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**UNITED 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, 2009**

**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, 12<sup>th</sup> 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 4, 2009, there were 167,878,775 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, 2009**

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

	September 30, 2009 (Unaudited)	December 31, 2008
<b>ASSETS</b>		
Cash and cash equivalents	\$ 5,624	\$ 6,621
Securities owned at fair value	2,281	4,828
Receivables from clearing brokers	12,609	14,558
Receivables from other broker-dealers	151	—
Other receivables, net	5,418	3,960
Investment in fund manager	267	318
Furniture, equipment and leasehold improvements, net	3,375	3,714
Restricted assets	375	701
Intangible assets, net	29,266	31,625
Goodwill	29,739	29,739
Unamortized debt issue cost	1,950	2,400
Other assets	4,341	3,204
Total assets	<u>\$ 95,396</u>	<u>\$ 101,668</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Securities sold, but not yet purchased, at market value	\$ 38	\$ 91
Accrued compensation	5,696	3,661
Commissions and fees payable	5,769	5,005
Accounts payable and accrued liabilities	5,741	5,851
Deferred rent	3,529	3,863
Deferred income taxes	1,326	780
Accrued interest	207	193
Notes payable	34,035	30,934
Total liabilities	<u>\$ 56,341</u>	<u>\$ 50,378</u>
Commitments and contingencies (Note 9)		
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, 167,868,774 in 2009 and 171,715,514 in 2008	17	17
Additional paid-in capital	169,064	166,172
Accumulated deficit	<u>(130,026)</u>	<u>(114,899)</u>
Total shareholders' equity	<u>39,055</u>	<u>51,290</u>
Total liabilities and shareholders' equity	<u>\$ 95,396</u>	<u>\$ 101,668</u>

See accompanying notes.

**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,	
	2009	2008	2009	2008
<b>Revenues:</b>				
Commissions and fees	\$ 32,788	\$ 25,130	\$ 88,400	\$ 64,617
Investment banking	3,077	4,178	8,750	13,385
Asset management	502	666	1,408	2,150
Principal transactions	709	(609)	882	(452)
Interest and dividends	487	982	2,344	3,003
Unrealized loss on NYSE Euronext restricted common stock	—	(111)	—	(111)
Other income	1,683	1,036	5,077	2,704
<b>Total revenues</b>	<b>\$ 39,246</b>	<b>\$ 31,272</b>	<b>\$ 106,861</b>	<b>\$ 85,296</b>
<b>Expenses:</b>				
Commissions and fees	\$ 23,099	\$ 15,126	\$ 62,439	\$ 39,237
Compensation and benefits	10,843	11,198	29,743	31,685
Non-cash compensation	1,686	1,538	5,273	4,605
Brokerage, communication and clearance fees	1,663	1,638	5,110	3,877
Rent and occupancy, net of sublease revenue	480	917	2,589	1,967
Professional services	1,033	1,563	4,370	4,071
Interest	1,014	1,118	3,186	3,474
Depreciation and amortization	940	898	2,810	2,241
Other	2,308	2,277	6,001	5,344
<b>Total expenses</b>	<b>\$ 43,066</b>	<b>\$ 36,273</b>	<b>\$ 121,521</b>	<b>\$ 96,501</b>
Loss before income taxes	(3,820)	(5,001)	(14,660)	(11,205)
Income tax (benefit) expense	(92)	690	467	752
<b>Net loss</b>	<b>\$ (3,728)</b>	<b>\$ (5,691)</b>	<b>\$ (15,127)</b>	<b>\$ (11,957)</b>
Net loss per common share (basic and diluted)	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.09)</u>	<u>\$ (0.07)</u>
<b>Weighted average common shares used in computation of per share data:</b>				
Basic	<u>167,624,573</u>	<u>167,303,935</u>	<u>168,875,151</u>	<u>163,850,741</u>
Diluted	<u>167,624,573</u>	<u>167,303,935</u>	<u>168,875,151</u>	<u>163,850,741</u>

See accompanying notes.

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

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2008	171,715,514	\$ 17	\$166,172	\$ (114,899)	\$ 51,290
Issuance of common stock under employee stock purchase plan	181,785	—	101	—	101
Exercise of stock options	502,875	—	235	—	235
Stock options granted to members of former Advisory Board and consultants	—	—	380	—	380
Stock-based compensation to employees	—	—	4,893	—	4,893
Repurchase and retirement of common stock	(4,531,400)	—	(2,717)	—	(2,717)
Net loss	—	—	—	(15,127)	(15,127)
Balance, September 30, 2009	167,868,774	\$ 17	\$169,064	\$ (130,026)	\$ 39,055

See accompanying notes.

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

	Nine months ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net loss	\$ (15,127)	\$ (11,957)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	400	357
Adjustment to deferred rent	(27)	(69)
Amortization of debt discount	578	603
Amortization of intangible assets	2,359	1,833
Amortization of debt issue cost	450	509
Amortization of investment in fund manager	51	51
Deferred income taxes	546	633
Accrued interest	14	219
Non-cash compensation expense	5,273	4,605
(Increase) decrease in operating assets:		
Securities owned	2,547	(2,033)
Receivables from clearing brokers	1,949	18,698
Receivables from other broker-dealers	(151)	12,444
Other receivables, net	(1,458)	1,757
Other assets	(1,137)	1,367
Increase (decrease) in operating liabilities:		
Securities sold, but not yet purchased	(53)	(577)
Accrued compensation	2,035	(1,487)
Commissions and fees payable	764	(931)
Accounts payable and accrued liabilities	(110)	(1,283)
<b>Net cash (used in) provided by operating activities</b>	<b>(1,097)</b>	<b>24,739</b>
Cash flows from investing activities:		
Punk Ziegel acquisition, net of cash received	—	(2,433)
Triad Advisors acquisition, net of cash received	—	(6,478)
Adjustment to cash paid for Investacorp acquisition	—	(148)
Purchases of furniture, equipment and leasehold improvements	(368)	(385)
Decrease in restricted assets	326	323
<b>Net cash used in investing activities</b>	<b>(42)</b>	<b>(9,121)</b>
Cash flows from financing activities:		
Issuance of common stock under stock plans	336	736
Repurchases of common stock	(2,717)	(1,012)
Issuance of notes payable	10,000	—
Principal payments under revolving credit facility, net of borrowings	(2,500)	(12,000)
Principal payments on other notes payable	(4,977)	(3,603)
<b>Net cash provided by (used in) financing activities</b>	<b>142</b>	<b>(15,879)</b>
Net decrease in cash and cash equivalents	(997)	(261)
Cash and cash equivalents, beginning of period	6,621	8,595
<b>Cash and cash equivalents, end of period</b>	<b>\$ 5,624</b>	<b>\$ 8,334</b>



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

	<u>Nine months ended September 30,</u>	
	<u>2009</u>	<u>2008</u>
Supplemental cash flow information:		
Interest paid	\$ 2,109	\$ 2,786
Taxes paid	35	57
Non-cash financing transactions:		
Leasehold improvements financed by landlord in connection with relocation of premises and included in deferred rent		2,016
Warrants issued for acquisition of customer accounts		571
Acquisition of Punk, Ziegel & Company, L.P.:		
Assets acquired		\$ 4,433
Liabilities assumed		<u>(1,326)</u>
Net assets acquired		3,107
Stock issued in acquisition		(435)
Cash acquired in acquisition		<u>(239)</u>
Net cash paid in acquisition		<u>\$ 2,433</u>
Acquisition of Triad:		
Assets acquired		\$ 24,574
Liabilities assumed		<u>(2,172)</u>
Net assets acquired		22,402
Note issued in acquisition		(4,384)
Stock issued in acquisition		<u>(10,427)</u>
Cash paid in acquisition		7,591
Cash acquired in acquisition		<u>(1,113)</u>
Net cash paid in acquisition		<u>\$ 6,478</u>

See accompanying notes.

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

**1. Description of Business and Basis of Presentation**

**Description of Business**

The unaudited condensed consolidated financial statements include the accounts of Ladenburg Thalmann Financial Services Inc. (“LTS” or the “Company”), a holding company, and its subsidiaries. The principal operating subsidiaries of LTS are Ladenburg Thalmann & Co. Inc. (“Ladenburg”), Investacorp, Inc. (collectively with related companies, “Investacorp”) and Triad Advisors, Inc. (“Triad”).

Ladenburg is a full service broker-dealer that has been a member of the New York Stock Exchange (“NYSE”) since 1879. Broker-dealer activities include principal and agency trading, investment banking and asset management. 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, asset management, brokerage and trading professionals.

Investacorp and Triad, which were acquired on October 19, 2007 and August 13, 2008, respectively, are registered broker-dealers and investment advisors that have been serving the independent registered representative and investor advisor communities since 1978 and 1998, respectively. Investacorp’s and Triad’s independent registered representatives primarily serve retail clients. They derive revenue from commissions and advisory fees, primarily from the sale of mutual funds, variable annuity products and other financial products and advisory services.

Ladenburg, Investacorp and Triad customer transactions are cleared through clearing brokers 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 (“FINRA”) and the Municipal Securities Rulemaking Board. Ladenburg is also subject to regulation by the Commodities Futures Trading Commission (“CFTC”) and the National Futures Association (“NFA”). (See Note 6.)

**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 financial statements in conformity with GAAP. The statement of financial condition at December 31, 2008 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, 2008, as amended (“Form 10-K”), filed with the SEC, for additional disclosures and a description of the Company’s accounting policies.

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

**2. Summary of Significant Accounting Policies**

**Revenue Recognition**

Besides the accounting policies disclosed in the Form 10-K, the Company has the following significant accounting policy related to revenue from Specified Purpose Acquisition Companies (“SPAC”).

Investment banking revenues include revenues earned from SPAC transactions. The Company receives a significant portion (up to approximately 50%) of its revenue upon the completion of a SPAC’s initial public offering and receives the remaining portion of the revenue (“deferred fees”) only if the SPAC completes a business combination transaction. The Company records the portion of the revenue payable upon completion of the initial public offering at the time the

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

offering is completed. The Company earns and recognizes the deferred fees, only if and when the SPAC completes a business combination. Generally, these deferred fees may be received within 24 months from the date of the offering, or not received at all if no business combination transaction is completed during such time period. If deferred fees are recognized upon a SPAC's successful completion of a business combination, the Company recognizes related compensation expense and finder's fees, which are earned only if deferred revenue is earned. For the third quarters of 2009 and 2008, Ladenburg received deferred fees from SPACs that completed business combination transactions of \$550 and \$2,878, respectively (included in investment banking revenues), and incurred commissions and related expenses of \$216 and \$1,295, respectively (included in compensation and benefits). For the nine months ended September 30, 2009 and 2008, Ladenburg received deferred fees of \$3,575 and \$5,289, respectively (included in investment banking revenues), and incurred commissions and related expenses of \$1,472 and \$2,145, respectively (included in compensation and benefits).

**3. Recently Issued Accounting Principles**

During the third quarter of 2009, the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification became the single source of authoritative U.S. GAAP. The Codification does not create any new GAAP standards, but incorporates existing accounting and reporting standards into a new topical structure. Beginning with this quarterly report, LTS used a new referencing system to identify authoritative accounting standards, replacing the existing references to SFAS, EITF, FSP, etc. Existing standards will be designated by their Accounting Standards Codification ("ASC") topical reference and new standards will be designated as Accounting Standards Updates ("ASU") with a year and assigned sequence number. The adoption of the Codification did not have any impact on the Company's financial statements.

On April 9, 2009, the FASB issued ASC No. 825-10 "Financial Instruments" ("ASC 825-10"). ASC 825-10 amends disclosure standards to require disclosures about fair value of financial instruments in interim and annual financial statements. ASC 825-10 is effective for interim periods ending after June 15, 2009 and the Company adopted the provisions of ASC 825-10 in the second quarter of 2009. (See Note 8)

In May 2009, the FASB issued ASC No. 855-10, "Subsequent Events" ("ASC 855-10"). ASC 855-10 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date, but before financial statements are issued or are available to be issued. ASC 855-10 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. The Company adopted the provisions of ASC 855-10 for the quarter ended June 30, 2009 and has evaluated subsequent events through the date the financial statements were issued on November 6, 2009.

In June 2009, the FASB issued SFAS No. 167, "Amendments to FASB Interpretation No. 46(R)" ("SFAS 167"), which changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity's purpose and design and a company's ability to direct the activities of the entity that most significantly impact the entity's economic performance. SFAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also requires additional disclosure about a company's involvement in variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for the Company beginning on January 1, 2010. The Company is presently evaluating the effect, if any, that the adoption of SFAS 167 will have on its financial statements. SFAS 167 has not yet been included in the Codification.

In August 2009, the FASB issued ASU No. 2009-05, "Measuring Liabilities at Fair Value" ("ASU 2009-05"), codified primarily in ASC 820. ASU 2009-05 provides clarification and guidance regarding how to value a liability when a quoted price in an active market is not available for that liability. ASU 2009-05 is effective for the first reporting period (including interim periods) beginning after issuance (October 1, 2009 for the Company), and adoption is not expected to have a significant impact on the Company's financial statements.

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

#### 4. Acquisitions

##### Triad

On August 13, 2008, Triad became a wholly-owned subsidiary of the Company. All outstanding shares of Triad's common stock were converted into an aggregate of \$6,826 in cash (net of a post-closing adjustment of \$674), 7,993,387 shares of the Company's common stock, subject to certain transfer restrictions, valued at \$10,427 and a \$5,000 promissory note valued at \$4,384. The Company's common stock was valued at \$1.60 per share based on the average closing market price for a reasonable period before and after July 10, 2008, the date the acquisition was announced, and discounted for the transfer restrictions. The note, which was valued based on an imputed interest rate of 11%, is collateralized by a pledge of Triad's stock held by the Company. The Company incurred \$130 of merger-related costs. In the event that Triad meets certain cumulative profit targets during the three-year period following completion of the merger, the Company also will pay to Triad's former shareholders up to \$7,500 in cash and issue to such shareholders up to 4,134,511 shares of the Company's common stock. Any such payments will be accounted for as additional purchase price and allocated to goodwill.

The total consideration paid by the Company in the merger, including related costs, was allocated to the identifiable assets acquired and liabilities assumed based on their estimated fair values with the amount exceeding the fair values being recorded as goodwill. The Company obtained third party valuations in determining fair value for acquired intangible assets.

##### Punk Ziegel

On May 2, 2008, Punk, Ziegel & Company, L.P. ("Punk Ziegel"), a specialty investment bank based in New York City, was merged into Ladenburg. The Company paid the sellers \$2,770, representing Punk Ziegel's retained earnings plus paid-in-capital, plus 250,000 shares of the Company's common stock valued at \$475.

After giving effect to certain post-closing purchase price adjustments, the adjusted purchase price was \$2,700 in cash (including acquisition costs) and 250,000 shares of the Company's common stock valued at \$435.

##### Pro Forma Information

The Company's financial statements include the results of operations of Triad and Punk Ziegel from their respective dates of acquisition. The following unaudited pro forma information represents the Company's consolidated results of operations as if the acquisition of Triad had occurred at the beginning of 2008. The Company's acquisition of Punk Ziegel did not constitute a material business combination and the following pro forma data does not include Punk Ziegel. The pro forma net loss reflects amortization of the amounts ascribed to intangibles acquired in the acquisition and interest expense on debt used to finance the acquisition.

	<b>Three months ended September 30, 2008</b>	<b>Nine months ended September 30, 2008</b>
Total revenue	\$ 41,976	\$ 126,644
Net loss	\$ (6,057)	\$ (11,680)
Basic and diluted loss per common share	\$ (0.04)	\$ (0.07)
Weighted average common shares outstanding — basic and diluted	171,177,792	170,552,471

The unaudited pro forma financial information contained in the table above is not representative or indicative of the Company's consolidated results of operations that would have been reported had the Triad acquisition been completed as of the beginning of the period presented, nor should it be taken as indicative of the Company's future consolidated results of operations.

