result of interim impairment testing triggered by the sale of our AMEX cash equity specialist operations for below carrying value and changing market conditions associated with the HYBRID market.

Restructuring charges were the result of the planned reduction of workforce and related severance costs due the automation of markets, general cost reductions and the outsourcing of the Institutional Brokerage segment s clearing operations to a major Wall Street firm.

Extinguishment of debt expenses are due to the acceleration of debt issuance costs and a call premium on the early retirement of portions of our public debt.

The decrease in other operating expenses was due to decreases in legal fees, insurance, occupancy and communications.

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Six Months Ended June 30, 2008 versus June 30, 2007

Employee compensation and related benefits were relatively flat. Incentive and bonus compensation were higher than the prior year based on improved trading results in the first quarter of 2008 offset by a reduction of base salaries and related benefit costs due to a decrease in headcount.

Lease of exchange memberships and trading license fees decreased due to the reduced headcount in our cash equity specialist operations, which resulted in a decrease of the number of our NYSE trading licenses, and a decrease in the monthly fee per license.

Depreciation and amortization decreased as a result of the elimination of amortization related to our specialist stock list due to impairment in 2007.

Goodwill and stock list impairment charges were the result of interim impairment testing triggered by the sale of our AMEX cash equity specialist operations for below carrying value and changing market conditions associated with the HYBRID market.

Restructuring charges were the result of the planned reduction of workforce and related severance costs due to the automation of markets, general cost reductions and the outsourcing of the Institutional Brokerage segment s clearing operations to a major Wall Street firm in the earlier period.

Extinguishment of debt expenses are due to the acceleration of debt issuance costs and a call premium on the early retirement of portions of our public debt in the current period.

The decrease in other operating expenses was due to decreases in legal fees, insurance, occupancy and communications.

Liquidity and Capital Resources

As of June 30, 2008, we had $4,482.9 million in assets, of which $278.1 million consisted of cash and short-term investments, primarily in government obligations maturing within thirty days and cash and securities segregated under federal regulations. To date, we have financed our operations primarily with retained earnings from operations and proceeds from our debt and equity offerings. Due to the nature of the securities business and our role as a specialist, market-maker and execution agent, the amount of our cash and short-term investments, as well as operating cash flow, may vary considerably due to a number of factors, including the dollar value of our positions as principal, whether we are net buyers or sellers of securities, the dollar volume of executions by our customers and clearing house requirements, among others. Certain regulatory requirements constrain the use of a portion of our liquid assets for financing, investing or operating activities. Similarly, the nature of our business lines, the capital necessary to maintain current operations and our current funding needs subject our cash and cash equivalents to different requirements and uses.

As of June 30, 2008, our most significant long-term indebtedness was the $209.9 million aggregate principal amount of our outstanding senior notes that mature in May 2012. In the first quarter of 2008, we purchased and cancelled $30.8 million of our outstanding 9 $^{1}/2$% senior notes due 2009 and $50.1 million of our 11% senior notes due 2012 in open market transactions. On May 23, 2008 the Company redeemed of all of the remaining outstanding

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9 $^{1}/2$% senior notes due 2009, in the aggregate principal amount of $169.1 million, at a redemption price of 102.375%, plus accrued and unpaid interest thereon, pursuant to the optional redemption provisions of the indenture governing the notes.

At June 30, 2008, our net cash capital position was $188.9 million. Fluctuations in net cash capital are common and are a function of variability in our total assets, balance sheet composition and total capital. We attempt to maintain cash capital sources in excess of our aggregate longer-term funding requirements (*i.e.*, positive net cash capital). Over the previous 12 months, our net cash capital has averaged above $267.0 million.

	($ millions)	
	6/30/2008	**6/30/2007**
Cash Capital Available:		
Stockholders equity	$ 469.0	$ 502.9
Subordinated debt		5.7
Promissory note		8.0
Long term debt > 1 year	209.9	459.8
Other holding company liabilities	34.6	28.8
Total cash capital available	$ 713.5	$ 1,005.2
Cash Capital Required:		
Regulatory capital (1)	$ 59.3	$ 236.6
Working capital	153.1	180.0
NYX unrestricted shares	105.6	153.5
Illiquid assets/long-term investments	198.9	190.1
Subsidiary intercompany	7.7	2.5
Total Cash Capital Required	$ 524.6	$ 762.7
Net Cash Capital	$ 188.9	$ 242.5

(1) In February 2008, our regulatory capital was reduced by $200.0 million in connection with the NYSE s 75% reduction of the NLA specialist capital requirement. This amount was paid as a dividend to our holding company.

