

LADENBURG THALMANN FINANCIAL SERVICES INC  
Form 10-Q  
November 15, 2010

ReUNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 2010

OR

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

Commission File Number 001-15799

Ladenburg Thalmann Financial Services Inc.  
(Exact name of registrant as specified in its charter)

Florida  
(State or other jurisdiction of  
incorporation or organization)

65-0701248  
(I.R.S. Employer  
Identification Number)

4400 Biscayne Boulevard, 12th Floor  
Miami, Florida  
(Address of principal executive offices)

33137  
(Zip Code)

(212) 409-2000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of November 10, 2010, there were 182,363,289 shares of the registrant's common stock outstanding.

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LADENBURG THALMANN FINANCIAL SERVICES INC.  
 QUARTERLY REPORT ON FORM 10-Q  
 FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2010

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

LADENBURG THALMANN FINANCIAL SERVICES INC.  
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION  
(in thousands, except share and per share amounts)

	September 30, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,873	\$ 5,702
Securities owned at fair value	2,936	2,209
Receivables from clearing brokers	15,180	13,406
Receivables from other broker-dealers	541	329
Other receivables, net	6,602	6,203
Furniture, equipment and leasehold improvements, net	2,781	3,154
Restricted assets	200	350
Intangible assets, net	27,101	28,509
Goodwill	29,754	29,739
Unamortized debt issue cost	1,668	1,879
Other assets	3,357	3,157
<b>Total assets</b>	<b>\$ 95,993</b>	<b>\$ 94,637</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Securities sold, but not yet purchased, at market value	\$ 10	\$ 9
Accrued compensation	4,825	4,299
Commissions and fees payable	6,323	5,957
Accounts payable and accrued liabilities	6,326	5,671
Deferred rent	3,009	3,378
Deferred income taxes	2,266	1,726
Accrued interest	187	365
Notes payable	27,163	35,438
<b>Total liabilities</b>	<b>50,109</b>	<b>56,843</b>
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock, \$.0001 par value; 2,000,000 shares authorized; none issued	—	—
Common stock, \$.0001 par value; 400,000,000 shares authorized; shares issued and outstanding, 181,350,459 in 2010 and 167,907,038 in 2009	18	17
Additional paid-in capital	189,275	171,349
Accumulated deficit	(143,409)	(133,572)

Total shareholders' equity		45,884		37,794
Total liabilities and shareholders' equity	\$	95,993	\$	94,637

See accompanying notes.

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LADENBURG THALMANN FINANCIAL SERVICES INC.  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS  
(in thousands, except share and per share amounts)  
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
<b>Revenues:</b>				
Commissions	\$ 27,775	\$ 24,897	\$ 79,958	\$ 67,413
Advisory fees	12,886	8,573	36,584	22,904
Investment banking	4,283	3,077	15,171	8,750
Principal transactions	(826)	709	(696)	882
Interest and dividends	144	488	407	2,344
Other income	4,101	1,502	8,494	4,568
<b>Total revenues</b>	<b>\$ 48,363</b>	<b>\$ 39,246</b>	<b>\$ 139,918</b>	<b>\$ 106,861</b>
<b>Expenses:</b>				
Commissions and fees	\$ 31,529	\$ 22,958	\$ 87,079	\$ 62,014
Compensation and benefits	9,772	10,845	32,003	29,743
Non-cash compensation	1,291	1,688	4,656	5,273
Brokerage, communication and clearance fees	1,537	1,664	4,891	5,111
Rent and occupancy, net of sublease revenue	897	480	2,636	2,589
Professional services	1,815	1,034	3,962	4,371
Interest	641	1,013	2,533	3,191
Depreciation and amortization	894	941	2,723	2,811
Other	2,965	2,443	8,618	6,418
<b>Total expenses</b>	<b>\$ 51,341</b>	<b>\$ 43,066</b>	<b>\$ 149,101</b>	<b>\$ 121,521</b>
Loss before income taxes	(2,978)	(3,820)	(9,183)	(14,660)
Income tax expense (benefit)	227	(92)	654	467
<b>Net loss</b>	<b>\$ (3,205)</b>	<b>\$ (3,728)</b>	<b>\$ (9,837)</b>	<b>\$ (15,127)</b>
<b>Net loss per common share (basic and diluted)</b>	<b>\$ (0.02)</b>	<b>\$ (0.02)</b>	<b>\$ (0.06)</b>	<b>\$ (0.09)</b>
Weighted average common shares used in computation of per share data:				
Basic	181,327,242	167,624,573	173,370,977	168,875,151
Diluted	181,327,242	167,624,573	173,370,977	168,875,151

See accompanying notes.



LADENBURG THALMANN FINANCIAL SERVICES INC.  
 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
 (in thousands, except share amounts)  
 (Unaudited)

	Common Stock		Additional	Accumulated	Total
	Shares	Amount	Paid-In Capital	Deficit	
Balance, December 31, 2009	167,907,038	\$ 17	\$ 171,349	\$ (133,572)	\$ 37,794
Issuance of common stock in private equity offering, net of expenses of \$116	13,325,000	1	13,208	—	13,209
Issuance of common stock under employee stock purchase plan	51,791	—	51	—	51
Exercise of stock options	132,000	—	75	—	75
Stock options granted to members of former Advisory Board and consultants	—	—	45	—	45
Stock-based compensation to employees	—	—	4,611	—	4,611
Repurchase and retirement of common stock	(65,370)	—	(64)	—	(64)
Net loss	—	—	—	(9,837)	(9,837)
Balance, September 30, 2010	181,350,459	\$ 18	\$ 189,275	\$ (143,409)	\$ 45,884

See accompanying notes.