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

**5. Securities Owned and Securities Sold, But Not Yet Purchased**

The components of marketable securities owned and securities sold, but not yet purchased, at fair value at September 30, 2009 and December 31, 2008 were as follows:

	<u>Securities owned</u>	<u>Securities sold, but not yet purchased</u>
<b>September 30, 2009</b>		
Certificates of deposit	\$ 300	\$ —
Common stock and warrants	448	29
Restricted common stock and warrants	1,533	9
<b>Total</b>	<b><u>\$ 2,281</u></b>	<b><u>\$ 38</u></b>
<b>December 31, 2008</b>		
Certificates of deposit	\$ 1,100	\$ —
Common stock and warrants	3,231	91
Restricted common stock and warrants	497	—
<b>Total</b>	<b><u>\$ 4,828</u></b>	<b><u>\$ 91</u></b>

As of September 30, 2009 and December 31, 2008, approximately \$605 and \$3,535, 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.

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.

**Fair Value Measurements**

As of September 30, 2009:

<u>Securities owned, at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ —	\$ 300	\$ —	\$ 300
Common stock and warrants	448	1,533	—	1,981
<b>Total</b>	<b><u>\$ 448</u></b>	<b><u>\$1,833</u></b>	<b><u>\$ —</u></b>	<b><u>\$2,281</u></b>
<u>Securities sold, but not yet purchased, at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock and warrants	\$ 29	\$ 9	\$ —	\$ 38
<b>Total</b>	<b><u>\$ 29</u></b>	<b><u>\$ 9</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 38</u></b>

As of December 31, 2008:

<u>Securities owned, at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Certificates of deposit	\$ —	\$1,100	\$ —	\$1,100
Common stock and warrants	3,231	497	—	3,728
<b>Total</b>	<b><u>\$3,231</u></b>	<b><u>\$1,597</u></b>	<b><u>\$ —</u></b>	<b><u>\$4,828</u></b>
<u>Securities sold, but not yet purchased, at fair value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stock and warrants	\$ 91	\$ —	\$ —	\$ 91
<b>Total</b>	<b><u>\$ 91</u></b>	<b><u>\$ —</u></b>	<b><u>\$ —</u></b>	<b><u>\$ 91</u></b>



**LADENBURG THALMANN FINANCIAL SERVICES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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Warrants are carried at a discount to fair value as determined by using the Black-Scholes option pricing model due to illiquidity. This model takes into account the underlying securities current market value, the underlying securities market volatility, the term of the warrants, exercise price, and risk free return rate. As of September 30, 2009, the fair value of the warrants is \$1,323 and is reported in the statement of financial condition under securities owned at fair value.

#### **6. Net Capital Requirements**

As a registered broker-dealer, Ladenburg is subject to the SEC's Uniform Net Capital Rule 15c3-1 and the CFTC's Regulation 1.17, which require the maintenance of minimum net capital. Ladenburg has elected to compute its net capital under the alternative method allowed by these rules. At September 30, 2009, Ladenburg had net capital, as defined in the SEC's Net Capital Rule, of \$2,397, which exceeded its minimum capital requirement of \$500, by \$1,897.

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, 2009, Investacorp had net capital of \$693, which was \$341 in excess of its required net capital of \$352. Investacorp's net capital ratio was 7.6 to 1. At September 30, 2009, Triad had net capital of \$792, which was \$498 in excess of its required net capital of \$294. Triad's net capital ratio was 5.6 to 1.

Ladenburg, Investacorp and Triad claim exemption from the provisions of the SEC's Rule 15c3-3 pursuant to paragraph (k)(2)(ii) as their customer transactions are cleared through clearing brokers on a fully-disclosed basis.

#### **7. Income Taxes**

Income tax expense for the three months and nine months ended September 30, 2009 and the three months and nine months ended September 30, 2008 primarily represents deferred income taxes relating to amortization of goodwill for tax purposes.

#### **8. Notes Payable**

Notes payable consisted of the following:

	<b>September 30, 2009</b>	<b>December 31, 2008</b>
Note payable to former Investacorp shareholder, net of \$207 and \$565 of unamortized discount at September 30, 2009 and December 31, 2008, respectively	\$ 5,424	\$ 8,820
Note payable to affiliate of principal shareholder of LTS	15,500	18,000
Note payable to former Triad shareholders, net of \$264 and \$484 of unamortized discount at September 30, 2009 and December 31, 2008, respectively	3,111	4,114
Notes payable to clearing firm under forgivable loan	10,000	—
<b>Total</b>	<b>\$ 34,035</b>	<b>\$ 30,934</b>

**LADENBURG THALMANN FINANCIAL SERVICES INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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The Company estimates that the fair value of fixed interest notes payable to the former principal shareholder of Investacorp, former Triad shareholders, clearing firm National Financial Services LLC (“NFS”), a Fidelity Investments company and to an affiliate of LTS’ principal shareholder approximated \$29,151 at September 30, 2009 and \$27,483 at December 31, 2008 based on anticipated current rates at which similar amounts of debt could then be borrowed. The Company is currently in compliance with all debt covenants in its debt agreements.

**Investacorp Note**

On October 19, 2007, as part of the purchase price for Investacorp, the Company issued a three-year, non-negotiable promissory note in the aggregate principal amount of \$15,000 to Investacorp’s then principal shareholder. The note bears interest at 4.11% per annum and is payable in 36 equal monthly installments. The note was recorded at \$13,550 based on an imputed interest rate of 11%. The Company has pledged the stock of Investacorp as security for the payment of the note. The note contains customary events of default, which, if uncured, entitle the holder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the note.

**Frost Gamma Credit Agreement**

On October 19, 2007, in connection with the Investacorp acquisition, the Company entered into a \$30,000 revolving credit agreement with Frost Gamma Investment Trust (“Frost Gamma”), an affiliate of LTS’ principal shareholder, and borrowed \$30,000. Borrowings under the Frost Gamma credit agreement bear interest at a rate of 11% per annum, payable quarterly. Frost Gamma received a one-time funding fee of \$150. On August 25, 2009, the Company and Frost Gamma entered into an amendment to the revolving credit agreement to extend the maturity date to August 25, 2016.

The note issued under the credit agreement contains customary events of default, which, if uncured, entitle the holder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, such note. Under the revolving credit agreement, Frost Gamma received a warrant to purchase 2,000,000 shares of LTS common stock. The warrant is exercisable at any time during its ten-year term at an exercise price of \$1.91 per share, the closing price of the Company’s common stock on the acquisition date. The warrant was valued at \$3,200 based on the Black-Scholes option pricing model, and effective January 1, 2008, the unamortized portion has been reclassified from debt discount to debt issue cost, which is being amortized under the straight-line method over the remaining term of the revolving credit agreement.

The average loan balance for the three and nine months ended September 30, 2009 was \$20,300 and \$19,925, respectively.

**Triad Note**

On August 13, 2008, as part of the consideration paid for Triad, the Company issued a three-year, non-negotiable promissory note in the aggregate principal amount of \$5,000 to Triad’s then shareholders. The note bears interest at 2.51% per annum and is payable in 12 equal quarterly installments. The note was recorded at \$4,384, based on an imputed interest rate of 11%. The Company has pledged the stock of Triad as security for the payment of the note. The note contains customary events of default, which, if uncured, entitle the holder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the note.

**NFS Forgivable Loan**

On August 25, 2009, National Financial Services, LLC (“NFS”), Fidelity Investments Company, provided the Company with a seven-year, \$10,000 forgivable loan. NFS serves as the primary clearing broker for the Company’s three principal broker-dealer subsidiaries. During the third quarter of 2009, the three firms amended their clearing agreements with NFS to, among other things, extend the term for a seven-year period. During this time, NFS will become the exclusive clearing broker for the three firms, with Investacorp completing the migration of all of its clearing operations to NFS over the coming year. The Company expects to realize significant cost savings as a result of these new clearing arrangements.



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Interest on the loan agreement accrues at the prime rate plus 2%. If the Company's broker-dealer subsidiaries meet certain annual clearing revenue targets set forth in the loan agreement, the principal balance of the loan will be forgiven in seven equal yearly installments of \$1,429 commencing in August 2010 and continuing on an annual basis through August 2016. Interest payments due with respect to each such year will also be forgiven if the annual clearing revenue targets are met. Any principal amounts not forgiven will be due in August 2016, and any interest payments not forgiven are due annually. If during the loan term any principal amount is not forgiven, the Company may have such principal forgiven in future years if its broker-dealer subsidiaries exceed subsequent annual clearing revenue targets. The Company has expensed, and expects to continue to expense, interest under the loan agreement until such time as such interest is forgiven.

The loan agreement contains other covenants including limitations on the incurrence of additional indebtedness, maintaining minimum adjusted shareholders' equity levels and a prohibition on the termination of the Company's revolving credit agreement. Upon the occurrence of an event of default, the outstanding principal and interest under the loan agreement may be accelerated and become due and payable. If the clearing agreements are terminated prior to the loan maturity date, all amounts then outstanding must be repaid on demand. The loan agreement is secured by the Company's (but not the Company's broker-dealer subsidiaries') deposits and accounts held at NFS or its affiliates, which amounted to \$558 at September 30, 2009.

**9. Commitments and Contingencies**

**Operating Leases**

In March 2009, Ladenburg relocated all employees in its Lexington Avenue retail brokerage office in New York City to another location and during the quarter ended March 31, 2009, the Company recorded a liability and a charge to operations of \$562, which represented the fair value of the remaining lease commitment of approximately \$1,550, net of the estimated sublease rentals, which were approximately \$950. In September 2009, Ladenburg reopened the Lexington Avenue office, at which time the remaining liability of \$421 was eliminated and credited to operations.

**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 alleged that Ladenburg and the other defendants violated federal securities laws and various state laws. The plaintiff sought compensatory damages from the defendants of at least \$660,000 and punitive damages of \$2,000,000. In August 2005, Ladenburg's motion to dismiss the First Amended Complaint 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; 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 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 April 9, 2007, the Court issued an order staying the action pending the final outcome of an arbitration involving parties other than Ladenburg. A motion by plaintiff to enforce a purported settlement among the parties to that arbitration is pending in the court action. The Company believes that the plaintiff's claims are without merit and intends to vigorously defend against them.

In December 2005, a suit was filed in New York State Supreme Court, New York County, by Digital Broadcast Corp. against Ladenburg and a Ladenburg employee. The plaintiff alleged, among other things, that in connection with



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plaintiff's retention of Ladenburg to assist it in its efforts to obtain financing through a private placement of its securities, Ladenburg committed fraud and breach of fiduciary duty and breach of contract. The plaintiff seeks compensatory damages in excess of \$100,000. In December 2008, the Court granted Ladenburg's motion for summary judgment and dismissed the complaint. On June 30, 2009, the Appellate Division of the Supreme Court issued an order unanimously affirming the dismissal. Plaintiff has indicated that it intends to seek leave to appeal to the New York Court of Appeals. The Company believes that the plaintiff's claims are without merit and intends to vigorously defend against them.

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 are liable for defamation per se and negligence; the amount of the alleged damages is unspecified. The defendants' motion to dismiss the case was denied in September 2008. The Company believes that the allegations are without merit and intends to vigorously defend against them.

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. Where the Company believes that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated, the Company has included an estimation of such amount in accounts payable and accrued liabilities.

Upon final resolution, amounts payable by the Company may differ materially from amounts reserved. The Company has accrued liabilities in the amount of approximately \$103 at September 30, 2009 and \$460 at December 31, 2008 in respect of these matters. With respect to 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.

#### **10. 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 brokers, which maintain the customers' accounts and clear such transactions. Also, the clearing brokers provide 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 brokers, as each of Ladenburg, Investacorp and Triad has agreed to indemnify their respective clearing brokers 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.

#### **11. Shareholders' Equity**

##### **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 EBITDA, as adjusted. During the nine months ended September 30, 2009, 31,400 shares were repurchased for \$17. The Company may purchase up to an additional 1,552,176 shares of its common stock under this program.

In April 2009, the Company repurchased 4,500,000 shares of common stock at a price of \$0.60 per share (an aggregate of \$2,700) in a privately-negotiated transaction. This purchase was not made under the Company's share repurchase program, which remains in effect.

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)**  
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**Stock Compensation Plans**

LTS granted an option to purchase 1,000,000 shares of its common stock in February 2009. The option grant has five tranches with various vesting dates and vesting conditions and with exercise prices ranging from \$0.80 to \$1.50 per share. The Company has valued options to purchase 325,000 shares, which have vested or will vest on the first anniversary of the grant date, at \$176 using the Black-Scholes option pricing model. In August 2009, the remaining options to purchase 675,000 shares were forfeited.

LTS granted an option to purchase 500,000 shares of its common stock in April 2009. The option grant has five tranches with various vesting dates and vesting conditions and with exercise prices ranging from \$0.90 to \$1.50 per share. The Company has valued options to purchase 170,000 shares, which have vested or will vest on the first anniversary of the grant date, at \$116, using the Black-Scholes option pricing model. The remaining option tranches are contingent upon satisfaction of performance criteria which have not yet been determined. Thus, the Company will value the remaining options to purchase an aggregate of 330,000 shares at the beginning of each applicable vesting period or the date that the applicable performance criteria are determined and will recognize compensation expense at such times.

As of September 30, 2009, there was \$8,444 of unrecognized compensation cost for stock-based compensation, of which \$252 related to the 2009 grants. This cost is expected to be recognized over the vesting period of each option, which on a weighted-average basis is approximately 1.16 years for all grants and approximately 2.40 years for the 2009 grants.

A total of 248,000 and 503,000 options were exercised during the three and nine months ended September 30, 2009, respectively. The intrinsic value of options exercised during the three and nine month periods ended September 30, 2009 was \$72 and \$144, respectively.

**12. 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,	
	2009	2008	2009	2008
Net loss	\$ (3,728)	\$ (5,691)	\$ (15,127)	\$ (11,957)
Weighted-average common shares outstanding — basic and diluted	<u>167,624,573</u>	<u>167,303,935</u>	<u>168,875,151</u>	<u>163,850,741</u>
Net loss per common share:				
Basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.03)</u>	<u>\$ (0.09)</u>	<u>\$ (0.07)</u>

For the three and nine month periods ended September 30, 2009 and 2008, options and warrants to purchase 28,298,540 and 26,596,065 common shares, respectively, were not included in the computation of diluted loss per share as the effect would have been anti-dilutive.

**13. Segment Information**

The Company has two operating segments. The Ladenburg segment includes the retail and institutional securities brokerage, investment banking services, asset management services and investment activities conducted by Ladenburg. The independent brokerage and advisory services segment includes the broker-dealer and investment advisory services provided by Investacorp and, since its acquisition on August 13, 2008, Triad through their independent registered representatives.

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Segment information for the three and nine months ended September 30, 2009 and 2008 was as follows:

	<u>Ladenburg</u>	<u>Independent Brokerage and Advisory Services (1)</u>	<u>Corporate</u>	<u>Total</u>
<b>Three months ended September 30, 2009:</b>				
Revenues	\$ 10,076	\$ 29,138	\$ 32	\$ 39,246
Pre-tax (loss) income	(1,395)	130	(2,555)	(3,820)
Identifiable assets	19,631	74,805	960	95,396
Depreciation and amortization	351	572	17	940
Interest	5	3	1,006	1,014
Capital expenditures	303	7	—	310

Three months ended September 30, 2008:

Revenues	\$ 11,496	\$ 19,858	\$ (82)	\$ 31,272
Pre-tax loss	(2,133)	(159)	(2,709)	(5,001)
Identifiable assets	32,358	73,172	6,753	112,283
Depreciation and amortization	375	506	17	898
Interest	6	9	1,103	1,118
Capital expenditures	55	37	—	92

Nine months ended September 30, 2009:

Revenues	\$ 26,358	\$ 80,399	\$ 104	\$106,861
Pre-tax (loss) income	(7,583)	569	(7,646)	(14,660)
Identifiable assets	19,631	74,805	960	95,396
Depreciation and amortization	1,002	1,757	51	2,810
Interest	102	14	3,070	3,186
Capital expenditures	312	56	—	368

Nine months ended September 30, 2008:

Revenues	\$ 34,099	\$ 51,228	\$ (31)	\$ 85,296
Pre-tax (loss) income	(3,645)	553	(8,113)	(11,205)
Identifiable assets	32,358	73,172	6,753	112,283
Depreciation and amortization	982	1,208	51	2,241
Interest	26	9	3,439	3,474
Capital expenditures	325	60	—	385

(1) Includes Triad from its August 13, 2008 date of acquisition

**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 and asset management services through our principal subsidiaries, Ladenburg Thalmann & Co. Inc. ("Ladenburg"), Investacorp, Inc. (collectively with related companies, "Investacorp") and Triad Advisors, Inc. and subsidiaries (collectively, "Triad"). 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 is a full service broker-dealer that has been a member of the New York Stock Exchange ("NYSE") 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. Ladenburg had approximately 100 registered representatives and 60 other full time employees at September 30, 2009. Ladenburg's private client services and institutional sales departments serve approximately 14,000 accounts nationwide and its asset management department provides investment management and financial planning services to numerous individuals and institutions.