Cash Capital Available is mainly comprised of stockholders equity, long term debt, subordinated debt and other liabilities of our parent holding company which, in the aggregate, constitute the currency used to purchase our assets and provide our working capital. This amount will principally be affected as debt matures or is refinanced and as earnings are retained or paid as dividends. Cash Capital Required mainly consists of the assets used in our businesses. Regulatory capital is defined as capital required by the SEC and applicable exchanges to be maintained by broker-dealers. It is principally comprised of cash, net equities, other investments and net receivables from other broker-dealers. Working capital constitutes liquid assets provided to our subsidiaries in excess of the required regulatory capital. Illiquid assets and long term investments are mainly comprised of exchange memberships, intangible assets, such as goodwill, tradename, deposits, deferred taxes and non-marketable investments. Net Cash Capital is considered to be the excess of Cash Capital Available over Cash Capital Required, or free cash, which we can utilize to fund our business needs.

We also monitor alternative funding measures in addition to our available net cash. The alternative funding measures are significant transactions and actions we could take in a short-term time frame to generate cash to meet debt maturities or other business needs. More precisely, as of June 30, 2008, we have identified the following alternative funding measures to support future debt maturity requirements:

Liquidation of available net invested capital at certain subsidiaries:

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Reduction of excess capital at LaBranche & Co. LLC to only required NLA (i.e., declare and pay a dividend to the holding company of excess NLA):

Further reduction of NLA requirements by the NYSE and SEC: and

Our restricted and unrestricted NYX shares, as previously discussed, can be either sold or held as qualifying regulatory capital as their restrictions are removed. If the shares are held as qualifying regulatory capital, cash can be displaced from its current use as NLA capital.

Alternative Funding Measures
$ millions

Net cash capital	$ 188.9
Unrestricted NYX shares (1) (2)	54.1
Excess regulatory capital at subsidiaries (3)	89.8
Restricted NYX shares (1) (2)	33.7
Total cash available from alternative funding measures	$ 366.5

(1) Computed on an after-tax basis and after a $13.3 million reduction for NYX shares used as regulatory capital.
(2) Based on NYX price of $50.66 per share on June 30, 2008.
(3) Subject to regulatory approval prior to distribution to the holding company.

Following our 2008 repurchases of senior and subordinated debt, the Company maintains its ability to repurchase in whole or in part the remaining senior notes at any time up to the maturity date without impacting the current operations at any of its trading subsidiaries. Moreover, we anticipate that the final removal of the NYX share restrictions in March 2009 will provide us a level of flexibility in managing debt servicing payments concurrently with the funding of our subsidiaries trading operations.

In addition to the alternative funding measures above, we monitor the maturity profile of our unsecured debt to minimize refinancing risk, and maintain relationships with debt investors and bank creditors. Strong relationships with a diverse base of creditors and debt investors are critical to our liquidity. We also maintain available sources of short-term funding that exceed actual utilization, thus allowing us to accommodate changes in investor appetite and credit capacity for our debt obligations.

With respect to the management of refinancing risk, the maturity profile of our long-term debt portfolio is monitored on an ongoing basis and, historically, has been structured within the context of two significant debt tranches with a significant spread of years between maturities (mid-term and long-term). In 2004, we strategically refinanced our outstanding indebtedness and created two new series of senior notes maturing in 2009 and 2012 which represented a significant portion of our outstanding debt. On May 23, 2008, the Company redeemed all of its remaining outstanding 9 $^{1}/2$% senior notes due 2009, in the aggregate principal amount of $169.1 million, at a price of 102.375%, plus accrued and unpaid interest

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thereon, pursuant to the optional redemption provisions of the indenture governing the notes. Following the redemption, $209.9 million of the Company s 11% Senior Notes due 2012 remains outstanding under the indenture and our annual interest expense related to those remaining outstanding senior notes going forward is expected to be approximately $23.1 million, excluding debt issuance cost amortization expense. This remaining senior debt has call provisions which have allowed pre-maturity retirements as early as 2008. The debt has available maturities and calls over the five-year period 2008 through 2012 to allow us maximum flexibility in satisfying the debt servicing payments and/or sufficient time to refinance the long-term debt, if necessary.

