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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 MARCH 31, 2002

COMMISSION FILE NUMBER 1-15799

LADENBURG THALMANN FINANCIAL SERVICES INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

FLORIDA	65-0701248
(STATE OR OTHER JURISDICTION OF INCORPORATION OR ORGANIZATION)	(I.R.S. EMPLOYER IDENTIFICATION NUMBER)

590 MADISON AVENUE NEW YORK, NEW YORK	10022
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)	(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 [X] NO [ ]

AS OF MAY 14, 2002, THERE WERE OUTSTANDING 42,025,211 SHARES OF THE REGISTRANT'S COMMON STOCK, $.0001 PAR VALUE.

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LADENBURG THALMANN FINANCIAL SERVICES INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002

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LADENBURG THALMANN FINANCIAL SERVICES INC.

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>
<CAPTION>

<S>	March 31, 2002 <C>	December 31, 2001 <C>
ASSETS		
Cash and cash equivalents	$ 6,046	$ 8,136
Trading securities owned	11,036	17,324
Due from affiliates	204	262
Receivables from clearing brokers	25,265	27,920
Exchange memberships owned, at historical cost	1,505	1,505
Furniture and equipment, net of accumulated depreciation	9,622	9,959
Restricted assets	1,050	2,610
Income taxes receivable	854	499
Deferred tax assets	3,192	3,339
Goodwill, net of accumulated amortization	18,762	18,762
Other assets	7,987	8,091
Total assets	$ 85,523	$ 98,407
LIABILITIES AND SHAREHOLDERS' EQUITY		
Securities sold, not yet purchased	$ 9,724	$ 12,404
Accrued compensation	4,730	11,078
Accounts payable and accrued liabilities	6,570	7,608
Deferred rent credit	7,837	7,189
Due to former parent, net	--	434
Notes payable	2,500	2,000
Senior convertible notes payable	20,000	20,000
Subordinated note payable	2,500	2,500
Total liabilities	53,861	63,213
Commitments and contingencies	--	--
Shareholders' equity:		
Preferred stock, $.0001 par value; 2,000,000 shares authorized; none issued	--	--
Common stock, $.0001 par value; 100,000,000 shares authorized; 42,025,211 shares issued and outstanding	4	4
Additional paid-in capital	56,168	56,168
Accumulated deficit	(24,510)	(20,978)
Total shareholders' equity	31,662	35,194
Total liabilities and shareholders' equity	$ 85,523	$ 98,407

</TABLE>

See accompanying notes to condensed consolidated financial statements

LADENBURG THALMANN FINANCIAL SERVICES INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>
<CAPTION>

	Three months ended March 31, 2002	Three months ended March 31, 2001
<S>	<C>	<C>
Revenues:		
Commissions	$ 13,950	$ 4,162
Principal transactions, net	5,057	8,848
Investment banking fees	3,946	3,574
Dividends and interest	683	746
Syndications and underwritings	--	46
Investment advisory fees	827	1,010
Other income	1,152	524
Total revenues	25,615	18,910
Costs and expenses:		
Compensation and benefits	17,590	12,269
Brokerage, communications and clearance fees	4,489	3,051
Rent and occupancy	1,860	1,279
Depreciation and amortization	609	299
Interest	488	83
Other	4,766	2,293
Total costs and expenses	29,802	19,274
Loss before income taxes	(4,187)	(364)
Income tax benefit	(655)	(92)
Net loss	$ (3,532)	$ (272)
Loss per Common Share (basic and diluted):		
Net loss per Common Share	$ (0.08)	$ (0.01)
Number of shares used in computation	42,025,211	34,647,170

</TABLE>

See accompanying notes to condensed consolidated financial statements

LADENBURG THALMANN FINANCIAL SERVICES INC.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>

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<S>	COMMON STOCK <C>	PAID-IN CAPITAL <C>	ACCUMULATED DEFICIT <C>	TOTAL <C>
Balance, December 31, 2001	$ 4	$ 56,168	$(20,978)	$ 35,194
Net loss	--	--	(3,532)	(3,532)
Balance, March 31, 2002	$ 4	$ 56,168	$(24,510)	$ 31,662

</TABLE>

See accompanying notes to condensed consolidated financial statements

LADENBURG THALMANN FINANCIAL SERVICES INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>
<CAPTION>

<S>	Three months ended March 31, 2002 <C>	2001 <C>
Cash flows from operating activities:		
Net loss	$(3,532)	$ (272)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	609	220
Amortization of deferred rent credit	648	322
Deferred taxes	147	(290)
Decrease (increase) in operating assets:		
Trading securities owned	6,288	9,783
Receivables from clearing brokers	2,655	(8,289)
Due from affiliates	58	187
Other assets	(255)	(307)
Decrease in operating liabilities:		
Securities sold, not yet purchased	(2,680)	(885)
Accrued compensation	(6,348)	(1,371)
Accounts payable and accrued liabilities	(1,038)	(561)
Due to former parent, net	(434)	(47)
NET CASH USED IN OPERATING ACTIVITIES	(3,882)	(1,510)
Cash flows from investing activities:		
Purchase of furniture, equipment and leasehold improvements	(268)	(1,379)
Decrease (increase) in restricted assets	1,560	(36)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES ...	1,292	(1,415)
Cash flows from financing activities:		
Repayment of promissory notes payable	(2,000)	--
Issuance of promissory notes payable	2,500	--
NET CASH PROVIDED BY FINANCING ACTIVITIES	500	--