LADENBURG THALMANN FINANCIAL SERVICES INC. CONDENSED CONSOLIDATED  
STATEMENTS OF CASH FLOWS(in thousands)  
(Unaudited)

	Nine months ended September 30,	
	2010	2009
Cash flows from operating activities:		
Net loss	\$ (9,837)	\$ (15,127)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	452	451
Adjustment to deferred rent	(62)	(27)
Amortization of debt discount	258	578
Amortization of intangible assets	2,271	2,359
Amortization of debt issue cost	211	450
Deferred income taxes	540	546
Gain on forgiveness of principal of note payable under forgivable loan	(1,429)	—
Non-cash compensation expense	4,656	5,273
Disposal of furniture, equipment and leasehold improvements	4	—
(Increase) decrease in operating assets:		
Securities owned	(138)	2,547
Receivables from clearing brokers	(1,774)	1,949
Receivables from other broker-dealers	(212)	(151)
Other receivables, net	(399)	(1,458)
Other assets	(227)	(1,137)
Increase (decrease) in operating liabilities:		
Securities sold, but not yet purchased	1	(53)
Accrued compensation	461	2,035
Accrued interest	(178)	14
Commissions and fees payable	366	764
Accounts payable and accrued liabilities	516	(110)
Net cash used in operating activities	(4,520)	(1,097)
Cash flows from investing activities:		
Premier Trust acquisition, net of cash received	(162)	—
Purchases of furniture, equipment and leasehold improvements	(303)	(368)
Decrease in restricted assets	150	326
Net cash used in investing activities	(315)	(42)
Cash flows from financing activities:		
Issuance of common stock in private equity offering	13,209	—
Issuance of common stock under stock plans	126	336
Repurchases of common stock	(64)	(2,717)
Issuance of notes payable	—	10,000
Principal payments under revolving credit facility, net	(3,100)	(2,500)
Principal payments on other notes payable	(5,165)	(4,977)
Net cash provided by financing activities	5,006	142

Net increase (decrease) in cash and cash equivalents	171	(997)
Cash and cash equivalents, beginning of period	5,702	6,621
Cash and cash equivalents, end of period	\$ 5,873	\$ 5,624

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LADENBURG THALMANN FINANCIAL SERVICES INC. CONDENSED CONSOLIDATED  
STATEMENTS OF CASH FLOWS – (Continued)

(in thousands)

(Unaudited)

## Supplemental cash flow information:

Interest paid	\$	1,701	\$	2,109
Taxes paid		19		35
Acquisition of Premier Trust:				
Assets acquired, including goodwill of \$15	\$	2,565		—
Liabilities assumed		(205)		—
Net assets acquired		2,360		—
Note issued in acquisition		(1,161)		—
Cash paid in acquisition		1,199		—
Cash acquired in acquisition		(1,037)		—
Net cash paid in acquisition	\$	162		—

See accompanying notes.

LADENBURG THALMANN FINANCIAL SERVICES INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands, except share and per share amounts)  
(Unaudited)

1. Description of Business and Basis of Presentation

Description of Business

Ladenburg Thalmann Financial Services Inc. (“LTS” or the “Company”) is a holding company. Its wholly-owned principal operating subsidiaries are Ladenburg Thalmann & Co. Inc. (“Ladenburg”), Investacorp, Inc. (collectively with related companies, “Investacorp”), Triad Advisors, Inc. (“Triad”), Ladenburg Thalmann Asset Management Inc. (“LTAM”) and Premier Trust, Inc. (“Premier”).

Ladenburg is a full service registered broker-dealer that has been a member of the New York Stock Exchange since 1879. Broker-dealer activities include sales and trading and investment banking. Ladenburg provides its services principally for middle market and emerging growth companies and high net worth individuals through a coordinated effort among corporate finance, capital markets, brokerage and trading professionals.

Investacorp and Triad are registered broker-dealers and investment advisors that have been serving the independent financial advisor community since 1978 and 1998, respectively. Investacorp’s and Triad’s independent financial advisors primarily serve retail clients. Investacorp and Triad derive revenue from advisory fees and commissions, primarily from the sale of mutual funds, variable annuity products and other financial products and services.

LTAM is a registered investment advisor. It offers various asset management products utilized by Ladenburg and Premier’s clients, as well as clients of Investacorp’s and Triad’s financial advisors.

Premier, acquired on September 1, 2010, is a Nevada trust company formed in 2001. Premier provides wealth management services, including trust administration of personal and retirement accounts, estate and financial planning and custody services.

Ladenburg, Investacorp and Triad customer transactions are cleared through a single clearing broker on a fully-disclosed basis. Each of Ladenburg, Investacorp and Triad is subject to regulation by, among others, the Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Authority and the Municipal Securities Rulemaking Board. Triad is also subject to regulation by the Commodities Futures Trading Commission and the National Futures Association. Premier is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division.

Basis of Presentation

The condensed consolidated financial statements are unaudited and have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, the interim data includes all adjustments, consisting of normal recurring adjustments, necessary for a fair statement of the results for the periods presented. Because of the nature of the Company’s business, interim period results may not be indicative of full year or future results.

The unaudited condensed consolidated financial statements do not include all information and notes required in annual audited financial statements in conformity with GAAP. The statement of financial condition at December 31, 2009 has been derived from the audited financial statements at that date, but does not include all of the information and

notes required by GAAP for complete financial statement presentation. Please refer to the notes to the consolidated financial statements included in the Company's annual report on Form 10-K for the year ended December 31, 2009, filed with the SEC, for additional disclosures and a description of accounting policies.

Certain prior year items have been reclassified to conform to the current period's presentation. All significant intercompany balances and transactions have been eliminated.

The Company has evaluated subsequent events through the date the financial statements contained in this report were issued.

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LADENBURG THALMANN FINANCIAL SERVICES INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands, except share and per share amounts)  
(Unaudited)

2. Securities Owned and Securities Sold, But Not Yet Purchased

The components of securities owned and securities sold, but not yet purchased, at fair value at September 30, 2010 and December 31, 2009 were as follows:

	September 30, 2010	December 31, 2009
	Securities owned	Securities sold, but not yet purchased
Certificates of deposit	\$ 589	\$ —
Common stock and warrants	720	—
Restricted common stock and warrants	1,627	10
Total	\$ 2,936	\$ 10
	September 30, 2010	
Certificates of deposit	\$ 100	\$ —
Common stock and warrants	517	—
Restricted common stock and warrants	1,592	9
Total	\$ 2,209	\$ 9

As of September 30, 2010 and December 31, 2009, approximately \$1,482 and \$687, respectively, of securities owned were deposited with the Company's subsidiaries' clearing brokers. Under the clearing agreements with such clearing brokers, the securities may be sold or hypothecated by such clearing brokers. At September 30, 2010, the Company's subsidiaries had a single clearing broker.

Securities sold, but not yet purchased, at fair value represent obligations of the Company's subsidiaries to purchase the specified financial instrument at the then current market price. Accordingly, these transactions result in off-balance sheet risk as the Company's subsidiaries' ultimate obligation to repurchase such securities may exceed the amount recognized in the condensed consolidated statements of financial condition.