Our outstanding senior notes were issued pursuant to an indenture which includes certain covenants that, among other things, limit our ability to make certain investments, engage in transactions with stockholders and affiliates, create liens on our assets and sell assets or engage in mergers and consolidations, except in accordance with certain specified conditions. In addition, our ability to make so-called restricted payments, such as incurring additional indebtedness (other than certain permitted indebtedness), paying dividends, redeeming stock or repurchasing subordinated indebtedness prior to maturity, is limited if our consolidated fixed charge coverage ratio is at or below a threshold of 2.00:1. The consolidated fixed charge coverage ratio reflects a comparison between (1) our consolidated earnings before interest, taxes, depreciation and amortization expenses, or EBITDA, and (2) the sum of our consolidated interest expense and a tax-effected multiple of any dividend payments with respect to our preferred stock, and this ratio is calculated as of the end of the most recently completed fixed quarter on a trailing four quarter basis. As of June 30, 2008, our consolidated fixed charge coverage ratio, as defined, was 3.2:1. This ratio was impacted by the repurchase of the senior notes during the first half of 2008, because the indenture allows us to deem any indebtedness purchased in the trailing four quarter period as not outstanding throughout the period, thus giving pro-forma effect to the consolidated interest expense versus fixed debt.

While our fixed charge ratio is above 2.00:1, the indenture governing our outstanding senior notes enable us to make cumulative restricted payments in an amount that is not greater than (i) the sum of (A) 50.0% of our cumulative consolidated net income, as defined in the indenture, since July 1, 2004 (or, if such calculation is a loss, minus 100.0% of such loss) and (B) 100.0% of the net cash proceeds received from any issuance or sale of our capital stock since July 1, 2004, plus (ii) $15.0 million. If our cumulative restricted payments since May 18, 2004 at any time exceeds this restricted payment calculation, we will not be able to make any additional restricted payments. However, this calculation is recomputed each quarterly calendar period as allowed under the covenants in the indenture. As of June 30, 2008, 50% of our cumulative consolidated net income since July 1, 2004 was $59.4 million, and we had received approximately $1.4 million upon the exercise of options since July 1, 2004. In total, therefore, we currently are entitled to make restricted payments of approximately $75.8 million. Although we have not made any restricted payments since May 18, 2004, we cannot be sure if, when or to what extent this covenant will prevent or limit us from making restricted payments in the future.

In April of 2008 the Board of Directors of the Company authorized a $40.0 million share repurchase plan. While the restricted payment allowance would allow us to repurchase the full amount of shares under the plan, we have not yet repurchased any of our shares under this plan.

As discussed above, the indenture governing our outstanding senior notes permits us to redeem some or all of the senior notes due 2012 on or after May 15, 2008 at varying redemption prices, depending on the date of redemption. In addition, under the terms of the indenture, if we sell substantially all our assets or experience specific kinds of changes in control, we will be required to offer to repurchase outstanding senior notes, on a pro rata basis, at a price in cash equal to 101.0% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase.

Any time we repurchase our outstanding senior notes, our fixed-term interest payments are correspondingly reduced. For example, in January and February 2008, we repurchased an aggregate of $30.7 million aggregate principal amount of our outstanding 9 1/2% Senior Notes due 2009, of which $24.9 million were purchased at below par and $5.8 million were repurchased at 102%. We also repurchased an aggregate of $50.1 million aggregate principal amount of our outstanding 11% Senior Notes due 2012, all of which were below par. These purchases of our outstanding senior notes resulted in annual interest savings of approximately $8.4 million. Upon completion of the redemption of our remaining $169.1 million in Senior Notes due 2009, we will realize annual interest savings of approximately $16.1 million. To the extent we repurchase any remaining outstanding 11% Senior Notes due 2012 in connection with future corporate strategic initiatives, our fixed-term interest payments would be correspondingly reduced.

As of June 30, 2008, the subordinated indebtedness of LaBranche & Co. LLC aggregated was repurchased and terminated in its entirety. This subordinated debt was comprised of senior subordinated notes and junior subordinated notes, which matured on various dates between June 2008 and April 2009 and bore interest at annual rates ranging from 7.7% to 10.0%. The senior subordinated notes were originally issued in the aggregate principal amount of $15.0 million, and, in accordance with their terms, $3.0 million in principal amount must be repaid on June 3 in each of the years 2004 through 2008. LaBranche & Co. LLC repaid $3.0 million in accordance with these terms in each of June 2004 through 2008. In the second quarter of 2008, we repaid the remaining $1.7 million in junior subordinated notes plus accrued and unpaid interest thereon.

As of June 30, 2008 and December 31, 2007, we had a tax receivable of $2.4 million and $11.8 million, respectively. The December 31, 2007 balance mainly relates to a Federal NOL carryback claim. In the second quarter 2008, the Company received an $11.0 million federal tax refund for the 2007 net operating loss carry-back claim filed. The June 30, 2008 balance is mainly related to tax overpayments for 2008.

Our Other liabilities of $12.3 million reflected on the accompanying 2008 consolidated statement of financial condition are principally comprised of tax contingencies pursuant to FIN 48. Such contingencies are considered long term, as there is no present obligation to pay such liabilities in the foreseeable future.