Net decrease in cash and cash equivalents	(2,090)	(2,925)
Cash and cash equivalents, beginning of period	8,136	3,928
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 6,046	$ 1,003

</TABLE>

See accompanying notes to condensed consolidated financial statements

LADENBURG THALMANN FINANCIAL SERVICES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

1. PRINCIPLES OF REPORTING

The condensed consolidated financial statements include the accounts of Ladenburg Thalmann Financial Services Inc. ("LTS" or the "Company"), formerly known as GBI Capital Management Corp., and its wholly-owned subsidiaries. The subsidiaries of LTS include Ladenburg Thalmann & Co. Inc. ("Ladenburg"), Ladenburg Capital Management Inc., formerly known as GBI Capital Partners Inc. ("Ladenburg Capital"), and Ladenburg Capital Fund Management Inc., formerly known as GBI Fund Management Corp. ("Ladenburg Fund Management"). The interim financial data as of March 31, 2002 and for the three months ended March 31, 2002 and March 31, 2001 are unaudited; however, in the opinion of the Company, the interim data include all adjustments, consisting only of normal recurring adjustments, necessary for a fair statement of the results for the interim periods.

Prior to May 7, 2001, Ladenburg Capital and Ladenburg Fund Management were the only subsidiaries of the Company. On May 7, 2001, LTS acquired all of the outstanding common stock of Ladenburg, and its name was changed from GBI Capital Management Corp. to Ladenburg Thalmann Financial Services Inc. For accounting purposes, the acquisition has been accounted for as a reverse acquisition with Ladenburg treated as the acquirer of LTS. The historical financial statements prior to May 7, 2001 are those of Ladenburg, and LTS has changed its fiscal year-end from September 30 to December 31. Pro forma information giving effect to the acquisition as if it took place on January 1, 2001 is included in Note 2 to these consolidated financial statements.

Ladenburg was an indirect wholly owned subsidiary of New Valley Corporation ("New Valley") until December 1999, when a minority stake in the Company was sold leaving its former parent with an indirect 80.1% ownership interest. In December 2001, New Valley distributed its shares of LTS common stock to holders of New Valley common shares as a special dividend.

ORGANIZATION

Ladenburg is a full service-broker dealer that has been a member of the New York Stock Exchange since 1879. It provides its services principally for middle market and emerging growth companies and high net worth individuals through a coordinated effort among corporate finance, research, capital markets, investment management, brokerage and trading professionals. Ladenburg is subject to regulation by the Securities and Exchange Commission ("SEC"), the New York Stock Exchange, National Association of Securities Dealers, Inc. ("NASD"), Commodities Futures Trading Commission and National Futures Association.

Ladenburg Capital is a broker-dealer subject to regulation by the SEC and the NASD. Ladenburg Capital acts as an introducing broker, market maker, underwriter and trader for its own account.

Ladenburg and Ladenburg Capital do not carry accounts for customers or perform custodial functions related to customers' securities. Ladenburg and Ladenburg Capital introduce all of their customer transactions, which are not reflected in these financial statements, to their respective clearing brokers, which maintain the customers' accounts and clear such transactions. Additionally, the clearing brokers provide the clearing and depository operations for Ladenburg's and Ladenburg Capital's proprietary securities transactions. These activities may expose Ladenburg and Ladenburg Capital to off-balance-sheet risk in the event that customers do not fulfill their obligations with the clearing broker, as Ladenburg and Ladenburg Capital have agreed to indemnify their respective clearing brokers for any resulting losses.

At March 31, 2002, all of the securities owned and securities sold, not yet purchased, and the amount receivable from the clearing brokers reflected on the consolidated statements of financial condition are securities positions with and amounts due from these clearing brokers.

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

Securities transactions, commission revenue and commission expenses are recorded on a trade-date basis. Gains and losses (both realized and unrealized) on securities transactions are included in principal transactions in the consolidated statements of operations.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

RECLASSIFICATIONS

Certain reclassifications have been made to prior interim period financial information to conform to the current interim period presentation.

NEW ACCOUNTING PRONOUNCEMENTS

SFAS NO. 142

On January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets", which requires that goodwill and other intangible assets with indefinite useful lives no longer be amortized. This statement also requires that, within the first interim period of adoption, intangible assets with indefinite lives be tested for impairment as of the date of adoption. Additionally, SFAS No. 142 requires that, within six months of adoption, goodwill be tested for impairment at the reporting unit level as of the date of adoption. If any impairment is indicated to have existed upon adoption, it should be measured and recorded before the end of the year of adoption. SFAS No. 142 requires that any goodwill impairment loss recognized as a result of initial application be reported in the first interim period of adoption as a change in accounting principle and that the loss per share effects of the accounting change be separately disclosed.