The fair value hierarchy, established under authoritative accounting guidance, ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

- Level 1 —quoted prices in active markets for identical assets or liabilities.

Level 2 —inputs, other than quoted prices in active markets, that are directly or indirectly observable for the asset or liability.

Level 3 — unobservable inputs for the asset where there is little or no market data, which requires the reporting entity to develop its own assumptions.

Securities are carried at fair value and classified as follows:

As of September 30, 2010:

Securities owned, at fair value	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ —	\$ 589	\$ —	\$ 589
Common stock and warrants	720	1,627	—	2,347
Total	\$ 720	\$ 2,216	\$ —	\$ 2,936

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LADENBURG THALMANN FINANCIAL SERVICES INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands, except share and per share amounts)  
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Securities sold, but not yet purchased, at fair value	Level 1	Level 2	Level 3	Total
Common stock and warrants	\$ —	\$ 10	\$ —	\$ 10
<b>Total</b>	<b>\$ —</b>	<b>\$ 10</b>	<b>\$ —</b>	<b>\$ 10</b>

As of December 31, 2009:

Securities owned, at fair value	Level 1	Level 2	Level 3	Total
Certificates of deposit	\$ —	\$ 100	\$ —	\$ 100
Common stock and warrants	517	1,592	—	2,109
<b>Total</b>	<b>\$ 517</b>	<b>\$ 1,692</b>	<b>\$ —</b>	<b>\$ 2,209</b>

Securities sold, but not yet purchased, at fair value	Level 1	Level 2	Level 3	Total
Common stock and warrants	\$ —	\$ 9	\$ —	\$ 9
<b>Total</b>	<b>\$ —</b>	<b>\$ 9</b>	<b>\$ —</b>	<b>\$ 9</b>

Warrants are valued using the Black-Scholes option pricing model which takes into account the current market value and market volatility of the underlying securities, the term of the warrants, exercise price, and risk-free rate of return. As of September 30, 2010 and December 31, 2009, the fair value of the warrants was \$1,422 and \$1,351, respectively, and is included in common stock and warrants (level 2) above.

### 3. Acquisition

On September 1, 2010 the Company acquired all the outstanding shares of Premier, a Nevada trust company, which provides wealth management services. The acquisition was made due to the complementary nature of Premier's operations to those of the Company's subsidiaries. The consideration for the transaction was \$2,360, consisting of cash of \$1,199 and a note in the aggregate principal amount of \$1,161. Results of operations of Premier are included in the accompanying consolidated statements of operations from the date of acquisition and are not material. Pro forma results of operations as if Premier was acquired as of January 1, 2009 are not presented because they are not material.

### 4. Net Capital Requirements

As a registered broker-dealer, Ladenburg is subject to the SEC's Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital. Ladenburg has elected to compute its net capital under the alternative method allowed by this rule. At September 30, 2010, Ladenburg had net capital, as defined in the SEC's Net Capital Rule, of \$4,247, which exceeded its minimum capital requirement of \$250, by \$3,997.

Investacorp and Triad are also subject to the SEC's Net Capital Rule, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined in the SEC's Net Capital Rule, not exceed 15 to 1. At September 30, 2010, Investacorp had net capital of \$958 which was \$687 in excess of its required net capital of \$271. Investacorp's net capital ratio was 4.2 to 1. At September 30, 2010, Triad had net capital of \$1,514, which was \$1,140 in excess of its required net capital of \$374. Triad's net capital ratio was 3.7 to 1.



LADENBURG THALMANN FINANCIAL SERVICES INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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Ladenburg, Investacorp and Triad claim exemption from the provisions of the SEC's Rule 15c3-3 pursuant to paragraph (k) (2) (ii) of such Rule as they clear their customer transactions through a correspondent broker on a fully-disclosed basis.

Premier, chartered by the state of Nevada, is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division. Under Nevada law, Premier must maintain minimum stockholders' equity of \$1,000. At September 30, 2010, Premier had stockholders' equity of \$2,365.

5. Income Taxes

Income tax expense for the three and nine months ended September 30, 2010 primarily represents deferred income taxes relating to amortization of goodwill for tax purposes.

6. Notes Payable

Notes payable consisted of the following:

	September 30, 2010	December 31, 2009
Note payable to former Investacorp shareholder, net of \$2 and \$124 of unamortized discount at September 30, 2010 and December 31, 2009, respectively	\$ 441	\$ 4,230
Note payable to affiliate of principal shareholder of LTS	15,350	18,450
Note payable to former Triad shareholders, net of \$68 and \$204 of unamortized discount at September 30, 2010 and December 31, 2009, respectively	1,640	2,758
Note payable to clearing firm under forgivable loan	8,571	10,000
Note payable to a subsidiary of Premier's former shareholder	1,161	—
<b>Total</b>	<b>\$ 27,163</b>	<b>\$ 35,438</b>

The Company estimates that the fair value of notes payable was \$28,295 at September 30, 2010 and \$30,076 at December 31, 2009 based on interest rates at which similar debt amounts could then be borrowed.

During the third quarter of 2010, \$1,429 of principal and \$525 of accrued interest of the note payable to clearing firm was forgiven and is included in other income in the accompanying 2010 consolidated statements of operations.

7. Commitments and Contingencies

Litigation and Regulatory Matters

In May 2003, a suit was filed in the U.S. District Court for the Southern District of New York by Sedona Corporation against Ladenburg, former employees of Ladenburg and a number of other firms and individuals. The plaintiff alleged, among other things, that certain defendants (not Ladenburg) purchased convertible securities from plaintiff and then allegedly manipulated the market to obtain an increased number of shares from the conversion of those securities. Ladenburg acted as placement agent and not as principal in those transactions. Plaintiff's original complaint alleged that Ladenburg and the other defendants violated federal securities laws and various state laws. In August 2005, Ladenburg's motion to dismiss was granted in part and denied in part. On May 27, 2009, the Court granted in

part and denied in part motions to dismiss the Second Amended Complaint, and granted plaintiff leave to replead. On July 9, 2009, plaintiff filed its Third Amended Complaint, which contains no claims under the federal securities laws, leaving only common law claims; the plaintiff seeks compensatory damages from the defendants of at least \$660,000 and punitive damages of \$400,000. Ladenburg's motion to dismiss the Third Amended Complaint is currently pending. The Company believes the plaintiff's claims are without merit and intends to vigorously defend against them.