Investacorp, headquartered in Miami Lakes, Florida, is an independent broker-dealer and registered investment advisor, which had approximately 500 independent contractor registered representatives, approximately \$7 billion in client assets and 62 full time employees at September 30, 2009. Investacorp's national network of independent registered representatives primarily serves retail clients.

Triad, headquartered in Norcross, Georgia, is an independent broker-dealer and registered investment advisor that offers a broad selection of products, services and total wealth management solutions. At September 30, 2009, Triad had approximately 450 independent contractor registered representatives located nationwide and 40 full time employees. Triad had approximately \$9 billion in client assets at September 30, 2009. Triad's independent registered representatives primarily serve retail clients.

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 each is a member of the Securities Investor Protection Corporation. Ladenburg is also subject to regulation by the Commodities Futures Trading Commission ("CFTC") and the National Futures Association.

From 2005 to 2008, Ladenburg was a leader in underwriting offerings by blank check companies known as Specified Purpose Acquisition Companies (SPAC). These companies were formed for the purpose of raising funds in an initial public offering, a significant portion of which was placed in trust, and then acquiring a target business, thereby making the target business "public." Revenues from SPAC offerings were an important contributor to our investment banking revenue from 2005 until 2008. Ladenburg acted as either a lead or co-manager in five offerings in the first nine months of 2008 and none in the first nine months of 2009. Since the third quarter of 2008, there have been no new underwritings of SPAC initial public offerings. The absence of new SPAC offerings has negatively impacted our investment banking revenue. Compensation derived from these underwritings included normal discounts and commissions, as well as deferred fees payable to us only upon the SPAC's completion of a business combination. Such deferred fees are not reflected in our results of operations until the underlying business combinations have been completed and the fees have been irrevocably earned. Generally, these fees may be received within 24 months from the respective date of the offering, or not received at all if no business combination transactions are completed during such time period. SPACs are experiencing significant difficulty in obtaining shareholder approval of business combination transactions because, among other factors, many of their shareholders hold common stock that is trading at a discount to the cash amount per share held in trust. During the three and nine months ended September 30, 2009, Ladenburg received deferred fees of \$550 and \$3,575, respectively (included in investment banking revenues) and incurred commissions and related expenses of \$216 and \$1,472, respectively (included in compensation and benefits). As of September 30, 2009, Ladenburg had unrecorded potential deferred fees for our SPAC-related transactions of \$10,137, which, net of expenses, amounted to approximately \$6,014. Of this amount, in October 2009, Ladenburg received \$1,500, which, net of expenses, amounted to approximately \$911. If SPACs continue to experience difficulty in completing business combination transactions, we may not be able to record additional deferred fees and any deferred fees received may be reduced in connection with the completion of such transactions.

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We have two operating segments. The Ladenburg segment includes the retail and institutional securities brokerage, investment banking services, asset management services and investment activities conducted by Ladenburg. The independent brokerage and advisory services segment includes the broker-dealer and investment advisory services provided by Investacorp and, since its acquisition on August 13, 2008, Triad through their independent registered representatives.

### Recent Developments

#### *Amendment of Clearing Arrangements and Forgivable Loan*

During the third quarter of 2009, we amended the terms of our clearing agreements with National Financial Services LLC (“NFS”), a Fidelity Investments company. NFS serves as the primary clearing broker for our three principal broker-dealer subsidiaries. The three firms amended their clearing agreements with NFS to, among other things, extend the term for a seven-year period. During this time, NFS will become the exclusive clearing broker for the three firms, with Investacorp completing the migration of all of its clearing operations to NFS over the coming year. We expect to realize significant cost savings as a result of these new clearing arrangements.

On August 25, 2009, NFS provided us with a seven-year, \$10,000 forgivable loan. Interest on the loan agreement accrues at the prime rate plus 2%. If our broker-dealer subsidiaries meet certain annual clearing revenue targets set forth in the loan agreement, the principal balance of the loan will be forgiven in seven equal yearly installments of \$1,429 commencing in August 2010 and continuing on an annual basis through August 2016. Interest payments due with respect to each such year will also be forgiven if the annual clearing revenue targets are met. Any principal amounts not forgiven will be due in August 2016, and any interest payments not forgiven are due annually. If during the loan term any principal amount is not forgiven, we may have such principal forgiven in future years if our broker-dealer subsidiaries exceed subsequent annual clearing revenue targets. We have expensed, and expect to continue to expense, interest under the loan agreement until such time as such interest is forgiven.

The loan agreement contains other covenants including limitations on the incurrence of additional indebtedness, maintaining minimum adjusted shareholders’ equity levels and a prohibition on the termination of our revolving credit agreement. Upon the occurrence of an event of default, the outstanding principal and interest under the loan agreement may be accelerated and become due and payable. If the clearing agreements are terminated prior to the loan maturity date, all amounts then outstanding must be repaid on demand. The loan agreement is secured by our (but not our broker-dealer subsidiaries’) deposits and accounts held at NFS or its affiliates, which amounted to \$558 at September 30, 2009.

We used the forgivable loan proceeds to repay amounts outstanding under our revolving credit agreement. We intend to use the increased availability under that facility to support our strategy to become a leader in the independent broker-dealer space.

#### *Acquisition Strategy*

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

### Critical Accounting Policies

Besides 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, 2008, as amended, we have the following critical accounting policy:

Investment banking revenues include revenues Ladenburg earns from SPAC transactions. Ladenburg receives a significant portion (often approximately 50%) of the revenue when a SPAC completes its initial public offering (“initial fees”) and receives the remaining portion of the revenue (“deferred fees”) only if and when a SPAC completes a business combination transaction. We record the initial fees when the underwriting is completed. We record the remaining portion of the revenues, the deferred fees, only if and when the SPAC completes a business combination. Generally, these deferred fees may be received within 24 months from the respective date of the offering, or not received at all if no

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business combination transactions are completed during such time period. If and when deferred revenue is recognized upon a SPAC's successful completion of a business combination, we recognize related compensation expense and finder's fees, which are payable only if we record the deferred revenue.

### **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 (since August 13, 2008) and our other subsidiaries.

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Total revenues	\$ 39,246	\$ 31,272	\$ 106,861	\$ 85,296
Total expenses	43,066	36,273	121,521	96,501
Pre-tax loss	(3,820)	(5,001)	(14,660)	(11,205)
Net loss	(3,728)	(5,691)	(15,127)	(11,957)
Reconciliation of EBITDA, as adjusted, to net loss:				
EBITDA, as adjusted	(191)	(1,802)	(3,456)	(1,384)
Add:				
Interest income	11	45	65	189
Income tax benefit	92	—	—	—
Sale of exchange memberships	—	310	—	310
Less:				
Interest expense	(1,014)	(1,118)	(3,186)	(3,474)
Income tax expense	—	(690)	(467)	(752)
Depreciation and amortization expense	(940)	(898)	(2,810)	(2,241)
Non-cash compensation expense	(1,686)	(1,538)	(5,273)	(4,605)
Net loss	<u>\$ (3,728)</u>	<u>\$ (5,691)</u>	<u>\$ (15,127)</u>	<u>\$ (11,957)</u>

Earnings before interest, taxes, depreciation and amortization, or EBITDA, adjusted for gains or losses on sales of asset and non-cash compensation expense is a key metric we use in evaluating our business. 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 business on a consistent basis across various periods. Due to the significance of non-recurring items, EBITDA, as adjusted, enables our board of directors and management to monitor and evaluate our business on a consistent basis. 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 part of our core operations, such as interest expense, 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 income, net income and cash flows from operating activities.

Third quarter 2009 EBITDA, as adjusted, was \$(191), an increase of \$1,611 from third quarter 2008 EBITDA, as adjusted, of \$(1,802) primarily because of lower expenses due to cost-cutting measures at Ladenburg and Investacorp and increased net income from our acquisition of Triad on August 13, 2008. For the nine months ended September 30, 2009, EBITDA, as adjusted, was \$(3,456), a decrease of \$(2,072) from the nine months ended September 30, 2008 EBITDA, as adjusted, of \$(1,884), primarily because of decreased investment banking transactions and commissions and fees revenue, partially offset by the addition of Triad.

Third quarter 2009 results include Triad for the full period, while the 2008 third quarter includes Triad only for the period from its acquisition on August 13, 2008 through September 30, 2008.



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### *Segment Description*

We have two operating segments:

- Ladenburg — includes the retail and institutional securities brokerage, investment banking services, asset management services and investment activities conducted by Ladenburg.
- Independent brokerage and advisory services — includes the broker-dealer and investment advisory services provided by Investacorp and Triad through their independent contractor registered representatives.

	Three months ended September 30,		Nine months ended September 30,	
	2009	2008	2009	2008
Revenues:				
Ladenburg	\$10,076	\$11,496	\$ 26,358	\$ 34,099
Independent brokerage and advisory services	29,138	19,858	80,399	51,228
Corporate	32	(82)	104	(31)
Total revenues	<u>\$39,246</u>	<u>\$31,272</u>	<u>\$106,861</u>	<u>\$ 85,296</u>
Pre-tax (loss) income:				
Ladenburg	\$ (1,395)	\$ (2,133)	\$ (7,583)	\$ (3,645)
Independent brokerage and advisory services	130	(159)	569	553
Corporate	(2,555)	(2,709)	(7,646)	(8,113)
Total pre-tax loss	<u>\$ (3,820)</u>	<u>\$ (5,001)</u>	<u>\$ (14,660)</u>	<u>\$ (11,205)</u>

### **Three months ended September 30, 2009 versus three months ended September 30, 2008**

Our net loss for the three months ended September 30, 2009 was \$3,728 compared to a net loss of \$5,691 for the three months ended September 30, 2008. The decrease in net loss of \$1,963 is primarily attributed to a decrease in expenses from cost-cutting measures at Ladenburg and Investacorp and an increase of revenues due to the acquisition of Triad on August 13, 2008.

Total revenues for the three months ended September 30, 2009 increased \$7,974 (26%) from the 2008 period. The increase is primarily due to an increase in Triad revenues of \$10,904 and a \$1,318 increase in principal transactions. The addition of Triad resulted in a \$10,180 increase in commissions and fees revenue, a \$607 increase in other income and a \$117 increase in interest and dividends. The increase in revenues from Triad was partially offset by a \$2,522 decrease in Ladenburg and Investacorp's commissions and fees revenue, a \$1,101 decrease in investment banking revenue, a \$164 decrease in asset management fee revenue and a \$612 decrease in interest and dividends due to lower client assets and interest rates.

Total expenses for the three months ended September 30, 2009 increased \$6,793 (19%) from the 2008 period. The increase is primarily due to the increase in Triad expenses of \$10,694 (primarily commissions and fees expense of \$9,399). This was partially offset by a \$1,426 decrease in commissions and fees expense at Investacorp and decreases in Ladenburg and Investacorp's compensation expense of \$882, professional services of \$585, rent and occupancy of \$522, brokerage, communication and clearance fees of \$215 and interest expense of \$98. Although total expenses increased due to the Triad acquisition, Ladenburg and Investacorp have undertaken efforts to reduce operating expenses. Also, Investacorp and Triad have been seeking increased operating efficiencies, including benefits from sharing common technology platforms.

The \$7,658 (31%) increase in commissions and fees revenue in the third quarter of 2009 is primarily due to the Triad acquisition, which had a \$10,180 increase in commissions and fees revenue. Unfavorable market conditions negatively impacted commissions and fees revenue in both of our segments, including a decrease in commissions and fees revenue generated by Investacorp and Ladenburg of \$2,522 as compared to the 2008 period. Commissions and fees revenue consists of commissions earned as agent in transactions involving equity and fixed income securities, mutual funds, insurance and other products. We also earn commissions and fees revenue in the form of 12b-1 fees and investment advisory fees on assets under management.

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The \$1,101 (26%) decrease in investment banking revenue for the three months ended September 30, 2009 was primarily due to a decrease in deferred fees from SPAC business combinations of \$2,328, partially offset by increases in capital raising, which includes private placements of equity and debt instruments and underwritten public offerings, of \$1,008 and a \$226 increase in advisory, mergers & acquisitions and valuations revenue. We led or co-managed four public offerings and acted as placement agent in six private offerings in the three months ended September 30, 2009 as compared to one public offering and two private offerings in the comparable 2008 period. Our capital raising activities are focused increasingly on registered direct and PIPE (private placement in public equity) transactions. We expect continued improvement in investment banking revenue in the fourth quarter of 2009.

The \$164 (25%) decrease in asset management fees for the three months ended September 30, 2009 is due to decreased assets under management resulting from market declines.

The \$1,318 (216%) increase in principal transactions is primarily attributable to gains in securities received as underwriting consideration.

The \$495 (50%) decrease in interest and dividends revenue for the three months ended September 30, 2009 is primarily attributable to lower interest rates in 2009 and decreased asset balances. We expect similar trends in the fourth quarter of 2009.

For the 2009 period, we did not record an amount for unrealized gain on the NYSE Euronext restricted common stock we held because these shares are no longer restricted. In the 2008 period, we recorded an unrealized loss of \$111 for these shares. Unrealized gains and losses for these shares were recorded in principal transactions revenue. We sold our remaining NYSE Euronext shares in the second quarter of 2009.

Other income revenue for the three months ended September 30, 2009 increased \$647 (63%), primarily due to the addition of Triad, which contributed \$607 of the increase in other income in the third quarter of 2009.

The \$7,973 (53%) increase in commissions and fees expense for the third quarter of 2009 compared to the comparable 2008 period is due to the addition of Triad, which can be attributed with an increase of \$9,399 of such expense in 2009, partially offset by a decrease in such expense of \$1,426 at Investacorp. The decrease at Investacorp is directly correlated to the reduction in commissions and fees revenue at Investacorp. Commissions and fees expense are compensation payments earned by the registered representatives who serve as independent contractors in our independent brokerage and advisory services segment. These payments to the independent contractor registered representatives are calculated based on a percentage of revenues 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.

Compensation and benefits expense decreased \$355 (3%) during the third quarter of 2009, primarily due to a \$1,050 reduction in Ladenburg's producers' compensation, which is directly correlated with revenue production by such persons, a \$174 reduction in Ladenburg and Investacorp's compensation and benefits. This amount was partially offset by the addition of Triad, which had a \$527 increase in compensation and benefits expense for the third quarter of 2009, and a one-time severance charge at Ladenburg of \$365.

Non-cash compensation expense increased \$148 (10%) for the third quarter of 2009 as compared to the comparable 2008 period, primarily due to a reduction in the forfeiture rate for our stock options.

Brokerage, communication and clearance fees expense increased \$25 (2%) in the third quarter of 2009 as compared to the comparable 2008 period, primarily due to increases in Triad expense of \$240, partially offset by a decrease at Ladenburg of \$241. We expect brokerage, communication and clearance fees expense to benefit from cost savings under our new clearing agreements beginning in the fourth quarter of 2009.

The \$437 (48%) decrease in rent and occupancy, net of sublease revenue for the three months ended September 30, 2009 is primarily due 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 at its Lexington Avenue office space in New York City.

The \$530 (34%) decrease in professional services for the third quarter of 2009 is due to lower legal fees incurred by Ladenburg than in the comparable 2008 period.

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The \$104 (9%) decrease in interest expense for the third quarter of 2009 is primarily attributable to the use of the proceeds from the NFS forgivable loan to repay amounts outstanding under our revolving credit facility.