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Regulated Subsidiaries

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

As a broker-dealer, LaBranche & Co. LLC is subject to regulatory requirements intended to ensure the general financial soundness and liquidity of broker-dealers and requiring the maintenance of minimum levels of net capital, as defined in SEC Rule 15c3-1. LaBranche & Co. LLC is required to maintain minimum net capital, as defined, equivalent to the greater of $100,000 or $^{1}/_{15}$ of aggregate indebtedness, as defined. NYSE Rule 326(c) also prohibits a broker-dealer from repaying subordinated borrowings, paying cash dividends, making loans to any parent, affiliates or employees, or otherwise entering into transactions which would result in a reduction of its total net capital to less than 150.0% of its required minimum capital. Moreover, broker-dealers are required to notify the SEC prior to repaying subordinated borrowings, paying dividends and making loans to any parent, affiliates or employees, or otherwise entering into transactions which, if executed, would result in a reduction of 30.0% or more of their excess net capital (net capital less minimum requirement). The SEC has the ability to prohibit or restrict such transactions if the result is deemed detrimental to the financial integrity of the broker-dealer. As of June 30, 2008, LaBranche & Co. LLC s net capital, as defined, was $103.8 million, which exceeded the minimum requirements by $103.4 million.

The NYSE generally requires its specialist firms to maintain a minimum dollar regulatory capital amount in order to establish that they can meet, with their own NLA, their position requirement. As of June 30 2008, LaBranche & Co. LLC s NYSE minimum required dollar amount of NLA, as defined, was $69.8 million, and its actual NLA, as defined, was $99.3 million. As of December 31, 2007, LaBranche & Co. LLC s minimum required dollar amount of NLA, as defined, was $276.2 million and its actual NLA, as defined, was $300.1 million. LaBranche & Co. LLC thus satisfied its NLA requirement as of each of those dates.

The minimum required dollar amount of NLA fluctuates daily and is computed by adding two components. The first component is equal to $0.25 million for each one tenth of one percent (.1%), prior to February 2008 the first component was equal to $1.0 million for each one tenth of one percent (.1%), of the aggregate NYSE transaction dollar volume in a cash equities specialist organization s allocated securities, as adjusted at the beginning of each month based on the prior month transaction dollar volume. The second component is calculated either by multiplying the average haircuts on a specialist organization s proprietary positions over the most recent twenty days by three, or by using an NYSE-approved value at risk (VAR) model. Based on this two part calculation, LaBranche & Co. LLC s NLA requirement could increase or decrease in future periods based on its own trading activity and all other specialists respective percentages of overall NYSE transaction dollar volume.

In February 2008, the SEC approved, with immediate effect, an approximate 75% reduction in the required NLA that need to be maintained by cash equity specialists to transact business on the NYSE. This resulted in a reduction of our required NLA by approximately $205.0 million, of which $200.0 million was moved at such time to our holding company for other current or future corporate purposes. In May 2008, LaBranche & Co. LLC distributed $10.0 million of excess NLA to the Holding Company. Pursuant to these NLA rules, LaBranche & Co LLC is entitled to use unrestricted shares of NYX stock as NLA, instead of cash for regulatory capital, subject to risk-based haircuts. As a result, LaBranche & Co. LLC s NLA as of June 30, 2008 includes approximately $43.7 million in NYX shares (after the risk-based haircuts). Since our $205.0 million NLA reduction was implemented in February 2008, the majority of the amended NLA requirement can be met by the NYX shares held by LaBranche & Co. LLC. The amended NLA requirements enabled LaBranche & Co. LLC to declare a dividend distribution of $200.0 million to us, which was paid in February and March 2008, and which left LaBranche & Co. LLC with $27.2 million in cash as a cushion over and above the NYX shares used to satisfy the continuing NLA requirement.

As a registered broker-dealer and member firm of the NYSE, LFS is also subject to SEC Rule 15c3-1, as adopted and administered by the SEC and the NYSE. Under the alternative method permitted by this rule, the minimum required net capital is equal to the greater of $1.0 million or 2.0% of aggregate debit items, as defined. As of June 30, 2008 and December 31, 2007, LFS net capital, as defined, was $33.6 million and $16.6 million, respectively, which exceeded minimum requirements by $32.6 million and $15.6 million, respectively.