In July 2004, a suit was filed in the U.S. District Court for the Eastern District of Arkansas by Pet Quarters, Inc. against Ladenburg, a former employee of Ladenburg and a number of other firms and individuals. The plaintiff alleged, among other things, that certain defendants (not Ladenburg) purchased convertible securities from the plaintiff and then allegedly manipulated the market to obtain an increased number of shares from the conversion of those securities. Ladenburg acted as placement agent and not as principal in those transactions. Plaintiff has alleged that Ladenburg and the other defendants violated federal securities laws and various state laws. The plaintiff seeks compensatory damages from the defendants of at least \$400,000. In April 2006, Ladenburg's motion to dismiss was granted in part and denied in part. On July 23, 2010, the plaintiff dismissed its claims against all defendants other than Ladenburg and the former Ladenburg employee. Ladenburg's motion for reconsideration of the motion to dismiss as to the remaining claims is currently pending. The Company believes that the plaintiff's claims are without merit and intends to vigorously defend against them.

LADENBURG THALMANN FINANCIAL SERVICES INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
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In July 2008, a suit was filed in the Circuit Court for the 17th Judicial Circuit, Broward County, Florida, by BankAtlantic and BankAtlantic Bancorp, Inc. against Ladenburg and a former Ladenburg research analyst. The plaintiffs alleged, among other things, that research reports issued by defendants were false and defamatory, and that defendants were liable for defamation per se and negligence; the amount of the alleged damages was unspecified. In February 2010, the plaintiffs entered into a settlement agreement resolving all claims against Ladenburg; the settlement expense is reflected in accrued liabilities in the Company's 2009 financial statements. On July 1, 2010, the plaintiffs and the former research analyst voluntarily dismissed the remaining claims with prejudice. The former research analyst has indicated that he may initiate a proceeding against Ladenburg and the Company for indemnification and breach of contract seeking reimbursement of expenses he incurred in defending the suit; the Company believes such claims are without merit and intends to vigorously defend against them.

One of the Company's broker-dealer subsidiaries had a short-term net-capital deficiency, discovered during a routine regulatory review, that was not disclosed properly on a monthly FOCUS report. A FOCUS report is a periodic regulatory report filed by broker-dealers with the SEC that contains detailed information about a firm's financial and operational status. The broker-dealer subsidiary has taken, and continues to take, corrective actions, including reporting the deficiency to governmental and self-regulatory organizations, preparing amended FOCUS reports for historical periods, reviewing net capital compliance for historical periods, implementing new procedures to monitor net capital compliance, and terminating the employees who had primary responsibility for monitoring and reporting its net capital. The Company is unable to determine whether and to what extent any governmental and/or self-regulatory organizations may seek to discipline such broker-dealer subsidiary concerning this matter. Such disciplinary actions could include fines, a suspension of such subsidiary's operations and/or rescission of such subsidiary's revenues relating to the period of non-compliance, any of which could have a material adverse effect on the Company's results of operations and financial condition.

In the ordinary course of business, the Company's subsidiaries are defendants in litigation and arbitration proceedings and may be subject to unasserted claims or arbitrations primarily in connection with their activities as securities broker-dealers or as a result of services provided in connection with securities offerings. Such litigation and claims may involve substantial or indeterminate amounts and are in varying stages of legal proceedings. When the Company believes that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated, the Company includes an estimation of such amount in accounts payable and accrued liabilities.

Upon final resolution, amounts payable may differ materially from amounts accrued. The Company had accrued liabilities in the amount of approximately \$286 at September 30, 2010 and \$453 at December 31, 2009 for these matters. For other pending matters, the Company is unable to estimate a range of possible loss; however, in the opinion of management, after consultation with counsel, the ultimate resolution of these matters should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

8. Off-Balance-Sheet Risk and Concentration of Credit Risk

Ladenburg, Investacorp and Triad do not carry accounts for customers or perform custodial functions related to customers' securities. They introduce all of their customer transactions, which are not reflected in these financial statements, to their clearing broker, which maintains cash and the customers' accounts and clears such transactions. Also, the clearing broker provides the clearing and depository operations for proprietary securities transactions. These activities may expose the Company to off-balance-sheet risk in the event that customers do not fulfill their obligations to the clearing broker, as each of Ladenburg, Investacorp and Triad has agreed to indemnify the clearing broker for

any resulting losses. Each of Ladenburg, Investacorp and Triad continually assesses risk associated with each customer who is on margin credit and records an estimated loss when management believes collection from the customer is unlikely.

The clearing operations for the Ladenburg, Investacorp and Triad securities transactions are provided by one clearing broker, a large financial institution. At September 30, 2010, a significant percentage of securities owned and amounts due from clearing broker reflected in the consolidated statements of financial condition are positions held at, and amounts due from, this one clearing broker. The Company is subject to credit risk should this clearing broker be unable to fulfill its obligations.

LADENBURG THALMANN FINANCIAL SERVICES INC.  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Dollars in thousands, except share and per share amounts)  
(Unaudited)

In the normal course of its business, Ladenburg, Investacorp and Triad may enter into transactions in financial instruments with off-balance sheet risk. These financial instruments consist of financial futures contracts, written equity index option contracts and securities sold, but not yet purchased. As of September 30, 2010, Ladenburg, Investacorp and Triad were not contractually obligated for any equity index or financial futures contracts; however, Ladenburg and Triad sold securities that they do not own and will therefore be obligated to purchase such securities at a future date. These obligations have been recorded in the statements of financial condition at market values of the related securities, and Ladenburg and Triad will incur a loss if the market value of the securities increases subsequent to September 30, 2010.

The Company and its subsidiaries maintain cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

## 9. Shareholders' Equity

### Private Equity Offering

On May 28, 2010, the Company entered into stock purchase agreements with various investors, including investors who were affiliated with the Company, under which the investors agreed to purchase an aggregate of 14,050,000 shares of the Company's common stock at a price of \$1.00 per share. On September 15, 2010, the Company completed the sale of an aggregate of 13,325,000 shares of common stock and received gross proceeds of \$13,325 from investors who are not affiliated with the Company. In accordance with NYSE Amex rules, the Company's shareholders approved the sale of the remaining 725,000 shares of common stock to investors who are directors and executive officers of the Company, or affiliates thereof, at the Company's 2010 Annual Meeting held on September 24, 2010. On October 1, 2010, the Company completed the sale of such 725,000 shares of common stock to its affiliates and received gross proceeds of \$725. The funds received from the private equity offering were used for general corporate purposes, including repayment of debt.