We had income tax benefit of \$92 for the third quarter of 2009 as compared to income tax expense of \$690 for the comparable 2008 period. After consideration of all the evidence, both positive and negative, management determined that a valuation allowance at September 30, 2009 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 \$184 for the three months ended September 30, 2009 as a result of goodwill amortization for tax purposes. The income tax rates for the 2009 and 2008 periods do not bear a customary relationship to effective tax rates primarily as a result of the increase in the valuation allowance for the comparable 2009 and 2008 periods.

### **Nine months ended September 30, 2009 versus nine months ended September 30, 2008**

Our net loss for the nine months ended September 30, 2009 was \$15,127 compared to a net loss of \$11,957 for the nine months ended September 30, 2008. The \$3,170 increase in net loss is attributable to the decrease in investment banking transactions, primarily SPAC offerings, a decrease in Investacorp commissions and fees and a decrease in asset management fees, partially offset by an increase in Triad net income of \$186, decreases in commissions and fees expense at Investacorp and compensation and benefits expense.

Total revenues for the nine months ended September 30, 2009 increased \$21,565 (25%) from the 2008 period. The increase is primarily due to the inclusion of Triad revenues for nine months in 2009 compared to 48 days in 2008, an increase of \$37,523. Similarly, in 2009 Triad contributed an additional \$34,615 in commissions and fees revenue, a \$2,370 increase in other income and a \$538 increase in interest and dividends as compared to the comparable 2008 period. Also, principal transaction revenues increased \$1,334, partially offset by a \$10,832 decrease in Ladenburg and Investacorp commissions and fees revenue, a \$4,635 decrease in investment banking revenue, a \$742 decrease in asset management fee revenue and a \$1,197 decrease in interest and dividends for the first nine months of 2009 as compared to the comparable 2008 period.

Total expenses for the nine months ended September 30, 2009 increased \$25,020 (26%) from the 2008 period. The increase is primarily due to the inclusion of Triad expenses for nine months in 2009 compared to 48 days in 2008, an increase of \$37,163 (primarily commissions and fees expense of \$30,653), an increase in Ladenburg and Investacorp non-cash compensation expense of \$668 and an increase in rent and occupancy expense of \$377. This was partially offset by a \$7,451 decrease in Investacorp's commissions and fees expense and decreases in Ladenburg's and Investacorp's compensation expense of \$4,496, brokerage, communication and clearance fees of \$140, interest expense of \$289, depreciation and amortization of \$179 and other expenses of \$541. Although total expenses increased due to the Triad acquisition, Ladenburg and Investacorp have undertaken efforts to reduce operating expenses. Also, Investacorp and Triad continue to seek increased operating efficiencies, including benefits from sharing common technology platforms.

The \$23,783 (37%) increase in commissions and fees revenue in the 2009 period is due to the addition of Triad, which had \$34,615 in commissions and fees revenue for the nine months ended 2009 compared to \$3,725 for the forty-eight days in 2008. Unfavorable market conditions negatively impacted commissions and fees revenue in both of our segments, including a decrease in commissions and fees revenue generated by Investacorp and Ladenburg of \$10,832 as compared to the 2008 period.

The \$4,635 (35%) decrease in investment banking revenue for the nine months ended September 30, 2009 was primarily due to a \$2,917 decreased capital raising revenue and a \$1,714 decrease in deferred fees from SPAC business combinations. We led or co-managed seven public offerings and acted as placement agent in five private offerings in the nine months ended September 30, 2009 as compared to five public offerings and four private offerings in the comparable 2008 period.

The \$742 (35%) decrease in asset management fees for the nine months ended September 30, 2009 is due to decreased assets under management resulting from market declines.

The \$1,334 (295%) increase in principal transactions is primarily attributable to gains in securities received as underwriting consideration.

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The \$659 (22%) decrease in interest and dividends revenue is due to lower interest rates and decreased asset balances which caused a decrease of \$1,197 at Ladenburg and Investacorp, partially offset by Triad interest and dividends of \$538.

The \$2,373 (88%) increase in other income is due to the addition of Triad, which had \$2,370 in other income.

The \$23,202 (59%) increase in commissions and fees expense is due to the addition of \$30,653 from Triad in 2009, partially offset by a decrease of \$7,451 at Investacorp, which is directly correlated to the reduction in commissions and fees revenues at Investacorp.

The \$1,942 (6%) decrease in compensation and benefits expense is primarily due to a \$4,779 reduction in Ladenburg's producers' compensation, which is directly correlated to revenue production by such persons, partially offset by the addition of Triad, which had a \$2,544 increase in compensation and benefits expense and a one-time charge for severance at Ladenburg of \$365.

The \$668 (15%) increase in non-cash compensation expense is primarily due to a reduction in the forfeiture rate for our stock options.

The \$1,233 (32%) increase in brokerage, communication and clearance fees expense is due primarily to Triad expense of \$1,373.

The \$622 (32%) increase in rent and occupancy, net of sublease revenue, expense is primarily attributable to a \$122 one-time charge related to office space Ladenburg previously abandoned and re-opened in September 2009, \$101 in increased costs for Ladenburg's New York headquarters, \$245 for Triad rent and occupancy expense and a \$196 increase due to the loss from subletting Telluride office space.

The \$299 (7%) increase in professional services expense for the 2009 period is primarily due to an increase in Ladenburg legal fees of \$226 and the addition of Triad expense of \$391 partially offset by a decrease in audit and tax expenses of \$355.

The \$288 (8%) decrease in interest expense is primarily attributable to a \$2,824 reduction in average amounts outstanding under our loan obligations in the 2009 period and lower rates.

The \$570 (25%) increase in depreciation and amortization expense is primarily due to Triad expense of \$749, of which \$701 is attributed to the amortization of intangible assets related to the acquisition.

We had income tax expense of \$467 for 2009, as compared to income tax expense of \$752 for 2008. After consideration of all the evidence, both positive and negative, management determined that a valuation allowance at September 30, 2009 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 \$546 during the nine months ended September 30, 2009 as a result of goodwill amortization for tax purposes. The income tax rates for the 2009 and 2008 periods do not bear a customary relationship to effective tax rates primarily as a result of the increase in the valuation allowance in the 2009 and 2008 periods.

### **Liquidity and Capital Resources**

Approximately 22% and 26% of our total assets at September 30, 2009 and December 31, 2008, respectively, consisted of cash and cash equivalents, securities owned and receivables from clearing brokers and other broker-dealers, all of which fluctuate, depending upon the levels of customer business and trading and investment banking activity. As securities dealers, our broker-dealer subsidiaries may carry significant levels of securities inventories to meet customer needs. A relatively small percentage of our total assets are fixed. The total assets or the individual components of total assets may vary significantly from period to period because of changes relating to economic and market conditions, and proprietary trading strategies.

Each of Ladenburg, Investacorp and Triad is subject to the SEC's net capital rules. Ladenburg is also subject to the net capital rules of the CFTC. Therefore, Ladenburg, Investacorp and Triad are subject to certain restrictions on their use of capital and their related liquidity. At September 30, 2009, Ladenburg's regulatory net capital of \$2,397 exceeded minimum capital requirements of \$500 by \$1,897. At September 30, 2009, Investacorp's regulatory net capital of \$693 exceeded minimum capital requirements of \$352 by \$341. At September 30, 2009, Triad's regulatory net capital of \$792 exceeded minimum capital requirements of \$294 by \$498. Failure to maintain the required net capital may subject Ladenburg, Investacorp and Triad to suspension or expulsion by FINRA, the SEC and other regulatory bodies, and

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ultimately may require their liquidation. The net capital rule also prohibits the payment of dividends, redemption of stock and prepayment or payment of principal of subordinated indebtedness if net capital, after giving effect to the payment, redemption or prepayment, would be less than specified percentages of the minimum net capital requirement. Compliance with the net capital rule could limit the operations of Ladenburg, Investacorp and Triad that require the intensive use of capital, such as underwriting and trading activities, and also could restrict our ability to withdraw capital from our subsidiaries, which in turn, could limit our ability to pay dividends and repay and service our debt.

Investacorp also is contractually restricted from declaring a dividend to us which would result in its retained earnings and paid-in capital falling below the lesser of the then outstanding principal balance of the note issued to Investacorp's former principal shareholder and \$5,000. At September 30, 2009, the outstanding principal balance of this note was \$5,631.

Each of Ladenburg, Investacorp and Triad, as guarantor of its customer accounts to its clearing brokers, is exposed to off-balance-sheet risk in the event that its customers do not fulfill their obligations to the clearing brokers. Also, to the extent Ladenburg, Investacorp or Triad maintain a short position in any securities, they are exposed to future off-balance-sheet market risk, since their ultimate obligation may exceed the amount recognized in the financial statements.

Our primary sources of liquidity include our cash flows from operations and borrowings under our \$30,000 revolving credit agreement with Frost Gamma Investments Trust, an affiliate of our principal shareholder. Borrowings under the \$30,000 revolving credit agreement bear interest at a rate of 11% per annum, payable quarterly. At September 30, 2009, \$15,500 was outstanding under the revolving credit agreement. We used the proceeds of the \$10,000 NFS forgivable loan discussed above in "Recent Developments" to repay amounts outstanding under our revolving credit facility. We may repay or re-borrow outstanding amounts under this facility at any time prior to the amended maturity date of August 25, 2016, without penalty. We believe our existing assets, funds generated from operations and funds available under our \$30,000 revolving credit facility provide adequate funds for continuing operations at current activity levels. We are currently in compliance with all debt covenants in our debt agreements.

Cash used in operating activities for the nine months ended September 30, 2009 was \$1,097 primarily due to our net loss, an increase in other assets and receivables from other broker-dealers, partially offset by securities owned, receivables from clearing brokers and accrued compensation.

Investing activities used \$42 for the nine months ended September 30, 2009, primarily due to an increase in furniture, equipment and leasehold improvements partially offset by a decrease in restricted assets related to the termination of a letter of credit securing obligations under one of Ladenburg's office leases.

Financing activities provided \$142 for the nine months ended September 30, 2009, primarily due to the \$10,000 forgivable loan agreement, partially offset by repayments of amounts outstanding under our revolving credit facility, repayments of notes payable and common stock repurchases.

In March 2007, our board of directors authorized the repurchase of up to 2,500,000 shares of our 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 our EBITDA, as adjusted. From inception through September 30, 2009, 947,824 shares have been repurchased under the program.

In April 2009, we repurchased 4,500,000 shares of our common stock at a price of \$0.60 per share (an aggregate of \$2,700) in a privately-negotiated transaction. This purchase was not made under our share repurchase program, which remains in effect. We funded the repurchase by borrowing \$2,700 under our \$30,000 revolving credit facility.

### **Off-Balance-Sheet Risk and Concentration of Credit Risk**

Our three principal broker-dealer subsidiaries, 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 brokers, which maintain the customers' accounts and clear such transactions. Also, the clearing brokers provide the clearing and depository operations for proprietary securities transactions. These activities may expose us to off-balance-sheet risk in the event that customers do not fulfill their obligations to the clearing brokers, as each of Ladenburg, Investacorp and Triad has agreed to indemnify its clearing brokers 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.

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The clearing operations for Ladenburg, Investacorp and Triad's securities transactions are provided primarily by one clearing broker, a large financial institution. At September 30, 2009 and December 31, 2008, substantially all of the securities owned and the amounts due from clearing brokers reflected in our condensed consolidated statements of financial condition are positions held at, and amounts due from, this one clearing broker. We are subject to credit risk should this clearing broker become unable to fulfill its obligations.

In the normal course of business, Ladenburg, Investacorp and Triad may enter into transactions in financial instruments with off-balance sheet risk. These financial instruments include financial futures contracts, written equity index option contracts and securities sold, but not yet purchased. As of September 30, 2009 and December 31, 2008, Ladenburg, Investacorp and Triad were not contractually obligated for any equity index or financial futures contracts; however, each of Ladenburg and Triad sold securities that it did not own and will therefore be obligated to purchase such securities at a future date. We have recorded these obligations in our statements of financial condition at market values of the related securities, and each of Ladenburg and Triad may incur a loss if the market value of the securities increases after September 30, 2009. See Note 5 to our unaudited condensed consolidated financial statements for further information.

We and our subsidiaries maintain cash in bank deposit accounts, which, at times, may exceed federally insured limits. We have not experienced any losses in such accounts and believe we are not exposed to any significant credit risk on these cash deposits.

### **Market Risk**

Market risk represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest and currency exchange rates, equity and commodity prices, changes in the implied volatility of interest rates, foreign exchange rates, equity and commodity prices and also changes in the credit ratings of either the issuer or its related country of origin. Market risk is inherent in derivative and non-derivative financial instruments and, accordingly, the scope of our market risk management procedures extends beyond derivatives to include all market-risk sensitive financial instruments.

Current and proposed underwriting, corporate finance, merchant banking and other commitments are subject to due diligence reviews by our senior management, as well as professionals in the appropriate business and support units involved. Credit risk related to various financing activities is reduced by the industry practice of obtaining and maintaining collateral. We monitor our exposure to counterparty risk through the use of credit exposure information, the monitoring of collateral values and the establishment of credit limits.

We maintain inventories of trading securities. At September 30, 2009, the fair market value of our inventories was \$2,281 in long positions and \$38 in short positions. We performed an entity-wide analysis of our financial instruments and assessed the related market risk. Based on this analysis, we do not expect that the market risk associated with our financial instruments at September 30, 2009 will have a material adverse effect on our consolidated financial position or results of operations.

### **Recently Issued Accounting Principles**

During the third quarter of 2009, the Financial Accounting Standards Board's ("FASB") Accounting Standards Codification became the single source of authoritative U.S. GAAP. The Codification does not create any new GAAP standards, but incorporates existing accounting and reporting standards into a new topical structure. Beginning with this quarterly report, we used a new referencing system to identify authoritative accounting standards, replacing the existing references to SFAS, EITF, FSP, etc. Existing standards will be designated by their Accounting Standards Codification ("ASC") topical reference and new standards will be designated as Accounting Standards Updates ("ASU") with a year and assigned sequence number. The adoption of the Codification did not have any impact on our financial statements.

On April 9, 2009, the FASB issued ASC No. 825-10 "Financial Instruments" ("ASC 825-10"). ASC 825-10 amends disclosure standards to require disclosures about fair value of financial instruments in interim and annual financial statements. ASC 825-10 is effective for interim periods ending after June 15, 2009 and we adopted them in the second quarter of 2009. (See Note 8)

In May 2009, the FASB issued ASC No. 855-10, "Subsequent Events" ("ASC 855-10"). ASC 855-10 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial

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statements are issued or are available to be issued. ASC 855-10 requires the disclosure of the date through which an entity has evaluated subsequent events and the basis for that date. We adopted the provisions of ASC 855-10 for the quarter ended June 30, 2009 and has evaluated subsequent events through the date the financial statements were issued on November 6, 2009.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” (“SFAS 167”), which changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting should be consolidated. The determination of whether a company is required to consolidate an entity is based on, among other things, an entity’s purpose and design and a company’s ability to direct the activities of the entity that most significantly impact the entity’s economic performance. SFAS 167 requires an ongoing reassessment of whether a company is the primary beneficiary of a variable interest entity. SFAS 167 also requires additional disclosure about a company’s involvement in variable interest entities and any significant changes in risk exposure due to that involvement. SFAS 167 is effective for the Company beginning on January 1, 2010. We are presently evaluating the effect, if any, that the adoption of SFAS 167 will have on our financial statements. SFAS 167 has not yet been included in the Codification.

In August 2009, the FASB issued ASU No. 2009-05, “Measuring Liabilities at Fair Value” (“ASU 2009-05”), codified primarily in ASC 820. ASU 2009-05 provides clarification and guidance regarding how to value a liability when a quoted price in an active market is not available for that liability. The changes to the ASC as a result of this update are effective for the first reporting period (including interim periods) beginning after issuance (October 1, 2009 for us), and adoption is not expected to have a significant impact on our financial statements.

### **Special Note Regarding Forward-Looking Statements**

We and our representatives may from time to time make oral or written “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including any statements that may be contained in the foregoing discussion in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report and in other filings with the SEC and in our reports to shareholders, which reflect our expectations or beliefs with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties and, in connection with the “safe-harbor” provisions of the Private Securities Litigation Reform Act, we have identified under “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2008, as amended and in this report important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of us.