LFS maintains a soft dollar program that may result in credit balances to such clients, therefore LFS is also is subject to SEC Rule 15c3-3, as adopted and administered by the SEC. As of July 1, 2008, to comply with its June 30, 2008 requirement, cash and U.S. Treasury Bills in the amount of $1.2 million were segregated in a special reserve account for the exclusive benefit of customers, thus exceeding actual requirements by $0.3 million. As of January 3, 2008, to comply with its December 31, 2007 requirement, cash and U.S. Treasury Bills in the amount of $1.6 million were segregated in a special reserve account for the exclusive benefit of customers, exceeding actual requirements by $0.2 million.

As a registered broker-dealer and AMEX member firm, LSP is subject to SEC Rule 15c3-1, as adopted and administered by the SEC and the AMEX. LSP is required to maintain minimum net capital, as defined, equivalent to the greater of $100,000 or $^{1}/_{15}$ of aggregate indebtedness, as defined. As of June 30, 2008 and December 31, 2007, LSP s net capital, as defined, was $107.9 million and $62.6 million, respectively, which exceeded minimum requirements by $106.1 million and $60.9 million, respectively. LSP s aggregate indebtedness to net capital ratio on those dates was .25 to 1 and .41 to 1, respectively.

As a registered broker-dealer and AMEX and FINRA member firm, LSPD is subject to SEC Rule 15c3-1, as adopted and administered by the SEC, AMEX and FINRA. LSPD is required to maintain minimum net capital, as defined, equivalent to the greater of $5,000 or $^{1}/_{15}$ of aggregate indebtedness, as defined. As of June 30, 2008 and December 31, 2007, LSPD s net capital, as defined, was $2.8 million and $3.0 million, respectively, which exceeded its minimum requirement by $2.8 million and $3.0 million, respectively. LSPD s aggregate indebtedness to net capital ratio on those dates was .001 to 1 and .001 to 1, respectively.

As a registered broker dealer, LSPE is subject to the capital adequacy and capital resources as managed and monitored in accordance with the regulatory capital requirements of the Financial Services Authority (FSA). In calculating regulatory capital, the Company s capital consists wholly of Tier 1 capital. Tier 1 capital is the core measure of a Company s financial strength from a regulator s point of view. It consists of the type of financial capital considered the most reliable and liquid, primarily Shareholder s Equity. As of June 30, 2008 Tier 1 capital, as defined, was $34.7 million which exceeded the total variable capital requirement by $3.7 million. At December 31, 2007 Tier 1 capital, as defined, was $14.2 million which resulted in a deficit of $1.2 million. The December 31, 2007 calculation did not include accumulated profits for the year ended December 31, 2007 which was in excess of the deficit. With those results now audited they can be included in Tier 1 regulatory capital. In addition, the Company had injected an additional $9.9 million of share capital in January 2008 further enhancing regulatory capital.

As a licensed corporation registered under the Hong Kong Securities and Futures Ordinance, LSPH is also subject to the capital requirements of the Hong Kong Securities and Futures (Financial Resources) Rules (FRR). The minimum paid-up share capital requirement is HKD 5,000,000 ($0.6 million at June 30, 2008 and December 31, 2007) and the minimum liquid capital requirement is the higher of HKD 3,000,000 ($0.4 million at June 30, 2008 and December 31, 2007) and the variable required liquid capital as defined in the FRR. The company monitors its compliance with the requirements of the FRR on a daily basis. As of June 30, 2008 and December 31, 2007, LSPH s liquid capital, as defined was $0.9 and $0.7 million, respectively, which exceeded its minimum requirements by $0.5 and $0.3 million, respectively. In addition, we had injected an additional $0.5 million of share capital in June 2008 further enhancing regulatory capital.

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

As evidenced by the foregoing requirements, our broker-dealer subsidiaries require a substantial amount of capital. In particular, even as amended, LaBranche & Co. LLC s NLA requirement limits our ability to utilize a substantial portion of our liquid assets for other corporate purposes.

Cash Flows

Our cash and cash equivalents decreased $227.8 million to $276.9 million at the end of the second quarter of 2008. The decrease was primarily the result of the aggregate net effects of $259.4 million repayments of debt and $1.0 million for capital asset additions offset by a $32.5 million net increase from operating activities comprised of cash flow of $25.0 million from operating income and a $7.5 million decrease in working capital.

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Credit Ratings

Our outstanding senior notes were originally sold in private sales to institutional investors on May 18, 2004, and substantially all these senior notes were subsequently exchanged for substantially identical senior notes registered under the Securities Act of 1933, as amended, pursuant to the terms of our May 2004 debt refinancing. The following table sets forth the credit ratings on our registered outstanding senior notes as of June 30, 2008:

	Moody s Investors Service	Standard & Poor s
2012 Senior Notes	B2	B

In September 2007, Moody s Investor Services changed its credit rating of our outstanding senior notes from B1 to B2 but continued a stable outlook due to our high quality balance sheet and improved liquidity. In September 2005, Standard & Poors improved its outlook on our outstanding senior notes to stable, while affirming our B rating, due to our improved debt service and liquidity positions.