### Repurchase Program

In March 2007, the Company's board of directors authorized the repurchase of up to 2,500,000 shares of the Company's common stock from time to time on the open market or in privately negotiated transactions, depending on market conditions. The repurchase program is funded using approximately 15% of the Company's earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted. As of September 30, 2010, 1,013,194 shares had been repurchased for \$1,753 under the program.

### Stock Compensation Plans

On January 14, 2010, the Company granted options to purchase an aggregate of 3,645,000 shares of the Company's common stock at an exercise price of \$0.90 per share to employees and directors. The options, which expire on January 14, 2020, vest 25% on each of the first four anniversaries of the date of grant. The Company has valued the options at \$1,964 using the Black-Scholes option pricing model.

On August 11, 2010, the Company granted options to purchase an aggregate of 400,000 shares of the Company's common stock at an exercise price of \$1.10 per share to employees and consultants. The options which expire on

November 11, 2020, vest 25% on each of the first four anniversaries of the date of grant. The Company has valued the options at \$333 using the Black-Scholes pricing model.

On September 23, 2010, the Company awarded restricted stock grants of 200,000 shares of the Company's common stock to newly-hired employees in connection with the Premier acquisition. The shares vest on September 23, 2012, contingent upon continued employment of the employees. The Company has valued the shares at \$208 based on the market price of the stock on the grant date.

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On September 24, 2010, the Company granted options to purchase an aggregate of 160,000 shares of the Company's common stock at an exercise price of \$1.11 per share to directors. The options, which expire on September 24, 2020, vest 100% on the first anniversary of the date of the grant. The Company has valued the options at \$124 using the Black-Scholes pricing model.

A summary of the status of the 1999 Performance Equity Plan at September 30, 2010 are presented below:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2009	15,117,290	\$ 1.46	6.91	\$ 200
Granted	3,200,000	0.90		
Exercised	(132,000)	0.57		
Forfeited	(345,000)	1.96		
Options outstanding, September 30, 2010	17,840,290	\$ 1.36	6.72	\$ 1,837
Vested or expected to vest	17,703,583	\$ 1.36	6.71	\$ 1,828
Options exercisable, September 30, 2010	11,189,790	\$ 1.35	5.68	\$ 1,423

A summary of the status of the 2009 Incentive Compensation Plan at September 30, 2010 are presented below:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2009	140,000	\$ 0.79	9.75	\$ -
Granted	1,005,000	1.01		
Options outstanding, September 30, 2010	1,145,000	\$ 0.99	9.56	\$ 85
Vested or expected to vest	986,273	\$ 0.99	9.58	\$ 74
Options exercisable, September 30, 2010	10,000	\$ 0.77	8.95	\$ 3

A summary of the status of the non-plan options at September 30, 2010 are presented below:

	Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2009	5,764,000	\$ 1.39	6.97	\$ 112
Forfeited	(650,000)	0.66		

Options outstanding, September 30, 2010	5,114,000	\$	1.48	6.41	\$	355
Vested or expected to vest	5,114,000	\$	1.48	6.41	\$	355
Options exercisable, September 30, 2010	4,114,010	\$	1.38	6.25	\$	355

As of September 30, 2010, there was \$5,137 of unrecognized compensation cost for stock-based compensation, of which \$2,139 related to the 2010 grants. This cost is expected to be recognized over the vesting periods of the options, which on a weighted-average basis are approximately 1.3 years for all grants and approximately 3.2 years for the 2010 grants.

The total intrinsic value of options exercised during the three and nine months ended September 30, 2010 was \$0 and \$74, respectively.

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10. Per Share Data

Basic net loss per common share is computed using the weighted-average number of common shares outstanding. The dilutive effect of common shares potentially issuable under outstanding options and warrants is included in diluted earnings per share. The computations of basic and diluted per share data were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Net loss	\$ (3,205)	\$ (3,728)	\$ (9,837)	\$ (15,127)
Weighted-average common shares outstanding basic and diluted	181,327,242	167,624,573	173,370,977	168,875,151
Net loss per common share:				
Basic and diluted	\$ (0.02)	\$ (0.02)	\$ (0.06)	\$ (0.09)

At September 30, 2010 and 2009, options and warrants to purchase 30,999,290 and 28,298,540 common shares, respectively, and at September 30, 2010, non-vested restricted stock grants for 200,000 common shares were not included in the computation of diluted loss per share as the effect would have been anti-dilutive.

11. Segment Information

The Company has three operating segments. The Ladenburg segment includes the broker-dealer and asset management activities conducted by Ladenburg and LTAM. The Independent Brokerage and Advisory Services segment includes the broker-dealer and investment advisory services provided by Investacorp and Triad. The Premier Trust segment includes the wealth management services provided by Premier, since its acquisition on September 1, 2010.

Segment information for the three months ended September 30, 2010 was as follows:

	Ladenburg	Independent Brokerage and Advisory Services	Premier Trust	Corporate	Total
Revenues	\$ 7,420	\$ 38,819	\$ 194	\$ 1,930	\$ 48,363
Pre-tax (loss) income	(2,272)	(149)	9	(566)(1)	(2,978)
Identifiable assets	19,101	74,029	2,559	304	95,993
Depreciation and amortization	318	558	1	17	894
Interest	4	3	—	634	641
Capital expenditures	—	146	33	—	179

Segment information for the three months ended September 30, 2009 was as follows:

	Ladenburg	Independent Brokerage and Advisory Services	Corporate	Total
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		Brokerage and Advisory Services)	Premier Trust		
Revenues	\$ 10,076	\$ 29,138	\$ —	\$ 32	\$ 39,246
Pre-tax (loss) income	(1,395)	130	—	(2,555)(1)	(3,820)
Identifiable assets	19,631	74,805	—	960	95,396
Depreciation and amortization	351	572	—	18	941
Interest	5	3	—	1,005	1,013
Capital expenditures	303	7	—	—	310

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Segment information for the nine months ended September 30, 2010 was as follows:

	Ladenburg	Independent Brokerage and Advisory Services	Premier Trust	Corporate	Total
Revenues	\$ 29,617	\$ 108,122	\$ 194	\$ 1,985	\$ 139,918
Pre-tax (loss) income	(4,712)	299	9	(4,779)(1)	(9,183)
Identifiable assets	19,101	74,029	2,559	304	95,993
Depreciation and amortization	1,002	1,669	1	51	2,723
Interest	13	17	—	2,503	2,533
Capital expenditures	88	181	33	—	302

Segment information for the nine months ended September 30, 2009 was as follows:

	Ladenburg	Independent Brokerage and Advisory Services	Premier Trust	Corporate	Total
Revenues	\$ 26,358	\$ 80,399	\$ —	\$ 104	\$ 106,861
Pre-tax (loss) income	(7,583)	569	—	(7,646)(1)	(14,660)
Identifiable assets	19,631	74,805	—	960	95,396
Depreciation and amortization	1,002	1,757	—	52	2,811
Interest	102	14	—	3,070	3,186
Capital expenditures	312	56	—	—	368

(1) Includes interest, compensation, professional fees and other general and administrative expenses.