Results actually achieved may differ materially from expected results included in these forward-looking statements as a result of these or other factors. Due to such uncertainties and risks, we caution readers not to place undue reliance on such forward-looking statements, which speak only as of the date on which such statements are made. We do not undertake to update any forward-looking statement that may be made from time to time by or on behalf of us. Further, readers should keep in mind that our quarterly revenues and profits can fluctuate materially depending on many factors, including the number, size and timing of completed offerings and other transactions. Accordingly, our revenues and profits in any particular quarter may not be indicative of future results.

### **Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

The information under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk” is incorporated herein by reference.

### **Item 4. CONTROLS AND PROCEDURES**

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we have evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a — 15(e) under the Securities Exchange Act of 1934, as amended), (the “Exchange Act”), as of the end of the period covered by this report, and, based on that evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective.

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and

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procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding disclosure.

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by paragraph (d) of Rule 13a-15 of the Exchange Act that occurred during the period covered by this report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

### **Item 1. LEGAL PROCEEDINGS**

See Note 9 to our unaudited condensed consolidated financial statements included in Part I, Item 1 of this report.

### **Item 1A. RISK FACTORS**

There have been no material changes from the risk factors previously disclosed in Part 1, Item 1A of our annual report on Form 10-K for the year ended December 31, 2008, as amended, except that the following risk factor is modified due to our entering into a \$10 million forgivable loan agreement.

The following risk factor has been modified to read in full as follows:

#### **Our financial leverage impairs our ability to obtain financing and limits cash flow available for operations.**

Our indebtedness:

- limits our ability to obtain additional financing for working capital, regulatory capital requirements, acquisitions or general corporate purposes;
- requires us to dedicate a substantial portion of cash flows from operations to the payment of principal and interest on our indebtedness, resulting in less cash available for operations and other purposes; and
- increases our vulnerability to downturns in our business or in general economic conditions.

Our ability to satisfy our obligations and to reduce our total debt depends on our future operating performance and prospects. Also, we have entered into a \$10 million forgivable loan agreement. This loan will be forgiven only if we attain certain future performance targets. There can be no assurance that we will be able to meet such targets. Our future operating performance is subject to many factors, including economic, financial and competitive factors, which may be beyond our control. As a result, we may not be able to generate sufficient cash flow, and future financings may not be available to provide sufficient net proceeds, to meet these obligations.

### **Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

On August 27, 2009, we held our annual meeting of shareholders at which we submitted the following matters to a vote of shareholders:

1. Our shareholders elected each of the individuals nominated for election for a one-year term and until their successors are elected and qualified as follows:



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	Votes For	Authority Withheld
Henry C. Beinstein	131,479,933	9,641,993
Robert J. Eide	130,888,187	10,233,739
Dr. Phillip Frost	130,789,211	10,332,715
Brian S. Genson	131,801,384	9,320,542
Saul Gilinski	133,229,320	7,892,606
Dr. Richard M. Krasno	131,852,704	9,269,222
Richard J. Lampen	132,971,454	8,150,472
Howard M. Lorber	132,143,714	8,978,212
Jeffrey S. Podell	133,155,714	7,966,212
Richard J. Rosenstock	133,285,344	7,836,582
Mark Zeitchick	133,131,318	7,990,608

2. Our shareholders approved our 2009 Incentive Compensation Plan that authorizes for issuance 25,000,000 shares of our common stock in connection with awards granted under the plan.

For	Against	Abstaining	Broker Non-Votes
90,720,587	5,393,794	9,452,639	35,554,906

## Item 6. EXHIBITS

Exhibit No.	Description
4.1	Forgivable Loan Agreement, dated as of August 25, 2009, between the Company and National Financial Services LLC. Certain Portions of this agreement have been omitted under a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 and filed separately with the United States Securities and Exchange Commission.
4.2	Amendment No. 1 to Credit Agreement by and between the Company and Frost Nevada Investments Trust, as assignee, dated as of August 25, 2009
31.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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**SIGNATURES**

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

LADENBURG THALMANN FINANCIAL  
SERVICES INC.

(Registrant)

Date: November 6, 2009

By: /s/ Brett H. Kaufman  
Brett H. Kaufman  
Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

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**EXHIBIT 4.1**

**FORGIVABLE LOAN AGREEMENT**

This FORGIVABLE LOAN AGREEMENT, including all exhibits (as amended from time to time, this “Agreement”), is entered into the 25<sup>th</sup> day of August, 2009 (the “Effective Date”) between NATIONAL FINANCIAL SERVICES LLC (the “Lender”) and LADENBURG THALMANN FINANCIAL SERVICES INC. (the “Organization”).

WHEREAS, contemporaneously with the execution of this Agreement, the Lender has entered into fully disclosed clearing agreements with each of the following three (3) introducing broker-dealer subsidiaries of the Organization: (1) Ladenburg Thalmann & Co., Inc. (“LTC”), dated February 5, 2007, including any amendments thereto (“LTC Clearing Agreement”); (2) Triad Advisors Inc. (“TAI”), dated August 5, 1998, including any amendments thereto (“TAI Clearing Agreement”); and (3) Investacorp, Inc. (“Investacorp”), dated April 24, 2008, including any amendments thereto (“Investacorp Clearing Agreement”) (collectively, the “Clearing Agreements”).

WHEREAS, pursuant to each of the of the Clearing Agreements, the Lender, a clearing broker-dealer registered with the Securities and Exchange Commission (“SEC”), provides clearing, execution and custody services to LTC, TAI and Investacorp (collectively, the “Subsidiary Broker-Dealers”), each of which is an introducing broker-dealer registered with the SEC;

WHEREAS, the Lender, in connection with the amendment and extension of the terms of the Clearing Agreements, is willing to make available to the Organization a loan facility in the aggregate principal amount of \$10,000,000 (the “Loan Facility”), which Loan Facility shall be comprised of two tranches: one consisting of a forgivable loan facility of \$5,000,000 (“Tranche A”) and a second consisting of a forgivable loan facility of \$5,000,000 (“Tranche B”);

WHEREAS, the Lender intends to forgive on an annual basis principal and interest amounts otherwise due under Tranche A and Tranche B, predicated upon the satisfaction of certain conditions set forth in this Agreement; and

WHEREAS, pursuant to and subject to the terms and conditions contained herein, the Lender is willing to make the Loan Facility available to the Organization under this Agreement as of the Effective Date through the Final Payment Date (as hereinafter defined).

NOW THEREFORE, in consideration of the premises and of the mutual covenants herein contained, the parties hereto agree as follows:

**1. DEFINITIONS**

The following terms shall have the following meanings when set forth herein:

- (i) “Business Day” shall mean any day other than a Saturday or Sunday on which banks are open for domestic and foreign exchange business in New York City

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and are not authorized or required to close for such business.

- (ii) “U.S. Prime Rate” shall mean the U.S. prime rate as published by the Wall Street Journal for the date in question, or if such rate is not so published, the base rate on corporate loans posted by at least 70% of the 10 largest U.S. banks.
- (iii) “Average Annual U.S. Prime Rate” shall mean, as of an applicable Annual Forgiveness Date, the average of the U.S. Prime Rate on the first Business Day of each of the twelve months preceding such Annual Forgiveness Date.
- (iv) “Loan Documents” shall mean this Agreement, the Tranche A Note, the Tranche B Note, and any exhibit attached hereto.
- (v) “Material Adverse Effect” shall mean, with respect to any event or occurrence of whatever nature (including any adverse determination in any litigation, arbitration or governmental investigation or proceeding): (a) a material adverse effect on the business, properties, prospects, condition (financial or otherwise), assets, operations or income of the Organization, individually or the Organization and its subsidiaries, taken as a whole; (b) a material adverse effect on the ability of the Organization to perform any of its obligations under any of the Transaction Documents to which it is a party; or (c) any material impairment of the validity, binding effect or enforceability of any of the Transaction Documents or any impairment of the rights, remedies or benefits available to the Lender under any Transaction Document. In determining whether any individual event could reasonably be expected to result in a Material Adverse Effect, notwithstanding that such event does not of itself have such effect, a Material Adverse Effect shall be deemed to have occurred if the cumulative effect of such event and all other then existing events could reasonably be expected to result in a Material Adverse Effect.
- (vi) “Termination Material Event” shall mean the Organization, any of the Organization’s current or future broker-dealer subsidiaries (“Affiliated B-Ds”), or any officer, director or principal shareholder of either the Organization or any of its Affiliated B-Ds: (a) shall be indicted for a state or federal crime involving moral turpitude, or (b) any other civil or criminal proceeding or investigation by a governmental or regulatory authority shall have been brought or overtly threatened against the Organization, any of its Affiliated B-Ds, or any such officer, director or principal shareholder, in either case that the Lender reasonably determines could have a material adverse impact on the reputation of the Organization or any of its Affiliated B-Ds or that the Lender’s association with the Organization, any of its Affiliated B-Ds, or such officer, director or principal shareholder is materially adverse to the Lender’s interests.
- (vii) “Annual Forgiveness Dates” shall mean the seven (7) consecutive anniversary dates following the Effective Date (each an “Annual Forgiveness Date”).
- (viii) “Final Payment Date” shall mean the last Annual Forgiveness Date.

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(ix) “Transaction Documents” shall mean the Loan Documents and the Clearing Agreements.

## **2. GENERAL TERMS OF THE FACILITY**

(i) The Lender agrees that, subject to the terms and conditions contained in this Agreement, and in reliance on the representations and warranties contained in Section 3, it shall make loans to the Organization on the Effective Date in the aggregate amount of \$10,000,000 (the “Aggregate Loan Amount”), divided into two equal principal amounts (“Tranche A Loan” in the sum of \$5,000,000 and “Tranche B Loan” in the sum of \$5,000,000).

(ii) Tranche A Note:

(a) Subject to the terms and conditions hereinafter set forth, the Organization promises to pay to the Lender or its assigns on the Final Payment Date, to the extent not forgiven as hereinafter provided, all principal amounts owing in respect of the Tranche A Loan. On each Annual Forgiveness Date, to the extent not forgiven as hereinafter provided, interest shall be paid on all outstanding principal amounts of the Tranche A Loan for the period from the Effective Date, or the preceding Annual Forgiveness Date for which interest was paid with respect to such Tranche A Loan, as the case may be, at a rate equal to the Average Annual U.S. Prime Rate plus two percent (2%) per annum (with interest for any period that is less than twelve full months being computed on the actual number of days elapsed in a year of 360 days). Such payments of principal and interest shall be made by the Organization to the Lender no later than 5:00 p.m. (or other local time at the place of payment), Boston, Massachusetts time, on the applicable Annual Forgiveness Date, in arrears, by wire transfer of immediately available funds to the account of the Lender specified in Section 17 or to such other account as to which the Lender shall give notice to the Organization from time to time. Should any amount due hereunder become due on a day other than a Business Day, payment thereof shall be extended to the next succeeding Business Day and interest shall be payable thereon at a rate as stated above. Notwithstanding anything to the contrary contained herein, but subject to the last sentence of this Section 2(ii)(a) below, if the Organization’s consolidated shareholders’ equity (excluding from the determination thereof any non-cash charges and non-cash interest expenses from and after January 1, 2009 relating to compensation expense, interest charges (including debt discount and issuance costs), depreciation and the write-off or amortization of goodwill or other intangible assets; as so determined, the “Consolidated Adjusted Shareholders’ Equity”) is less than \$25,000,000 as of the date of any financial statements of the Organization delivered by the Organization pursuant to Section 4(iii) and is also less than \$25,000,000 as of the date of the financial statements of the Organization next delivered by the Organization pursuant to Section 4(iii)

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(a “Mandatory Prepayment Event”) and the date such second financial statements are delivered by the Organization being the “Mandatory Prepayment Date”), the Organization shall make mandatory prepayments of the Tranche A Loan over the seven-month period immediately following the Mandatory Payment Date as follows:

<u>Payment Period:</u>	<u>Payable on:</u>	<u>Amount:</u>
Month 1	immediately following the Mandatory Prepayment Date (or, if any such last day is not a Business Day, on the next succeeding Business Day)	25% of the outstanding principal balances of Tranche A Loan plus all accrued and unpaid interest thereon
Months 2-7	on the last day of each thirty-day period for this 6-month period (or, if any such thirty-day period that does not end on a Business Day, on the next succeeding Business Day)	the remaining principal balance of the Tranche A Loan, plus all accrued interest thereon, in equal (as to principal) consecutive monthly installments, together with accrued interest owing through each payment date

Notwithstanding the foregoing, in the event that the Organization evidences to the Lender within seven (7) months of a Mandatory Prepayment Event that the Organization’s Consolidated Adjusted Shareholders’ Equity is in excess of \$25,000,000, the Lender shall promptly return to the Organization any Tranche A Loan principal amounts delivered to the Lender as a result of the Mandatory Prepayment Event and such amounts returned shall be due and payable, and subject to forgiveness, in accordance with the terms of this Agreement as if the Mandatory Prepayment Event had not occurred.

- (b) The obligation of the Organization to repay the Tranche A Loan shall be evidenced by a promissory note of the Organization in the form of Exhibit B-1 hereto (the “Tranche A Note”) dated as of the date hereof and completed with appropriate insertions. The outstanding principal amount of the Tranche A Note, as set forth on Schedule 1 hereto, shall be prima facie evidence of the principal amount thereof owing and unpaid to the Lender, but the failure to record, or any error in so recording, any such amount on Schedule 1, or failure to send Schedule 1 to Organization upon an entry made on Schedule 1, shall not limit or otherwise affect the obligations of the Organization hereunder or under the Tranche A Note to make payments of principal or interest on such Note when due in accordance with the terms and conditions of this Agreement. Upon each

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entry being made upon Schedule 1, the Lender shall send the Organization a copy of Schedule 1 as then in effect.

(iii) Tranche B Note:

- (a) Subject to the terms and conditions hereinafter set forth, the Organization promises to pay to the Lender or its assigns on the Final Payment Date, to the extent not forgiven as hereinafter provided, all principal amounts owing in respect of the Tranche B Loan. On each Annual Forgiveness Date, to the extent not forgiven as hereinafter provided, interest shall be paid on all outstanding principal amounts of the Tranche B Loan for the period from the Effective Date, or the preceding Annual Forgiveness Date for which interest was paid with respect to such Tranche B Loan, as the case may be, at a rate equal to the Average Annual U.S. Prime Rate plus two percent (2%) per annum (with interest for any period that is less than twelve full months being computed on the actual number of days elapsed in a year of 360 days). Such payments of principal and interest shall be made by the Organization to the Lender no later than 5:00 p.m. (or other local time at the place of payment), Boston, Massachusetts time, on the applicable Annual Forgiveness Date, in arrears, by wire transfer of immediately available funds to the account of the Lender specified in Section 17 or to such other account as to which the Lender shall give notice to the Organization from time to time. Should any amount due hereunder become due on a day other than a Business Day, payment thereof shall be extended to the next succeeding Business Day and interest shall be payable thereon at a rate as stated above. Notwithstanding anything to the contrary contained herein, to the extent any Mandatory Payment Date occurs, but subject to the last sentence of this Section 2(iii)(a) below, the Organization shall make mandatory prepayments of the Tranche B Loan over the seven-month period immediately following the Mandatory Payment Date as follows:

<u>Payment Period:</u>	<u>Payable on:</u>	<u>Amount:</u>
Month 1	immediately following the Mandatory Prepayment Date (or, if any such last day is not a Business Day, on the next succeeding Business Day)	25% of the outstanding principal balances of Tranche B Loan plus all accrued and unpaid interest thereon
Months 2-7	on the last day of each thirty-day period for this 6-month period (or, if any such thirty-day period that does not end on a Business Day, on the next succeeding Business Day)	the remaining principal balance of the Tranche B Loan, plus all accrued interest thereon, in equal (as to principal) consecutive monthly installments, together with accrued interest owing through each payment date

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Notwithstanding the foregoing, in the event that the Organization evidences to the Lender within seven (7) months of a Mandatory Prepayment Event that the Organization’s Consolidated Adjusted Shareholders’ Equity is in excess of \$25,000,000, the Lender shall promptly return to the Organization any Tranche B Loan principal amounts delivered to the Lender as a result of the Mandatory Prepayment Event and such amounts returned shall be due and payable, and subject to forgiveness, in accordance with the terms of this Agreement as if the Mandatory Prepayment Event had not occurred.