Off-Balance Sheet Arrangements

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

Contractual Obligations

During the first six months of 2008, there were no significant changes in our reported payments due under contractual obligations and disclosed contingent contractual obligations at December 31, 2007, as described in our 2007 Form 10-K.

Item 3. Quantitative and Qualitative Disclosures about Market Risk.

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

Our Cash Equities Specialist Risk Management Process

Because our cash equities specialist activities on the NYSE expose our capital to significant risks, managing these risks is a constant priority for us. Our central role in the HYBRID market helps us to manage risks by incorporating up-to-date market information in the management of our inventory, subject to our specialist obligations. We have developed a risk management process at our LaBranche & Co. LLC subsidiary that is designed to balance our ability to profit from our specialist activities with our exposure to potential losses and compliance risk. This risk management process includes participation by our corporate compliance committee, executive operating committee, floor management committee, post managers, floor captains, specialists and chief risk officer. These parties roles are as follows:

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

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

Floor Management Committee. Our NYSE floor management committee is currently composed of one senior floor manager, six post managers, one wheel manager and one floor administrative personnel manager. This committee is responsible for formulating and overseeing our overall risk management procedures and trading guidelines for each of our specialist stocks. In determining these procedures and guidelines, the floor management committee considers the recommendations of the floor captains. The post managers generally meet with their respective floor captains on a weekly basis to review and, if necessary, revise the risk management procedures and trading guidelines for particular specialist stocks. The wheel managers ensure that the floor is adequately staffed at all times. In addition, post managers, wheel managers and floor captains are always available on the trading floor to review and assist with any unusual trading situations reported by a floor captain, and the swat-team manager is available to assess and provide assistance on break-out, or intense trading situations. Our floor management committee reports to our executive operating committee about each of these trading situations as they occur. Our floor management committee also trains other specialists and trading assistants on a regular basis on new rules and/or interpretations from the NYSE with respect to our specialist obligations and guidelines, with the assistance of our compliance department.

Floor Captains. We currently employ four floor captains who monitor the activities of our cash equities specialists throughout the trading day from various positions at our trading posts. The floor captains observe trades and constantly review trading activities on a real-time basis. In addition, the floor captains are readily available to assist our specialists in determining when to deviate from procedures and guidelines in reacting to any unusual situations or market conditions. The floor captains report these unusual situations and any deviations from these procedures and guidelines to their respective post managers. Floor captains meet with each specialist at least once a week to evaluate each specialist s adherence to our risk management procedures and trading guidelines, as well as to review compliance reports generated by the compliance department in monitoring and reviewing specialist trading activities. Floor captains also meet to review risk procedures and guidelines and, if appropriate, make recommendations to the floor management committee.

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Specialists. Our specialists conduct electronic and, at times, manual auctions of our specialist stocks based upon the conditions of the marketplace. In doing so, specialists observe our risk management procedures and trading guidelines in tandem with their responsibility to create and maintain a fair and orderly market. Specialists promptly notify a floor captain of any unusual situations or market conditions requiring a deviation from our procedures and guidelines

On-Floor Compliance Officer. We also have an on-floor compliance officer that monitors the specialists compliance with NYSE rules throughout the day on an ad hoc basis. The on-floor compliance officer reports his findings and on general on-floor compliance initiatives on a daily basis to our equity specialist unit s Chief Compliance Officer and Chief Executive Officer and provides summary updates of these efforts to the Corporate Compliance Committee on a monthly basis. In addition, we have at least one trading assistant at each post on the NYSE floor who is compliance-registered and able to review trading activities to monitor compliance with rules. Many of our compliance and risk management activities flow from the efforts of our on-floor compliance initiative.

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

We believe that enhancements we have made to our compliance procedures and guidelines, and on a continuous basis as circumstances warrant, have continued to improve our risk management process.

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

Equity Market Financial Risk

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

Our equity specialist trading activities are subject to a number of risks, including risks of price fluctuations, rapid changes in the liquidity of markets and foreign exchange risk related to American Depositary Receipts (ADRs). In any period, we may incur trading losses or gains in our specialist stocks for a variety of reasons, including price fluctuations of our specialist stocks and fulfillment of our specialist obligations. Quantification of such losses or gains would not be meaningful as standard market studies do not capture our specialist obligations. From time to time, we may 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 significant price movement in these securities could result in an immediate reduction of our revenues and operating profits.