## 12. Related Party Transactions

On August 13, 2010, Investacorp Group, Inc., a subsidiary of the Company, entered into a five-year office lease ("Lease") with Frost Real Estate Holdings, LLC ("FREH"), an entity affiliated with Phillip Frost, M.D., the Company's chairman of the board and principal shareholder. The Lease provides for aggregate payments during the five-year term of approximately \$1,581 and commenced on October 1, 2010.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (in thousands, except share and per share data)

Overview

We are engaged in investment banking, equity research, institutional sales and trading, independent brokerage and advisory services, asset management services and trust services through our principal subsidiaries, Ladenburg Thalmann & Co. Inc. ("Ladenburg"), Investacorp Inc. (collectively with related companies, "Investacorp"), Triad Advisors, Inc. ("Triad"), Ladenburg Thalmann Asset Management Inc. ("LTAM") and Premier Trust, Inc. ("Premier"). We are committed to establishing a significant presence in the financial services industry by meeting the varying investment needs of our corporate, institutional and retail clients.

Ladenburg, headquartered in New York, NY, is a full service broker-dealer that has been a member of the New York Stock Exchange since 1879. It provides its services principally for middle market and emerging growth companies and high net worth individuals through a coordinated effort among corporate finance, capital markets, asset management, brokerage and trading professionals.

Investacorp, headquartered in Miami, Florida, is an independent broker-dealer and registered investment advisor that has been serving the independent financial advisor community since 1978. Investacorp's national network of independent financial advisors primarily serves retail clients. Investacorp's independent financial advisors are located in approximately 304 offices in 42 states.

Triad, headquartered in Norcross, Georgia, is an independent broker-dealer and registered investment advisor that offers a broad range of products, services and total wealth management solutions to independent financial advisors located nationwide. Triad's independent financial advisors primarily serve retail clients. Triad was founded in 1998, and we acquired Triad in August 2008. Triad's independent financial advisors are located in approximately 254 offices in 38 states.

LTAM, headquartered in New York, NY, is a registered investment advisor. LTAM offers various asset management products utilized by Ladenburg and Premier's clients as well as clients of Investacorp's and Triad's financial advisors.

Premier, headquartered in Las Vegas, Nevada, is a Nevada trust company. Premier, founded in 2001, provides wealth management services, including trust administration of personal and retirement accounts, estate and financial planning and custody services. We acquired Premier on September 1, 2010.

Through our acquisitions of Investacorp and Triad, we have become a significant presence in the independent broker-dealer industry. During the past decade, this has been one of the fastest growing segments of the financial services industry. We have become one of the approximately 30 largest independent broker-dealer firms as a result of Investacorp and Triad's combined revenues of approximately \$108 million for the nine months ended September 30, 2010 and approximately 1,000 financial advisors. We believe that we have the opportunity through acquisitions and recruiting to significantly expand our market share in this segment over the next several years. Our goal remains, as a public financial services company, to marry the more recurring and predictable revenue and cash flows of the independent broker-dealer business with Ladenburg's traditional investment banking, capital markets, institutional equity and related businesses. Ladenburg's businesses are generally more volatile and subject to the cycles of the capital markets than our independent broker-dealer subsidiaries, but historically have enjoyed strong operating margins in favorable market conditions.

Each of Ladenburg, Investacorp and Triad is subject to regulation by, among others, the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), and the Municipal Securities Rulemaking Board and is a member of the Securities Investor Protection Corporation. Triad is also subject to regulation by the

Commodities Futures Trading Commission and the National Futures Association. Premier is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division.

Ladenburg's private client services and institutional sales departments serve approximately 12,000 customer accounts nationwide and LTAM provides investment management services to numerous individuals and institutions. At September 30, 2010, Investacorp's 441 financial advisors served approximately 160,000 customer accounts nationwide and Investacorp had approximately \$6.8 billion in client assets. Triad's 586 financial advisors served approximately 133,000 customer accounts nationwide and had approximately \$11.6 billion in client assets at September 30, 2010. On a consolidated basis, total client assets exceeded \$20 billion at September 30, 2010.

## Recent Developments

### Private Equity Offering

On May 28, 2010, we entered into stock purchase agreements with various investors, including investors who were affiliated with the Company, under which the investors agreed to purchase an aggregate of 14,050,000 shares of our common stock, at a price of \$1.00 per share. On September 15, 2010, we completed the sale of an aggregate of 13,325,000 shares and received gross proceeds of \$13,325 from investors who are not affiliated with us. Under NYSE Amex rules, our shareholder approved the sale of the remaining 725,000 shares to investors who are our directors and executive officers, or affiliates thereof, at our 2010 Annual Meeting on September 24, 2010. On October 1, 2010 we completed the sale of such 725,000 shares of common stock to our affiliates and received gross proceeds of \$725. The funds received from the private equity offering were used for general corporate purposes and repayment of debt.

### Premier Trust Acquisition

On September 1, 2010, we acquired Premier Trust, Inc., a provider of wealth management services, including trust administration, estate and financial planning and custody services. Founded in 2001, Premier is a Nevada-chartered trust company headquartered in Las Vegas, Nevada, with assets under administration in excess of \$530 million.

### Acquisition Strategy

We continue to explore opportunities to grow our businesses, including through potential acquisitions of other securities and investment banking firms, both domestically and internationally. These acquisitions may involve payments of material amounts of cash, the incurrence of material amounts of debt, which may increase our leverage, or the issuance of significant amounts of our equity securities, which may be dilutive to our existing shareholders. We cannot assure you that we will be able to complete any such potential acquisitions on acceptable terms or at all or, if we do, that any acquired business will be profitable. Also we may not be able to integrate successfully acquired businesses into our existing business and operations.