- (b) The obligation of the Organization to repay the Tranche B Loan shall be evidenced by a promissory note of the Organization in the form of Exhibit B-2 hereto (the “Tranche B Note”) (the Tranche A Note and Tranche B Note are collectively referred to herein as the “Notes”), dated as of the date hereof and completed with appropriate insertions. The outstanding principal amount of the Tranche B Note, as set forth on Schedule 2 hereto, shall be prima facie evidence of the principal amount thereof owing and unpaid to the Lender, but the failure to record, or any error in so recording, any such amount on Schedule 2, or failure to send Schedule 2 to the Organization upon an entry being made on Schedule 2, shall not limit or otherwise affect the obligations of the Organization hereunder or under the Tranche B Note to make payments of principal or interest on such Note when due in accordance with the terms and conditions of this Agreement. Upon each entry being made upon Schedule 2, the Lender shall send the Organization a copy of Schedule 2 as then in effect.
- (iv) Prior to entering into this Agreement, the Organization shall provide Lender with: (a) a copy of a Corporate Resolution of the Organization, certified by the Organization’s Secretary, authorizing it to enter into the Loan Documents; (b) recent evidence of corporate good standing of the Organization obtained from the Organization’s state of organization; and (c) copies of the Clearing Agreements fully executed by LTC, TAI and Investacorp.
- (v) Forgiveness of Notes: Notwithstanding the Organization’s requirement to pay principal and interest as otherwise set forth in this Agreement, upon each Annual Forgiveness Date the Lender shall forgive the obligations of the Organization up to the amount of \$714,285.71 of outstanding principal for each of the Tranche A Loan and the Tranche B Loan, or the remaining principal of each of the Tranche A Loan and the Tranche B Loan if less than



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that amount, plus accumulated interest otherwise owed to the Lender under the Tranche A Loan or Tranche B Loan, respectively, provided that each of the following conditions precedent is satisfied to the reasonable satisfaction of the Lender on such Annual Forgiveness Date:

- (a) Each of the representations and warranties of the Organization contained in Section 3(i), (ii) and (iii) and shall be true as of the date as of which it was made and shall also be true at and as of the time any loan amounts under either the Tranche A Loan or the Tranche B Loan are forgiven, with the same effect as if made at and as of that time (except to the extent of changes resulting in transactions contemplated or permitted by this Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date).
- (b) No Default or Event of Default specified in any of paragraphs (a), (b), (c), (f), (g), (j) and (k) of Section 6(i) shall have occurred and be continuing on such date.
- (c) The Consolidated Adjusted Shareholders’ Equity of the Organization as of the date of the financial statements most recently delivered by the Organization pursuant to Section 4(ii) shall be at least \$25,000,000.
- (d) The Revolving Line of Credit dated October 19, 2007 provided to the Organization by First Gamma Investments Trust in the amount of \$30,000,000 (“Frost Gamma Line of Credit”) shall remain outstanding with a final term date not to precede the Final Payment Date and no material event of default to the lender thereunder shall have occurred and be continuing.
- (e) Each of the Clearing Agreements is in full force and effect and no material defaults or other termination events have occurred and are continuing thereunder.
- (f) The Organization has not discontinued or divested any of the following subsidiaries: LTS, TAI, or Investacorp.
- (g) The Organization shall cause its subsidiary, Investacorp, to convert to the Lender, within twelve (12) months of the Effective Date, all or substantially all of the business currently cleared through J.P. Morgan, as well as Ridge Clearing and Outsourcing Solutions, Inc.
- (h) This paragraph applies only with respect to the forgiveness of the Tranche A Loan on any Annual Forgiveness Date: the “Core Fee

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Measure” (as defined on Exhibit A attached hereto) of all the Subsidiary Broker-Dealers and the other subsidiaries of the Organization on the Lender’s clearing platform is (i) equal to, or greater than, \$[\*] for the prior twelve (12) month period, or (ii) the average annual Core Fee Measure of these entities for the period commencing on the Effective Date and ending on such Annual Forgiveness Date is equal to, or greater than, \$[\*]. Notwithstanding the foregoing, if the Organization is not entitled to forgiveness with respect to a portion of the Tranche A Loan on an Annual Forgiveness Date pursuant to the preceding sentence (a “Tranche A Unachieved Forgiveness”) but as of a subsequent Annual Forgiveness Date the average annual Core Fee Measure of such entities for the period commencing on the Effective Date and ending on such subsequent Annual Forgiveness Date is equal to, or greater than, \$[\*], the principal amount of the Tranche A Unachieved Forgiveness for all previous years and the interest payable for the year ending on such subsequent Annual Forgiveness Date shall be forgiven as of such subsequent Annual Forgiveness Date.

- (i) This paragraph applies only with respect to the forgiveness of the Tranche B Loan on any Annual Forgiveness Date: (i) for the prior twelve (12) month period ending on such Annual Forgiveness Date, the “Core Fee Measure” of all the Subsidiary Broker-Dealers and the other subsidiaries of the Organization on the Lender’s clearing platform is equal to, or greater than, the Core Fee Measure Benchmark for such Annual Forgiveness Date as noted on the below schedule, or (ii) the average annual Core Fee Measure of such entities for the period commencing on the Effective Date and ending on such Annual Forgiveness Date is equal to, or greater than, the Average Annual Core Fee Measure Benchmark noted on the below schedule:

Annual Forgiveness Date	Core Fee Measure Benchmark	Average Annual Core Fee Measure Benchmark
1 <sup>st</sup>	[*]	[*]
2 <sup>nd</sup>	[*]	[*]
3 <sup>rd</sup>	[*]	[*]
4 <sup>th</sup>	[*]	[*]
5 <sup>th</sup>	[*]	[*]
6 <sup>th</sup>	[*]	[*]
7 <sup>th</sup>	[*]	[*]

Notwithstanding the foregoing, if the Organization is not entitled to forgiveness with respect to a portion of the Tranche B Loan on an Annual Forgiveness Date pursuant to the preceding sentence (a “Tranche B Unachieved Forgiveness”) but as of a subsequent Annual Forgiveness Date the average annual Core Fee Measure of such entities for the period commencing on the Effective Date and ending on such subsequent Annual

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Forgiveness Date is equal to, or greater than, the Average Annual Core Fee Measure Benchmark noted in the above schedule for such subsequent Annual Forgiveness Date, the amount of the Tranche B Unachieved Forgiveness for all previous years and the interest payable for the year ending on such subsequent Annual Forgiveness Date shall be forgiven as of such subsequent Annual Forgiveness Date.

- (j) This paragraph applies only with respect to the forgiveness of the Tranche B Loan: With respect to any acquisition of a broker-dealer or of broker-dealer assets made by the Organization after the Effective Date, and until such time as the Organization has expended more than \$[\*] of cash as consideration in such acquisitions or acquisitions, the Organization has provided the Lender with evidence reasonably satisfactory to the Lender that the Organization is [\*]. The Lender agrees to bear [\*].
- (vi) All payments made by the Organization hereunder and under any of the other Loan Documents shall be made without recoupment, setoff or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Organization is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Organization with respect to any amount payable by it hereunder or under any of the other Loan Documents, the Organization shall pay to the Lender, on the date on which such amount is due and payable hereunder or under such other Loan Document, such additional amount in United States Dollars as shall be necessary to enable the Lender to receive the same net amount which the Lender would have received on such due date had no such obligation been imposed upon the Organization.
- (vii) The Organization may, at its option and without any penalty, make prepayment of all or any portion of the principal amount hereof to the Lender prior to the Final Payment Date (such payment being hereinafter referred to as the “Prepayment”) at any time subsequent to the Effective Date. Each Prepayment under this paragraph shall be accompanied by the payment of the interest accrued on the amount prepaid to the date of such Prepayment. Each partial Prepayment shall be in a principal amount of \$250,000 or an integral multiple thereof. No amounts repaid may be reborrowed.

**3. REPRESENTATIONS AND WARRANTIES**

The Organization represents and warrants to the Lender as follows:

- (i) It is a corporation duly organized, validly existing and in good standing under the laws of its state of organization, and has all requisite authority, whether arising

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under its Articles of Incorporation or by-laws or applicable federal or state laws, to enter into this Agreement and the other Loan Documents and to discharge the duties and obligations apportioned to it in accordance with the terms hereof, and that the person(s) executing this Agreement and the other Loan Documents on behalf of Organization is/are duly authorized to do so.

- (ii) The execution and delivery of this Agreement and the other Loan Documents to which the Organization is or is to become a party will result in valid and legally binding obligations of the Organization enforceable against it in accordance with the respective terms and provisions hereof and thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors’ rights and except to the extent that availability of the remedies of specific performance and injunctive relief and other equitable remedies are subject to the discretion of the court before which any proceeding therefor may be brought.
- (iii) The execution, delivery and performance by the Organization of this Agreement and the other Loan Documents and the transactions contemplated hereby and thereby do not require the approval or consent of, or filing with, any governmental agency or authority other than those already obtained.
- (iv) No material default or event of default exists under any of the Transaction Documents or any other agreement between the Lender and the Organization.
- (v) The Consolidated Adjusted Shareholders’ Equity of the Organization as of the last day of the month immediately preceding the Effective Date is at least \$20,000,000.
- (vi) It wholly owns each of LTC, TAI and Investacorp.
- (vii) Since March 31, 2009, no Material Adverse Effect has occurred and is continuing.
- (viii) There are no actions, suits, proceedings or investigations of any kind pending or threatened against the Organization before any governmental authority (a) that, if adversely determined, is reasonably likely, either in any case or in the aggregate, to (i) have a Material Adverse Effect or (ii) materially impair the right of the Organization to carry on business substantially as now conducted by it, or result in any substantial liability not adequately covered by insurance, or (b) that question the validity of this Agreement or any of the other Transaction Documents, or any action taken or to be taken pursuant hereto or thereto.
- (ix) The Organization is not subject to any governing document (including, without limitation, its Articles of Incorporation and by-laws or similar documents) or other legal restriction, or any judgment, decree, order, law, statute, rule or regulation that, since March 31, 2009, has had or is expected, in the judgment of the Organization’s officers, to have a Material Adverse Effect. The Organization is

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not a party to any contract or agreement that, since March 31, 2009, has had or is expected, in the judgment of the Organization’s officers, to have any Material Adverse Effect.

- (x) The Organization is not in violation of any provision of its governing documents, or any agreement or instrument to which it may be subject or by which it or any of its properties may be bound or any decree, order, judgment, statute, license, rule or regulation, in any of the foregoing cases in a manner that is reasonably likely to result in the imposition of substantial penalties or have a Material Adverse Effect.
- (xi) The Organization (a) has made or filed, or has received a currently valid extension to file, all federal, state and foreign income and all other tax returns, reports and declarations required by any jurisdiction to which it is subject, (b) has paid all taxes and other governmental assessments and charges shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and by appropriate proceedings and (c) has set aside on its books provisions reasonably adequate for the payment of all taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and none of the officers of the Organization know of any basis for any such claim.

**4. AFFIRMATIVE COVENANTS**

The Organization covenants and agrees that, as of the Effective Date, and so long as either the Tranche A Note or the Tranche B Note is outstanding:

- (i) The Organization shall duly and punctually pay or cause to be paid the principal and interest due on the Notes, as well as all fees and all other amounts provided for in this Agreement and the other Loan Documents, all in accordance with the terms of this Agreement and such other Loan Documents.
- (ii) The Organization shall (a) keep, and cause each of its subsidiaries to keep, true and accurate records and books of account in which full, true and correct entries shall be made in accordance with United States generally accepted accounting principles (“GAAP”), and (b) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation, depletion, obsolescence and amortization of its properties and the properties of its subsidiaries, contingencies, and other reserves, and (c) at all times engage independent certified public accountants reasonably satisfactory to the Lender as the independent certified public accountants of the Organization and its subsidiaries and shall not permit more than thirty (30) days to elapse between the cessation of such firm’s (or any successor firm’s) engagement as the independent certified public accountants of the Organization and its subsidiaries and the appointment in such capacity of a successor firm as shall be reasonably satisfactory to the Lender. The Lender acknowledges that Eisner LLP is reasonably satisfactory to it.

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- (iii) The Organization shall deliver to the Lender financial statements of the Organization as follows: (a) for each of the first two months of a fiscal quarter year, on or before the forty-fifth calendar day following each calendar month during the term of this Agreement, monthly financial statements prepared by the Organization consisting of a balance sheet and a statement of operations; (b) for each of the first three fiscal quarters of a fiscal year, on or before the forty-fifth calendar day following the end of such fiscal quarter, the financial statements included in the Form 10-Q filed by the Organization with the SEC for such fiscal quarter; and (c) for each full fiscal year, on or before the ninetieth calendar day following the end of such fiscal year, the financial statements included in the Form 10-K filed by the Organization for such fiscal year. In each case, the Organization shall also deliver to the Lender a calculation setting forth the Organization’s Consolidated Adjusted Shareholders’ Equity as of the date of the financial statements so delivered derived from the information contained in such financial statements. The financial statements to be delivered pursuant to the foregoing clauses (a) and (b) will not contain all notes and disclosures required by GAAP and will be subject to normal year-end and audit adjustments.
- (iv) The Organization shall promptly notify the Lender in writing of the occurrence of any Default or Event of Default as well as any material default or material event of default under any Transaction Document or any other agreement evidencing any loan to the Organization or indebtedness of the Organization, together with a reasonably detailed description thereof, and the actions the Organization proposes to take with respect thereto.
- (v) The Organization shall give written notice to the Lender within ten (10) days of becoming aware of any litigation or proceedings threatened in writing or any pending litigation and proceedings affecting the Organization or to which the Organization is or becomes a party involving an uninsured claim against the Organization that, if adversely determined, could reasonably be expected to have a Material Adverse Effect on the Organization and stating the nature and status of such litigation or proceedings. The Organization shall give written notice to the Lender, in form and detail satisfactory to the Lender, within ten (10) days of any judgment not covered by insurance, final or otherwise, against the Organization or any of its subsidiaries in an amount in excess of \$1,000,000.
- (vi) The Organization shall do or cause to be done all things necessary to preserve and keep in full force and effect its legal existence, rights and franchises and shall not convert to a limited liability company or a limited liability partnership. It (a) shall cause all of its properties used or useful in the conduct of its business to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment, (b) shall cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Organization may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times, and (c) shall continue to engage primarily in the businesses now conducted by it and its

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subsidiaries and in related businesses; provided that nothing in this paragraph will prevent the Organization from discontinuing the operation and maintenance of any of its or its subsidiaries' properties if such discontinuance is, in the judgment of the Organization, desirable in the conduct of its or their business and all such discontinuances do not in the aggregate have a Material Adverse Effect.

- (vii) The Organization shall duly pay and discharge, or cause to be paid and discharged, before the same shall become overdue, all taxes, assessments and other governmental charges imposed upon it and its activities, or any part thereof, or upon the income or profits therefrom, as well as all claims for labor, materials, or supplies that if unpaid might by law become a lien or charge upon any of its property; provided that (a) any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Organization shall have set aside on its books adequate reserves with respect thereto; (b) the Organization shall pay all such taxes, assessments, charges, levies or claims forthwith upon the commencement of proceedings to foreclose any lien that may have attached as security therefor or post a bond or other security to preclude foreclosure; and (c) a failure to comply with the provisions of this Section 4(vii) shall not constitute an Event of Default unless such failure has a Material Adverse Effect upon the Organization.
- (viii) The Organization shall permit the Lender to visit and inspect any of the properties of the Organization, to examine the books of account of the Organization (and to make copies thereof and extracts therefrom), and to discuss the affairs, finances and accounts of the Organization with, and to be advised as to the same by, its and their officers, all at such reasonable times and intervals as the Lender may reasonably request.
- (ix) The Organization shall comply with (a) the applicable laws and regulations wherever its business is conducted, (b) the provisions of its governing documents, (c) all agreements and instruments by which it or any of its material properties may be bound and (d) all applicable decrees, orders, and judgments, the failure to comply with which would constitute a Material Adverse Effect. If any authorization, consent, approval, permit or license from any officer, agency or instrumentality of any government shall become necessary or required in order that the Organization may fulfill any of its obligations hereunder or any of the other Transaction Documents, the Organization shall immediately take or cause to be taken all reasonable steps within the power of the Organization to obtain such authorization, consent, approval, permit or license and furnish the Lender with evidence thereof.
- (x) The Organization shall not use the proceeds of Tranche A Loan or Tranche B Loan for any purpose that is in contravention of any state or federal laws or regulations.
- (xi) The Organization shall cooperate with the Lender and execute such further

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instruments and documents as the Lender shall reasonably request to carry out to the Lender’s reasonable satisfaction the transactions contemplated by this Agreement and the other Transaction Documents to which the Organization is a party.