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

As specialists in options, ETFs and futures in our LSH group of entities, we have a responsibility to maintain a fair and orderly market, and trade securities as principal out of both obligation and inclination. Our options, ETFs, futures, U.S. Government obligations and foreign currency specialist trading exposes us to certain risks, such as price and interest rate fluctuations, volatility risk, credit risk, foreign currency movements and changes in the liquidity of markets.

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

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

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

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

	Profit or (Loss) if the underlying securities move:				
(000 s omitted)	**-15.0%**	**-5.0%**	**0%**	**+5.0%**	**+15.0%**
Portfolio as of:					
December 31, 2007	$ (5,193)	$ (443)	$ 0	$ 3,903	$ 12,259
March 31, 2008	$ (3,331)	$ (897)	$ 0	$ 4,295	$ 24,456
June 30, 2008	$ 49,381	$ 9,122	$ 0	$ (57)	$ 14,997

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

Foreign Currency Risk & Interest Rate Risk

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

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

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

	Profit or (Loss) if the foreign currencies relative to the U.S. dollar move:			
(000 s omitted)	**-15.0%**	**-5.0%**	**+5.0%**	**+15.0%**
Portfolio as of:				
December 31, 2007	$ (1,930)	$ (643)	$ 643	$ 1,930
March 31, 2008	$ 7,398	$ 2,466	$ (2,466)	$ (7,398)
June 30, 2008	$ 7,616	$ 2,539	$ (2,539)	$ (7,616)

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

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

Concentration Risk

We are subject to concentration risk by holding large positions or committing to hold large positions in certain types of securities. As of June 30, 2008, our largest unhedged proprietary position is our NYX shares. This concentration does not arise in the normal course of business.

Institutional Brokerage Risk

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

Institutional Brokerage Risk Management Process

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

Since June 8, 2007 our customer margin transactions have been cleared through a major Wall Street firm. These customer margin transactions are financed by the clearing firm based on our instructions. We are liable to the clearing firm for any losses incurred by the clearing firm in connection with our customers margin transactions.

Our past clearing activities (through June 8, 2007) included settling each transaction with both the contra broker and the customer. In connection with our institutional and direct access floor brokerage activities, a transaction was settled either when the customer paid for securities purchased and took delivery, or delivered securities sold for payment. Settling transactions for retail customers and professional investors involved financing the transaction until the customer made payment or, for margin accounts, advancing credit to the customer within regulatory and internal guidelines. Clearing direct access brokers transactions included guaranteeing their transactions to the contra broker on the exchange floor.

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

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

We systematically monitor our open transaction risk in connection with our institutional brokerage activities, starting when the transaction occurs and continuing until the designated settlement date. Transactions that remain unsettled after settlement date are scrutinized and necessary action to reduce risk is taken. Even under our new clearing arrangement with a major Wall Street firm, credit risk that could result from contra brokers defaulting is minimized since much of the settlement risk for transactions with brokers is essentially transferred to the National Stock Clearing Corporation. The credit risk associated with institutional and direct access clearing customers is minimized since these customers have been qualified by the Depository Trust Company (DTC) or the DTC participants or have met the prime broker qualification standards at other brokerage firms. Before conducting business with a prospective

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customer, senior management that oversees our institutional brokerage operations, in conjunction with the related compliance department, reviews the prospective customer s experience in the securities industry, financial condition and personal background, including a background check with a risk reporting agency, although some of this responsibility now is undertaken by our outsourced clearing firm.

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

	Profit or (Loss) if the underlying securities move:				
(000 s omitted)	**-15.0%**	**-5.0%**	**0%**	**+5.0%**	**+15.0%**
Portfolio as of:					
December 31, 2007	$ (53)	$ (18)	$ 0	$ 18	$ 53
March 31, 2008	$ (113)	$ (37)	$ 0	$ 37	$ 113
June 30, 2008	$ 501	$ 167	$ 0	$ (167)	$ (501)

Operational and Technology Risk

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

- our aggregate long and short positions;
- the various positions of each of our trading professionals;
- our overall position in a particular stock; and
- capital and profit-and-loss information on an aggregate, per specialist or per issue basis.

Our information systems send and receive data from the NYSE through dedicated data feeds. The NYSE supplies us with specialist position reporting system terminals both on the trading floor and in our offices. These terminals allow us to monitor our NYSE specialist trading profits and losses, as well as our positions. Our options, futures and ETFs specialist and market-making operations utilize a third-party software application to monitor our positions and profits and losses on a real-time basis.