### Critical Accounting Policies

There have been no material changes to the critical accounting policies set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our annual report on Form 10-K for the year ended December 31, 2009. Please refer to those sections for disclosures regarding the critical accounting policies related to our business.

### Results of Operations

The following discussion provides an assessment of our results of operations, capital resources and liquidity and should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this report. The unaudited condensed consolidated financial statements include our accounts and the accounts of Ladenburg, Investacorp, Triad, Premier (since September 1, 2010) and our other subsidiaries.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Total revenues	\$ 48,363	\$ 39,246	\$ 139,918	\$ 106,861
Total expenses	51,341	43,066	149,101	121,521
Pre-tax loss	(2,978)	(3,820)	(9,183)	(14,660)

Net loss	(3,205)	(3,728)	(9,837)	(15,127)
Reconciliation of EBITDA, as adjusted, to net loss:				
EBITDA, as adjusted	(141)	(189)	1,064	(3,450)
Add:				
Interest income	(11)	11	(29)	65
Income tax benefit	—	92	—	—
Less:				
Interest expense	(641)	(1,013)	(2,533)	(3,191)
Income tax expense	(227)	—	(654)	(467)
Depreciation and amortization expense	(894)	(941)	(2,723)	(2,811)
Non-cash compensation expense	(1,291)	(1,688)	(4,656)	(5,273)
Clearing firm conversion expense	—	—	(306)	—
Net loss	\$ (3,205)	\$ (3,728)	\$ (9,837)	\$ (15,127)

Earnings before interest, taxes, depreciation and amortization, or EBITDA, adjusted for gains or losses on sales of assets, non-cash compensation expense and clearing firm conversion expense is a key metric we use in evaluating our financial performance. EBITDA is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC under the Securities Act of 1933, as amended. We consider EBITDA, as adjusted, important in evaluating our financial performance on a consistent basis across various periods due to the significance of non-cash and non-recurring items. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not indicative of our core operating performance, such as expenses related to Investacorp's conversion to a single clearing firm as part of a new seven-year clearing agreement, or do not involve a cash outlay, such as stock-related compensation. EBITDA, as adjusted, should be considered in addition to, rather than as a substitute for, pre-tax (loss) income, net (loss) income and cash flows from operating activities.

Third quarter 2010 EBITDA, as adjusted, was \$(141), an increase of \$48 from third quarter 2009 EBITDA, as adjusted, of \$(189), primarily because of the \$1,954 principal and interest forgiven in the third quarter of 2010 under our loan agreement with National Financial Services, which we refer to as NFS, our subsidiaries' clearing firm. This was partially offset by increases in rent and occupancy expense of \$417 and professional services expense of \$781. For the nine months ended September 30, 2010 EBITDA, as adjusted, was \$1,064, an increase of \$4,514 from the EBITDA, as adjusted, of \$(3,450) for the nine months ended September 30, 2009, primarily because of increased revenues of \$33,057, partially offset by increased commissions and fees of \$25,065 and increased compensation and benefits of \$2,260.

### Segment Description

We have three operating segments:

- Ladenburg -- includes the retail and institutional securities brokerage, investment banking services, asset management services and investment activities conducted by Ladenburg and LTAM.
- Independent brokerage and advisory services -- includes the broker-dealer and investment advisory services provided by Investacorp and Triad through their independent contractor registered representatives.
- Premier Trust – includes the trust administration, estate and financial planning, custody and investment services conducted by Premier.

	Three months ended September 30,		Nine months ended September 30,	
	2010	2009	2010	2009
Revenues:				
Ladenburg	\$ 7,420	\$ 10,076	\$ 29,617	\$ 26,358
Independent brokerage and advisory services	38,819	29,138	108,122	80,399
Premier Trust	194	—	194	—
Corporate	1,930	32	1,985	104
Total revenues	\$ 48,363	\$ 39,246	\$ 139,918	\$ 106,861
Pre-tax (loss) income:				
Ladenburg	\$ (2,272)	\$ (1,395)	\$ (4,712)	\$ (7,583)
Independent brokerage and advisory services	(149)	130	299	569
Premier Trust	9	—	9	—
Corporate	(566)	(2,555)	(4,779)	(7,646)
Total pre-tax loss	\$ (2,978)	(3,820)	\$ (9,183)	\$ (14,660)

Three months ended September 30, 2010 versus three months ended September 30, 2009

For the quarter ended September 30, 2010, we had a net loss of \$3,205 compared to a net loss of \$3,728 for the quarter ended September 30, 2009. The decrease in net loss of \$523 is attributable to an increase in investment banking fees, an increase in the independent brokerage and advisory services segment's commissions and advisory fees and the forgiveness of principal and interest under our NFS loan agreement.

Our total revenues for the three months ended September 30, 2010 increased \$9,117 (23%) from the 2009 period, primarily as a result of increased advisory fees revenue of \$4,313, increased commissions revenue of \$2,878, increased investment banking revenue of \$1,206 and increased other income of \$2,599, partially offset by decreased principal transactions revenue of \$1,535 and decreased interest and dividends revenue of \$344.

Our total expenses for the three months ended September 30, 2010 increased by \$8,275 (19%) from the 2009 period, primarily as a result of increased commissions and fees expense of \$8,571, increased professional services of \$781, increased rent and occupancy, net of sublease revenue of \$417 and increased other expense of \$522, partially offset by decreased compensation and benefits of \$1,073, decreased interest expense of \$372 and decreased non-cash compensation of \$397.

The \$2,878 (12%) increase in commissions revenue for the three months ended September 30, 2010 as compared to the 2009 period is primarily attributable to the recruitment of higher-producing financial advisors in our independent brokerage and advisory services segment which had increased commissions revenue of \$5,400 for the three months ended September 30, 2010 as compared to the 2009 period, primarily the result of an increase in sales of variable life and variable annuity products. Ladenburg commissions decreased by \$2,522, which was primarily attributable to unfavorable market conditions. Also, Ladenburg closed two offices during the second quarter of 2010, resulting in an \$800 decrease in commissions for the three months ended September 30, 2010 compared to the 2009 period.

The \$4,313 (50%) increase in advisory fee revenue for the three months ended September 30, 2010 as compared to the 2009 period is primarily attributable to the increase in advisory assets under management. We expect asset management revenue to continue to increase in the near term due to improving market conditions and newly-added advisory assets.