- (xii) The Organization shall cause its subsidiary, Investacorp, to convert to the Lender, within twelve (12) months of the Effective Date, all or substantially all of the business currently cleared through J.P. Morgan, as well as Ridge Clearing and Outsourcing Solutions, Inc.

## **5. NEGATIVE COVENANT**

The Organization covenants and agrees that, from and after the Effective Date, and so long as either Tranche A Note or Tranche B Note is outstanding:

- (i) Other than (a) indebtedness to finance customary operating expenses of the Organization that are incurred in the ordinary course of business consistent with past practices in an aggregate amount not to exceed \$ 1 million outstanding at any time; (b) indebtedness of the Organization arising under the Frost Gamma Line of Credit which ranks as to payment rights pari passu with (but not senior to) the obligations of the Organization to the Lender under this Agreement; (c) purchase money indebtedness, indebtedness incurred by means of capitalized leases or other indebtedness of the Organization the proceeds of which are used to finance an acquisition of the assets or equity interests of another entity or of equipment or other property (“Acquisition Debt”) so long as such Acquisition Debt ranks as to payment rights either pari passu with or junior to (but not senior to) the obligations of the Organization to the Lender under this Agreement; and (d) any renewal, refinancing, replacement or substitution of any the foregoing, provided that any such renewal, refinancing, replacement or substitution does not result in a net increase in overall indebtedness to the Organization, the Organization shall not incur any indebtedness for borrowed money from any other lender, unless such indebtedness is subordinate to the Organization’s obligations to Lender under this Agreement in a manner reasonably satisfactory to the Lender.
- (ii) The Organization’s Subsidiary Broker-Dealers shall not enter into clearing agreements with a party other than the Lender for services and products similar to those set forth in the Clearing Agreements without the prior written consent of Lender, which shall not unreasonably be withheld or delayed provided that the Subsidiary Broker-Dealers have first requested Lender to provide the services that the Subsidiary Broker-Dealers are seeking to obtain from such other party and upon such request, the Lender is either unwilling, or unable in a timely manner, to provide such products or services.

## **6. EVENTS OF DEFAULT; ACCELERATION; ETC.**

- (i) If any of the following events (“Events of Default” or, if the giving of notice



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or the lapse of time or both is required, then, prior to such notice or lapse of time, “Defaults”) shall occur:

- (a) The Organization shall fail to pay any principal on the Tranche A Loan or the Tranche B Loan when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment, and does not remedy such failure within ten (10) calendar days of its occurrence, unless otherwise forgiven by Lender as provided in this Agreement;
- (b) The Organization shall fail to pay any interest on either the Tranche A Loan or the Tranche B Loan, any fees, or other sums due hereunder or under any of the other Loan Documents, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment, and does not remedy such failure within ten (10) calendar days of its occurrence, unless otherwise forgiven by Lender as provided in this Agreement;
- (c) The Organization shall fail to comply in any material respect with any of its covenants contained in Section 4(ii), Section 4(iii), Section 4(vi) or Section 4(vii) and such failure shall not be cured to the reasonable satisfaction of the Lender within ten (10) calendar days after receipt of notice from the Lender demanding such cure or the Organization shall fail to comply in any material respect with any of its covenants contained in Section 4(iv), Section 4(v), Section 4(viii), Section 4(ix), Section 4(x), Section 4(xii) or Section 5 hereof, or any of the covenants contained in any of the other Loan Documents;
- (d) Any representation or warranty of the Organization contained in Section 3(i), (ii,) and (iii) is deemed to have been false in any material respect upon the date when made;
- (e) The Organization shall fail to pay at maturity, or within any applicable period of grace, any obligation for borrowed money or credit received or in respect of any capitalized leases, or fail to observe or perform any material term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing borrowed money or credit received or in respect of any capitalized leases for such period of time as would permit (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof;
- (f) The Organization or any of its Subsidiary Broker-Dealers shall make an assignment for the benefit of creditors, or admit in writing its inability to pay or generally fail to pay its debts as they mature or become due, or shall petition or apply for the appointment of a trustee or other custodian,

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liquidator or receiver of the Organization or any of its Subsidiary Broker-Dealers or of any substantial part of the assets of the Organization or any of its Subsidiary Broker-Dealers, or shall commence any case or other proceeding relating to the Organization or any of its Subsidiary Broker-Dealers under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation or similar law of any jurisdiction, now or hereafter in effect, or shall take any action to authorize or in furtherance of any of the foregoing, or if any such petition or application shall be filed or any such case or other proceeding shall be commenced against the Organization or any of its Subsidiary Broker-Dealers and the Organization or any of its Subsidiary Broker-Dealers shall indicate its approval thereof, consent thereto or acquiescence therein or such petition or application shall not have been dismissed within ninety (90) days following the filing thereof;

- (g) A decree or order is entered appointing any such trustee, custodian, liquidator or receiver or adjudicating the Organization or any of its subsidiaries bankrupt or insolvent, or approving a petition in any such case or other proceeding, or a decree or order for relief is entered in respect of the Organization or any of its subsidiaries in an involuntary case under federal bankruptcy laws as now or hereafter constituted, provided, however, that in the event such order or decree is entered solely against a subsidiary of the Organization and such order or decree does not have a Material Adverse Effect on the Organization, then such an order or decree shall not be considered an Event of Default under this Section 6(i)(g);
- (h) There shall remain in force, undischarged, unsatisfied and unstayed, for more than thirty (30) days, whether or not consecutive, any final judgment against the Organization that, with other outstanding final judgments, undischarged, against the Organization exceeds in the aggregate \$37,500,000;
- (i) The Organization fails to maintain Consolidated Adjusted Shareholders’ Equity of at least \$20,000,000, as determined as of the date of any of the financial statements delivered by the Organization pursuant to Section 4(iii), subject to any cure period contained herein this Agreement;
- (j) The Frost Gamma Line of Credit is in default or is terminated;
- (k) The SEC, The New York Stock Exchange, the Financial Industry Regulatory Authority or any other regulatory authority, including state securities administrators, to which any of the Subsidiary Broker-Dealers is subject suspends (and does not reinstate within ten (10) days), places material restrictions on (and such restrictions are not removed within fifteen (15) business days) and of the Subsidiary Broker-Dealers or revokes membership of any of the Subsidiary

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Broker-Dealers as a member organization of any such organization that is a self-regulatory organization and such action results in a Material Adverse Effect;

- (l) Any of the Clearing Agreements, and, in addition, any of the future clearing agreements between NFS and any future Affiliated B-D’s, ceases to be in full force and effect or is otherwise terminated (other than termination by the Lender in circumstances not requiring a default by a Subsidiary Broker-Dealer party thereto) or if any of the other Transaction Documents shall be cancelled, terminated, revoked or rescinded otherwise than in accordance with the terms thereof or with the express prior written agreement, consent or approval of the Lender, or any action at law, suit or in equity or other legal proceeding to cancel, revoke or rescind any of the Transaction Documents shall be commenced by or on behalf of the Organization or any of its equity holders, or any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Transaction Documents is illegal, invalid or unenforceable in accordance with the terms thereof; or
- (m) The Organization fails to remain the sole owner of any of the Subsidiary Broker-Dealers;

then, and in any such event, so long as the same may be continuing, the Lender may by notice in writing to the Organization declare all amounts owing with respect to this Agreement and the Tranche A Note and the Tranche B Note to be, and they shall thereupon forthwith become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Organization; provided that in the event of any Event of Default specified in Section 6(i)(f) or 6(i)(g), all such amounts shall become immediately due and payable automatically and without any requirement of notice from the Lender.

- (ii) In case any one or more of the Events of Default shall have occurred and be continuing, and whether or not the Lender shall have accelerated the maturity of the Tranche A Note or the Tranche B Note pursuant to this Section 6, the Lender may proceed to protect and enforce its rights by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Agreement and the other Loan Documents or any instrument pursuant to which the obligations to the Lender are evidenced, including as permitted by applicable law the obtaining of the ex parte appointment of a receiver, and, if such amount shall have become due, by declaration or otherwise, proceed to enforce the payment thereof or any other legal or equitable right of the Lender. No remedy herein conferred upon the Lender or the holder of the Tranche A Note or Tranche B Note is intended to be

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exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law.

**7. TERM**

This Agreement shall remain in effect for an initial term of seven (7) years from the Effective Date, upon which term any and all outstanding amounts of principal and interest on the Tranche A Note and the Tranche B Note shall be immediately due and payable.

**8. TERMINATION MATERIAL EVENT**

Notwithstanding Section 7 above, in the event of an occurrence of a Termination Material Event, the Lender may, by notice to the Organization, declare: (a) the obligation of the Lender under Section 2(v) to be terminated, whereupon the same shall forthwith terminate; and (b) the entire unpaid principal of and accrued interest on the outstanding amounts due hereunder to be, and the same shall become due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Organization, in accordance with the following applicable payment schedule:

In the event that the Lender issues notice of termination under this Section 8 and the Consolidated Adjusted Shareholders’ Equity of the Organization as of the date of such termination notice is less than \$25,000,000, the following payment schedule applies:

<u>Payment Period:</u>	<u>Payable on:</u>	<u>Amount:</u>
Month 1	thirty (30) days following notice of the Termination Material Event (or, if any such last day is not a Business Day, on the next succeeding Business Day)	(i) 25% of the outstanding principal balances of Tranche A Loan plus all accrued and unpaid interest thereon; and (ii) 25% of the outstanding principal balances of Tranche B Loan plus all accrued and unpaid interest thereon
Months 2-7	on the last day of each thirty-day period for this 6-month period (or, if any such thirty-day period that does not end on a Business Day, on the next succeeding Business Day)	the remaining principal balance of the Tranche A and Tranche B Loans, plus all accrued interest thereon, in equal (as to principal) consecutive monthly installments, together with accrued interest owing through each payment date

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In the event that the Lender issues notice of termination under this Section 8 and the Consolidated Adjusted Shareholders’ Equity of the Organization as of the date of such termination notice is equal to or greater than \$25,000,000, the following payment schedule applies:

<u>Payment Period:</u>	<u>Payable on:</u>	<u>Amount:</u>
Month 1	thirty (30) days following notice of the Termination Material Event (or, if any such last day is not a Business Day, on the next succeeding Business Day)	(i) 25% of the outstanding principal balances of Tranche A Loan plus all accrued and unpaid interest thereon; and (ii) 25% of the outstanding principal balances of Tranche B Loan plus all accrued and unpaid interest thereon
Months 2-12	on the last day of each thirty-day period for this 11-month period (or, if any such thirty-day period that does not end on a Business Day, on the next succeeding Business Day)	the remaining principal balance of the Tranche A and Tranche B Loans, plus all accrued interest thereon, in equal (as to principal) consecutive monthly installments, together with accrued interest owing through each payment date

The Organization understands and agrees that a termination under this Section 8 shall give the Lender the right to terminate any or all of the Clearing Agreements of the Subsidiary Broker-Dealers and any or all of the clearing agreements of any Affiliated B-Ds on the Lender’s clearing platform. In such event, each such subsidiary of the Organization shall remain liable for all charges provided for in its respective clearing agreement, but shall not be responsible for any deconversion fees, IRA liquidation fees and termination fees.

The Lender understands and agrees that a termination under this Section 8 shall give the Organization the right to terminate any or all of the Clearing Agreements of the Subsidiary Broker-Dealers and any or all of the clearing agreements of any Affiliated B-Ds on the Lender’s clearing platform. In such event, each such subsidiary of the Organization shall remain liable for all charges provided for in its respective clearing agreement, but shall not be responsible for any deconversion fees, IRA liquidation fees and termination fees.

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#### **9. RIGHT OF SET-OFF**

The Organization hereby grants to the Lender a continuing lien, security interest and right of setoff as security for all liabilities and obligations to the Lender under the Loan Documents, whether now existing or hereafter arising, upon and against all deposits, credits, collateral and property of the Organization, now or hereafter in the possession, custody, safekeeping or control of the Lender or any affiliate of the Lender and their successors and assigns or in transit to any of them. Regardless of the adequacy of any such collateral, if any of the obligations hereunder are due and payable and have not been paid or any Event of Default shall have occurred, any deposits or other sums credited by or due from the Lender to the Organization and any securities or other property of the Organization in the possession of the Lender or any of the Lender’s affiliates may be applied to or set off by the Lender against the payment of such obligations and any and all other liabilities, direct, or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, of the Organization to the Lender. **ANY AND ALL RIGHTS TO REQUIRE THE LENDER TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF THE ORGANIZATION, ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.** Nothing contained in this Section 9 or elsewhere in this Agreement shall create any right of the Lender or any of the Lender’s affiliates with respect to deposits, credit, collateral and other property of the introducing broker-dealer subsidiaries of the Organization, including the Subsidiary Broker-Dealers.

#### **10. NON-WAIVER**

Notwithstanding any forgiveness made by the Lender under this Agreement, in the event that the Lender learns that any condition precedent to forgiveness specified in Section 2 has not been or was not met in all material respects on the applicable Annual Forgiveness Date, all amounts previously forgiven shall be automatically reinstated, and all interest thereon shall continue to accrue as if such amounts were never forgiven, and the Lender shall be entitled to take any action permitted under this Agreement and any forgiveness under those conditions shall not be deemed a waiver of the Lender’s rights hereunder.

Except as provided in Section 8, nothing in this Agreement is intended to modify any of the terms of the Clearing Agreements.

#### **11. CONFIDENTIALITY**

The Organization acknowledges and understands that the existence of this Agreement, the Notes, and the other Transaction Documents, as well as the terms and conditions set forth therein, are confidential and proprietary and constitute “Proprietary Information” of the Lender. The Lender acknowledges and understands that any material information that it obtains regarding the business and affairs of the Organization and its subsidiaries during the term of this Agreement is Proprietary Information of the Organization. Proprietary Information shall not include any information that is legally compelled to be disclosed pursuant to a subpoena, summons, order or

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other judicial or governmental process, provided the disclosing party provides prompt notice of any such subpoena, summons, order or other judicial or governmental process to the other party so that the such party will have the opportunity to obtain a protective order.

The Organization and Lender each agrees to use its best efforts (the same being not less than that employed to protect its own proprietary information) to safeguard the Proprietary Information and to prevent the unauthorized, negligent or inadvertent use or disclosure thereof. Neither party shall, without the prior written approval of any officer of the other party, directly or indirectly, disclose the Proprietary Information to any person or business entity except for a limited number of employees, attorneys, accountants, agents and other advisors of such party Organization on a need-to-know basis or as may be required by law or regulation, including laws and regulations obligating a party and its subsidiaries to make filings with the SEC and other regulatory authorities or other public disclosures. Each party shall notify the other party in the event of an unauthorized, negligent or inadvertent disclosure of such Proprietary Information to the extent required by applicable state and federal law after analysis of the facts and circumstances and the likelihood of harm. Each party shall be liable under this Agreement to the other party for any use or disclosure in violation of this Agreement by its employees, attorneys, accountants, or other advisors or agents. This Section 11 shall continue in full force and effect notwithstanding the termination of this Agreement.

## **12. LENDER’S COVENANT**

The Lender covenants and agrees that [\*].

## **13. UPON WHOM BINDING; ASSIGNMENT**

This Agreement shall be binding upon all successors, assigns or transferees of both parties hereto, irrespective of any change with regard to the name of or the personnel of the Organization or the Lender. No assignment or transfer by operation of law of this Agreement shall be valid unless the non-assigning party consents to such an assignment in writing, provided that any assignment by the Lender to any majority-owned subsidiary that it may create or to a company affiliated with or controlled directly or indirectly by or under common control with the Lender shall be deemed valid and enforceable in the absence of any consent from Organization. Neither this Agreement nor any operation hereunder is intended to be, shall not be deemed to be, and shall not be treated as, a general or limited partnership, association or joint venture or agency relationship between the Organization and the Lender.