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

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

Legal and Regulatory Risk

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

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

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

Item 4. Controls and Procedures

As of the end of the period covered by this report, an evaluation of the effectiveness of our disclosure controls and procedures was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that these disclosure controls and procedures were effective as of the end of the period covered by this report. In addition, no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the quarter ended June 30, 2008 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

There have been no material new developments in our legal proceedings since the March 17, 2008 filing of the 2007 Form 10-K and the May 12, 2008 filing of the First Quarter 10-Q.

We believe that the claims asserted against us by the plaintiffs in the pending proceedings described in the 2007 Form 10-K and First Quarter Form 10-Q are without merit, and we deny all allegations of wrongdoing. There can be no assurance, however, as to the outcome or timing of the resolution of these proceedings. We therefore are unable to estimate the amount or potential range of any loss that may arise out of these proceedings. The range of possible resolutions could include determinations and judgments against us or settlements that could require substantial payments by us that could have a material adverse effect on our financial condition, results of operations and cash flows.

In addition to the proceedings described in the 2007 Form 10-K and First Quarter Form 10-Q, we and our operating subsidiaries have been the target, from time to time, of various claims, lawsuits and regulatory inquiries in the ordinary course of our and their respective businesses. While the ultimate outcome of those claims and lawsuits which currently are pending cannot be predicted with certainty, we believe, based on our understanding of the facts of these proceedings, that their ultimate resolution will not, in the aggregate, have a material adverse effect on our financial condition, results of operations or cash flows.

Item 1A. Risk Factors

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors in the 2007 Form 10-K, which could materially affect our business, financial condition or future results. There have been no material changes in the Risk Factors disclosed in our 2007 Form 10-K. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

Item 4. Submission of Matters to a Vote of Security Holders.

Our Annual Meeting of Stockholders was held on May 20, 2008, at which the stockholders voted upon (i) the election of Stuart M. Robbins and Robert E. Torray as Class III members of our board of directors for three-year terms and (ii) the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the 2008 fiscal year. The stockholders elected each of Messrs. Robbins and Torray and approved the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the 2008 fiscal year. The proposals were adopted by the margins indicated:

1. To elect two Class III directors, each of whom is to serve for a term of three years.

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	Number of Shares For	Number of Shares Withheld Authority
Stuart M. Robbins	50,150,079	1,969,461
Robert E. Torray	50,132,522	1,987,018

In addition, the terms of the following directors continued after the Annual Meeting for the remainder of their respective three-year terms: George M.L. LaBranche, IV and Alfred O. Hayward, Jr., expiring at the 2009 annual meeting of our stockholders; and Katherine Elizabeth Dietze and Donald E. Kiernan, expiring at the 2010 annual meeting of our stockholder.

2. To approve our appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2008.

	Number of Shares
For	51,130,017
Against	383,154
Abstain	606,368

Item 5. Other Information.

We have included in this Form 10-Q filing, and from time to time our management may make, statements which may constitute forward-looking statements within the meaning of the safe harbor provisions of The Private Securities Litigation Reform Act of 1995. Our quarterly and annual operating results are affected by a wide variety of factors that could materially and adversely affect actual results, including a decrease in trading volume on the exchanges on which we operate, changes in volatility in the equity and others securities markets and changes in the value of our securities positions. As a result of these and other factors, we may experience material fluctuations in future operating results on a quarterly or annual basis, which could materially and adversely affect our business, financial condition, operating results and stock price. An investment in us involves various risks, including those mentioned above and those that are detailed from time to time in our SEC filings.

Certain statements contained in this report, including without limitation, statements containing the words believe, intend, expect, anticipate and words of similar import, also may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Readers are cautioned that any such forward-looking statements are not guarantees of future performance, and since such statements involve risks and uncertainties, our actual results and performance and the performance of the specialist industry as a whole, may turn out to be materially different from the results expressed or implied by such forward-looking statements. Given these uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements. We also disclaim any obligation to update our view of any such risks or uncertainties or to publicly announce the result of any revisions to the forward-looking statements made in this report.

Item 6. Exhibits.

31.1	Certification of George M.L. LaBranche, IV, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of Jeffrey A. McCutcheon, pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification of George M.L. LaBranche, IV, Chairman, Chief Executive Officer and President, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, regarding the information contained in LaBranche & Co Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2008.
32.2	Certification of Jeffrey A. McCutcheon, Senior Vice President and Chief Financial Officer, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, regarding the information contained in LaBranche & Co Inc. s Quarterly Report on Form 10-Q for the period ended June 30, 2008.

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SIGNATURE

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

August 11, 2008	LaBranche & Co Inc.
	By: /s/ Jeffrey A. McCutcheon
	Name: Jeffrey A. McCutcheon
	Title: Senior Vice President and Chief Financial Officer

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