The \$1,206 (39%) increase in investment banking revenue for the three months ended September 30, 2010 as compared to the 2009 period is primarily due to an increase in capital raising activities of \$1,661, partially offset by a decrease in strategic advisory services fees of \$455. We derive investment banking revenue from Ladenburg's capital raising activities, including underwritten public offerings, registered direct offerings and PIPES (private investment in public equity securities) offerings and strategic advisory services. Revenue from capital raising activities was \$4,006 for the 2010 period as compared to \$2,345 for the 2009 period. Revenue from strategic advisory services fees was \$277 for the 2010 period as compared to \$732 for the 2009 period.

The \$1,535 (217%) decrease in principal transactions for the three months ended September 30, 2010 as compared to the 2009 period is primarily attributable to losses in the fair value of securities received as consideration in capital raising activities.

The \$344 (70%) decrease in interest and dividends for the three months ended September 30, 2010 as compared to the 2009 period is primarily attributable to lower interest rates and a decrease in margin account balances. We currently expect continued lower interest and dividends revenue in 2010 due to expected low interest rates and reduced interest sharing from our clearing broker.

The \$2,599 (173%) increase in other income for the three months ended September 30, 2010 as compared to 2009 is primarily attributable to \$1,429 of forgiven principal and \$525 of forgiven interest under our NFS loan agreement,

which is reflected in our corporate segment. Other income also increased due to increases in direct investment marketing allowances received from product sponsor programs of \$66, conference revenue of \$56, transaction-related fees of \$66 and miscellaneous trading services of \$406 in our independent brokerage and advisory services segment.

The \$8,571 (37%) increase in commissions and fees expense for the three months ended September 30, 2010 as compared to the 2009 period is primarily due to an increase in commissions and advisory fees revenue. Commissions and fees expense comprises compensation payments earned by the independent contractor registered representatives in our independent brokerage and advisory services segment. These payments are calculated based on a percentage of revenues generated and vary by product. Accordingly, when the independent contractor registered representatives increase their business, both our revenues and expenses increase since they earn additional compensation based on the revenue produced.

The \$1,073 (10%) decrease in compensation and benefits expense for the three months ended September 30, 2010 as compared to the 2009 period was primarily due to decreases in the Ladenburg segment of \$1,329 in producers' compensation, which is directly correlated to revenue production, and a \$281 decrease in salaries and benefits primarily attributed to a one-time severance charge to Ladenburg of \$365 in 2009, partially offset by an increase in bonus at the corporate segment of \$537.

The \$417 (87%) increase in rent and occupancy, net of sublease revenue, for the three months ended September 30, 2010 as compared to the 2009 period relates to a \$421 reversal of a charge recorded in the first quarter of 2009 for abandoning office space. Ladenburg re-opened a retail brokerage branch in the third quarter of 2009.

The \$781 (76%) increase in professional services expense for the three months ended September 30, 2010 as compared to the 2009 period is primarily due to an increase in legal fees of \$859 in the independent brokerage and advisory services segment, partially offset by a decrease of \$117 in Ladenburg's legal fees.

The \$372 (32%) decrease in interest expense for the three months ended September 30, 2010 as compared to the 2009 period is primarily attributable to lower average debt outstanding.

The \$522 (21%) increase in other expense for the three months ended September 30, 2010 as compared to the 2009 period is primarily attributable to increases in our independent brokerage and advisory services segment of \$357 for fees related to transitioning new independent registered representatives and increases in errors and omissions insurance premiums, \$39 for marketing and advertising costs and \$108 in miscellaneous trading costs.

We incurred income tax expense of \$227 for the three months ended September 30, 2010 as compared to a benefit of \$92 for the 2009 period. After consideration of all the evidence, both positive and negative, management has determined that a valuation allowance at September 30, 2010 was necessary to fully offset the deferred tax assets based on the likelihood of future realization. Our current deferred income tax liabilities increased by approximately \$174 during the 2010 period due to goodwill amortization for tax purposes. The income tax rates for the 2010 and 2009 periods do not bear a customary relationship to effective tax rates, primarily as a result of the increase in the valuation allowance for the 2010 and 2009 periods.

Nine months ended September 30, 2010 versus nine months ended September 30, 2009

Our net loss for the nine months ended September 30, 2010 was \$9,837 compared to a net loss of \$15,127 for the nine months ended September 30, 2009. The decrease in net loss of \$5,290 is attributable to the increase in advisory fees revenue, commission revenue and investment banking transactions, partially offset by an increase in commission and fees expense and compensation and benefits expenses.

Our total revenues for the nine months ended September 30, 2010 increased \$33,057 (31%) from the 2009 period, primarily as a result of increased commissions revenue of \$12,545, increased advisory fees revenue of \$13,680, increased investment banking revenue of \$6,421, increased other income of \$3,926, partially offset by decreased interest and dividends revenue of \$1,937 and decreased principal transactions of \$1,578.

Our total expenses for the nine months ended September 30, 2010 increased by \$27,580 (23%) from the 2009 period, primarily as a result of increased commissions and fees expense of \$25,065, increased compensation and benefits expense of \$2,260 and increased other expense of \$2,200, partially offset by decreased interest of \$658 and decreased professional services expense of \$409.

The \$12,545 (19%) increase in commissions revenue for the nine months ended September 30, 2010 as compared to the 2009 period is primarily attributable to the recruitment of higher-producing financial advisors in our independent brokerage and advisory services segment, which had increased commissions revenue of \$14,953, primarily the result

of an increase in sales of variable life insurance, variable annuity and limited partnership products. Ladenburg commissions decreased by \$2,408, primarily due to unfavorable market conditions. Also, Ladenburg closed two offices resulting in a \$988 decrease in commissions for the 2010 period.

The \$13,680 (60%) increase in advisory fees revenue for the nine months ended September 30, 2010 as compared to the 2009 period is primarily attributable to the increase in advisory assets under management. We currently expect asset management revenue to continue to increase in the near term due to improved market conditions and newly added advisory assets.

The \$6,421 (73%) increase in investment banking revenue for the nine months ended September 30, 2010 as compared to the 2009 period is primarily due to an increase in capital raising activities of \$6,907, partially offset by a decrease in strategic advisory services fees of \$486. Revenue from capital raising activities was \$12,624, including \$706 in warrants for the nine months ended September 30, 2010 as compared to \$2,547 for the 2009 period. For the nine months ended September 30, 2010 and 2009, investment banking revenue i