## **14. CHOICE OF FORUM**

THE ORGANIZATION AND THE LENDER AGREE THAT ANY SUIT FOR THE ENFORCEMENT OF THIS AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR ANY FEDERAL COURT SITTING THEREIN AND CONSENT TO THE EXCLUSIVE JURISDICTION OF SUCH COURT AND SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE ORGANIZATION BY REGISTERED MAIL AT THE ADDRESS SPECIFIED IN SECTION 17. THE ORGANIZATION AND THE LENDER EACH HEREBY

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WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT. IN THE EVENT OF ANY LEGAL ACTION TAKEN TO RESOLVE A DISPUTE BETWEEN THE PARTIES, THE PREVAILING PARTY SHALL BE ENTITLED TO RECOVER REASONABLE ATTORNEY FEES AND COSTS.

**15. GOVERNING LAW**

THIS AGREEMENT AND EACH OF THE OTHER LOAN DOCUMENTS SHALL FOR ALL PURPOSES BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAW OF THE STATE OF NEW YORK WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OR CHOICE OF LAW.

**16. ENTIRE AGREEMENT; AMENDMENT**

This Agreement, including all Exhibits, which are hereby incorporated by reference, constitutes and expresses the entire agreement and understanding between the parties and supersedes all previous communications, representations or agreements, whether written or oral, with respect to the subject matter hereof. This Agreement may be modified only in a writing signed by both parties to this Agreement. Such modification shall not be deemed as a cancellation of this Agreement.

**17. NOTICES**

Any notice, request, demand or other communication provided for hereunder shall be in writing (except as otherwise expressly provided herein) and shall be effective as against a party when delivered to such party at its address set forth below:

- (a) If to the Organization, at 4400 Biscayne Blvd., 12<sup>th</sup> Floor, Miami, FL 33137, Attention: Richard Lampen, President and Chief Executive Officer; and
- (b) If to the Lender, at 200 Seaport Blvd., Boston, MA 02210, Attention: Chief Financial Officer.

or, in any of the foregoing cases, at such other address as shall be designated by such party in a written notice to the other parties.

Payments of principal and interest due upon the Notes shall be made by wire transfer of immediately available funds to the following account of the Lender or to such other account as to which the Lender shall give the Organization notice:

Chase Manhattan Bank  
New York, NY  
[\*]

**18. ENFORCEABILITY**



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If any provision or condition of this Agreement shall be held to be invalid or unenforceable by any court, or regulatory or self-regulatory agency or body, such invalidity or unenforceability shall apply only to such provision or condition. The validity of the remaining provisions and conditions shall not be affected thereby, and this Agreement shall be carried out as if any such invalid or unenforceable provision or condition were not contained herein.

**19. EXECUTION IN COUNTERPARTS**

This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

**20. INDEMNIFICATION**

The Organization agrees to indemnify and hold harmless the Lender and its affiliates from and against any and all claims, actions and suits whether groundless or otherwise, and from and against any and all liabilities, losses, damages and expenses of every nature and character arising out of this Agreement or any of the other Loan Documents or the transactions contemplated hereby including, without limitation: (a) any actual or proposed use by the Organization of the proceeds of the Tranche A Loan or the Tranche B Loan, or (b) the Organization entering into or performing this Agreement or any of the other Loan Documents, in each case including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceeding. In litigation, or the preparation therefor, the Lender and its affiliates shall be entitled to select their own counsel and, in addition to the foregoing indemnity, the Organization agrees to pay promptly the reasonable fees and expenses of such counsel. If, and to the extent that the obligations of the Organization under this Section 20 are unenforceable for any reason, the Organization hereby agrees to make the maximum contribution to the payment in satisfaction of such obligations which is permissible under applicable law. The covenants contained in this Section 20 shall survive payment or satisfaction in full of all other obligations under the Loan Documents.

IN WITNESS HEREOF the parties hereto have executed this Agreement this 25<sup>th</sup> day of August, 2009.

**ORGANIZATION: LADENBURG  
THALMANN FINANCIAL SERVICES INC.**

**LENDER: NATIONAL FINANCIAL SERVICES LLC**

By: /s/ Brett Kaufman  
Name: Brett Kaufman  
Title: Chief Financial Officer

By: /s/ Mark C. Healy  
Name: Mark C. Healy  
Title: EVP, Client Mgt.

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**EXHIBIT A**

**Forgivable Loan Agreement Dated August 25, 2009**

**Core Fee Measure Calculation<sup>1, 2</sup>**

The “Core Fee Measure Calculation” shall be calculated as follows: For the previous 12 brokerage months, for all Subsidiary Broker-Dealers and all other Broker-Dealers acquired by, or merged with, the Organization following the Effective Date of the Agreement, the sum of:

1. The “Clearing and Execution Expense” in the “Commission Revenue” summary section of the clearing statement multiplied by -1, plus
2. The “Net Other Revenue” related to the “Volume Adjustment” and “Miscellaneous Fees” line items in the “Other Revenue Detail” section of the clearing statement multiplied by -1, plus
3. The “Net Expense” in the “Expense” summary section of the clearing statement multiplied by -1, plus
4. The “Net Inc/(Exp)” related to the line items referenced in Table 1 below which are contained in the “Expense Detail” section of the clearing statement, plus
5. The average number of IRA accounts multiplied by [\*], plus
6. The “Units” related to the “Custody/Rcrdkpng Fee” line item in the “Expense Detail” section of the clearing statement multiplied by [\*], plus
7. Any and all expenses and fees paid by the Subsidiary Broker-Dealers and other subsidiaries of the Organization on the Lender’s clearing platform to the Lender or its affiliates for technology products and/or consulting fees.

**Table 1**

---

“Transfer of Asset”  
“Legals” (Legal Transfers)  
“Transfer/Ship of Sec”  
“Extensions”  
“Mailgrams”  
“Physical Reorganizat”  
“Legal Returns”  
“Bounced Checks”  
“Stop Payment”  
“Custody/Rcrdkpng Fee” (Inactive Account Fee)  
“Br P ATM Fees Wvd NF” (Brokerage Access w/out Debit Card)  
“Brkrgr Access w/debit”  
“Brkrgr Port Gold”  
“Brkrgr Port Platinum”  
“IRA Fee Full Subsidy”  
“IRA Fee Part Subsidy”  
“IRA Unpaid Maint Fee”  
“IRA Termination Fee”  
“Wire Fees”

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1 NFS reserves the right to adjust the Core Fee Measure Calculation in the event that there is a change in the format of the clearing statement terms or its structure.

2 Note: If at anytime [\*].

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**EXHIBIT B-1**

**Forgivable Loan Agreement Dated August 25, 2009**

**TRANCHE A NOTE**

**[Date]**

For value received, the undersigned Ladenburg Thalmann Financial Services Inc (the “Organization”) hereby promises to pay to the order of Lender on the Final Payment Date in the manner specified in the Forgivable Loan Agreement, dated as of the date hereof between the Lender and Organization (the “Agreement”), the principal amount of \$5,000,000 or such lesser amount which remains outstanding, which amount evidences that certain Tranche A Loan made by Lender to the Organization under the terms of the Agreement, as shown on the attached schedule.

The Organization also promises to pay all principal and interest on the dates and in the amounts required by the Agreement.

Principal and interest payments shall be in money of the United States of America, lawful at such times for the satisfaction of public and private debts.

The Organization promises to pay costs of collection, including reasonable attorneys’ fees, if default is made in the payment of this Note.

The Organization, in any litigation (whether or not arising out of or relating to this Note) in which it and the Lender shall be adverse parties, waives the rights of trial by jury, offset and counterclaim. This Note shall be deemed to have been made and delivered in the State of New York and shall be construed under the laws thereof. The Organization consents to the jurisdiction of the state and federal courts of the State of New York in any action brought to enforce any rights of the Lender under this Note. The Organization agrees that services of process may be obtained by the mailing by registered mail of a summons to the Organization’s address as same appears on the Organization’s records.

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its officers or employees thereunto duly authorized and directed by appropriate corporate authority.

**ORGANIZATION: LADENBURG THALMANN FINANCIAL SERVICES INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**NOTE: PORTIONS OF THIS EXHIBIT ARE THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST BY THE REGISTRANT TO THE SECURITIES AND EXCHANGE COMMISSION (“COMMISSION”). SUCH PORTIONS HAVE BEEN REDACTED AND FILED SEPARATELY WITH THE COMMISSION AND ARE MARKED WITH A “[\*]” IN PLACE OF THE REDACTED LANGUAGE.**

**EXHIBIT B-2**

**Forgivable Loan Agreement Dated August 25, 2009**

**TRANCHE B NOTE**

**[Date]**

For value received, the undersigned Ladenburg Thalmann Financial Services Inc (the “Organization”) hereby promises to pay to the order of Lender on the Final Payment Date in the manner specified in the Forgivable Loan Agreement, dated as of the date hereof between the Lender and Organization (the “Agreement”), the principal amount of \$5,000,000 or such lesser amount which remains outstanding, which amount evidences that certain Tranche B Loan made by Lender to the Organization under the terms of the Agreement, as shown on the attached schedule.

The Organization also promises to pay all principal and interest on the dates and in the amounts required by the Agreement.

All principal and interest shall be payable in accordance with the terms of the Agreement.

Principal and interest payments shall be in money of the United States of America, lawful at such times for the satisfaction of public and private debts.

The Organization promises to pay costs of collection, including reasonable attorneys’ fees, if default is made in the payment of this Note.

The Organization, in any litigation (whether or not arising out of or relating to this Note) in which it and the Lender shall be adverse parties, waives the rights of trial by jury, offset and counterclaim. This Note shall be deemed to have been made and delivered in the State of New York and shall be construed under the laws thereof. The Organization consents to the jurisdiction of the state and federal courts of the State of New York in any action brought to enforce any rights of the Lender under this Note. The Organization agrees that services of process may be obtained by the mailing by registered mail of a summons to the Organization’s address as same appears on the Organization’s records.

IN WITNESS WHEREOF, the undersigned has caused this Note to be executed by its officers or employees thereunto duly authorized and directed by appropriate corporate authority.

**ORGANIZATION: LADENBURG THALMANN FINANCIAL SERVICES INC.**

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

**NOTE: PORTIONS OF THIS EXHIBIT ARE THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST BY THE REGISTRANT TO THE SECURITIES AND EXCHANGE COMMISSION (“COMMISSION”). SUCH PORTIONS HAVE BEEN REDACTED AND FILED SEPARATELY WITH THE COMMISSION AND ARE MARKED WITH A “[\*]” IN PLACE OF THE REDACTED LANGUAGE.**

**SCHEDULE 1**

**Forgiveness/Payments and Interest of Account Referred to in the  
Forgiveable Loan Agreement, dated August 25, 2009**

**Tranche Note A : \$5,000,000**

<b><u>Annual Forgiveness Date</u></b>	<b><u>Amount of Principal Payment</u></b>	<b><u>Principal Amount Forgiven</u></b>	<b><u>Principal Amount Re-Paid</u></b>	<b><u>Amount of Interest Payment</u></b>	<b><u>Amount Of Interest Forgiven</u></b>	<b><u>Amount of Interest Paid</u></b>	<b><u>Outstanding Amount After Annual Forgiveness Date</u></b>	<b><u>Signature</u></b>
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____

**NOTE: PORTIONS OF THIS EXHIBIT ARE THE SUBJECT OF A CONFIDENTIAL TREATMENT REQUEST BY THE REGISTRANT TO THE SECURITIES AND EXCHANGE COMMISSION (“COMMISSION”). SUCH PORTIONS HAVE BEEN REDACTED AND FILED SEPARATELY WITH THE COMMISSION AND ARE MARKED WITH A “[\*]” IN PLACE OF THE REDACTED LANGUAGE.**

**SCHEDULE 2**

**Forgiveness/Payments and Interest of Account Referred to in the  
Forgiveable Loan Agreement, dated August 25, 2009**

**Tranche B Note: \$5,000,000**

<b><u>Annual Forgiveness Date</u></b>	<b><u>Amount of Principal Payment</u></b>	<b><u>Principal Amount Forgiven</u></b>	<b><u>Principal Amount Re-Paid</u></b>	<b><u>Amount of Interest Payment</u></b>	<b><u>Amount Of Interest Forgiven</u></b>	<b><u>Amount of Interest Paid</u></b>	<b><u>Outstanding Amount After Annual Forgiveness Date</u></b>	<b><u>Signature</u></b>
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____
_____	_____	_____	_____	_____	_____	_____	_____	_____

**AMENDMENT NO. 1 TO CREDIT AGREEMENT**

THIS AMENDMENT NO. 1 TO CREDIT AGREEMENT (this “*Amendment*”), dated as of August 25, 2009, is entered into by and between Ladenburg Thalmann Financial Services Inc., a Florida corporation (“*Borrower*”) and **Frost Nevada Investments Trust**, a Florida trust (“*Frost Nevada*”).

**RECITALS**

**WHEREAS**, Borrower is a party to that certain Credit Agreement (the “*Agreement*”) dated as of October 19, 2007 by and between Borrower and Frost Gamma Investments Trust, a Florida trust (“*Frost Gamma*”);

**WHEREAS**, Frost Gamma assigned its interest in the Agreement to Frost Nevada; and

**WHEREAS**, the parties desires to amend the terms of the Agreement on the terms set forth herein.

**NOW, THEREFORE**, in consideration of the covenants, promises and representations set forth herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby expressly and mutually acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

**AMENDMENT**

**1. Defined Terms.** Capitalized terms used but not defined herein shall have the meanings ascribed to them in the Agreement.

**2. Amendment to Agreement.** The Agreement is hereby amended so that the term “Maturity Date” shall mean August 25, 2016. Except as specifically set forth herein, the Agreement shall remain in full force and effect and its provisions shall be binding on the parties hereto.

**3. Representations and Warranties.** The representations and warranties set forth in Article III of the Agreement shall be deemed remade as of the date hereof by Borrower, except that any representations and warranties that specifically relate to a particular date shall be true and correct as of such date and all references to the Agreement in such representations and warranties shall be deemed to include this Amendment. No Event of Default has occurred and is continuing and no event has occurred and is continuing which, with the lapse of time, the giving of notice, or both, would constitute such an Event of Default under the Agreement.

**4. Power and Authority.** Borrower has all requisite legal and other power and authority to execute and deliver this Agreement and to carry out and perform its other obligations hereunder.

**5. Counterparts.** This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, and all of which together shall constitute one and the same instrument. Delivery of an executed counterpart of this Amendment by facsimile or electronic mail shall be equally effective as delivery of a manually executed counterpart of this Amendment.

IN WITNESS THEREOF, this Amendment has been executed by the undersigned as of the day, month and year first above written.

**Ladenburg Thalmann Financial Services Inc.**

By: /s/ Richard J. Lampen  
Name: Richard J. Lampen  
Title: President and CEO

**Frost Nevada Investments Trust**

By: /s/ Phillip Frost, M.D.  
Name: Phillip Frost, M.D.  
Title: Trustee



**RULE 13a-14(a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Richard J. Lampen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ladenburg Thalmann Financial Services Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2009

/s/ Richard J. Lampen  
Richard J. Lampen  
President and Chief Executive Officer  
(Principal Executive Officer)

**RULE 13a-14(a) CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, Brett H. Kaufman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ladenburg Thalmann Financial Services Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 6, 2009

/s/ Brett H. Kaufman  
Brett H. Kaufman  
Vice President and Chief Financial Officer  
(Principal Financial Officer)

**SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

In connection with the Quarterly Report of Ladenburg Thalmann Financial Services Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Richard J. Lampen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2009

/s/ Richard J. Lampen

Richard J. Lampen  
President and Chief Executive Officer  
(Principal Executive Officer)

**SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER**

In connection with the Quarterly Report of Ladenburg Thalmann Financial Services Inc. (the “Company”) on Form 10-Q for the period ended September 30, 2009 as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Brett H. Kaufman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 6, 2009

/s/ Brett H. Kaufman

Brett H. Kaufman

Vice President and Chief Financial Officer

(Principal Financial Officer)