Prior to January 1, 2002, the Company tested goodwill and other intangible assets for impairment based on the recoverability of carrying value using undiscounted future cash flows in accordance with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of". The new criteria provided in SFAS No. 142 require the testing of impairment based on fair value.

Prior to performing the review for impairment, SFAS No. 142 required that all goodwill deemed to be related to the entity as a whole be assigned to all of the Company's reporting units, which differed from the previous accounting rules where goodwill was assigned only to the businesses of the acquired entity. As a result, a portion of the goodwill generated in the Ladenburg acquisition has been reallocated from Ladenburg Capital to Ladenburg.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

A summary of changes of the Company's goodwill during the quarter ended March 31, 2002 by entity is as follows:

<TABLE>
<CAPTION>

	DECEMBER 31, 2001				
	GROSS	ACCUMULATED AMORTIZATION	NET	ADJUSTMENTS	MARCH 31, 2002
<S>	<C>	<C>	<C>	<C>	<C>
Ladenburg	$ --	$ --	$ --	$ 5,546	$ 5,546
Ladenburg Capital	19,385	(623)	18,762	(5,546)	13,216
Total	$19,385	$ (623)	$18,762	$ --	$18,762

</TABLE>

For initial application of SFAS No. 142, an independent appraisal firm was engaged to value the Company's goodwill as of January 1, 2002. Based on this valuation, no goodwill impairment was indicated, since the fair value of the reporting units was determined to be greater than its carrying value using several valuation techniques, including discounted cash flow analysis.

The goodwill of $19,385 arose as a result of the Ladenburg transaction on May 7, 2001 and, as a result, there is no material goodwill amortization charge recorded in the financial statements for the three months ended March 31, 2001.

The following table reconciles net income for the quarter ended March 31, 2001 to its amount adjusted to exclude goodwill amortization expense.

Reported net loss..............................	$ (272)
Goodwill amortization..........................	--
Adjusted net loss..............................	$ (272)
Reported net loss per share....................	$(0.05)
Goodwill amortization..........................	--
Adjusted net loss per share....................	$(0.05)

2. LADENBURG TRANSACTION

On May 7, 2001, LTS acquired all of the outstanding common stock of Ladenburg for 23,218,599 shares of common stock, $10,000 cash and $10,000 principal amount of senior convertible notes due December 31, 2005. The actual number of shares of common stock may be further increased and the conversion prices of the senior convertible notes payable may be further decreased on or about May 7, 2003, pending a final resolution of LTS's pre-closing litigation adjustments.

The transaction has been accounted for under the purchase method of accounting as a reverse acquisition. For accounting purposes, Ladenburg has been treated as the acquirer of LTS as Ladenburg's stockholders held a majority of the LTS common stock following the closing of the transaction. As a result of the reverse acquisition treatment, the historical financial statements prior to May 7, 2001 are those of Ladenburg and the financial results of LTS are included beginning May 7, 2001. LTS has changed its fiscal year-end from September 30 to December 31 to conform to the fiscal year-end of Ladenburg. In connection with the acquisition, all per share data have been restated to reflect retroactively the number of shares of common stock, convertible notes and cash to be received by the former stockholders of Ladenburg.

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

Pro forma information for the three months ended March 31, 2001, giving effect to the acquisition and the adoption of SFAS No. 142 as if they both occurred on January 1, 2001, is presented below:

Revenues	$ 29,279
Net Loss................................	$ (1,963)
Net Loss per share......................	$ (0.05)

3. NET CAPITAL REQUIREMENTS

As registered broker-dealers, Ladenburg and Ladenburg Capital are subject to the SEC's Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital. Both Ladenburg and Ladenburg Capital

have elected to compute their net capital under the alternative method allowed by these rules. At March 31, 2002, Ladenburg had net capital, as defined, of $4,296, which exceeded minimum capital requirements of $1,000 by $3,296. At March 31, 2002, Ladenburg Capital had net capital, as defined, of $3,001, which exceeded minimum capital requirements of $1,000 by $2,001.

4. NOTES PAYABLE

The components of notes payable at March 31, 2002 are as follows:

Senior convertible notes payable	$20,000
Notes payable	2,500
Subordinated note payable	2,500
Total	$25,000

In conjunction with the acquisition of Ladenburg, LTS issued a total of $20,000 principal amount of senior convertible notes due December 31, 2005. The $10,000 principal amount of notes issued to the former Ladenburg stockholders bears interest at 7.5% per annum, and the $10,000 principal amount of notes issued to Frost-Nevada, Limited Partnership ("Frost-Nevada") bears interest at 8.5% per annum. The notes held by Frost-Nevada are convertible into a total of 6,497,475 shares of common stock and are collateralized by a pledge of the stock of Ladenburg. The notes held by the former Ladenburg stockholders are convertible into a total of 4,799,271 shares of common stock and are secured by a pledge of Ladenburg stock. If, during any period of 20 consecutive trading days, the closing sale price of LTS's common stock is at least $8.00, the principal and all accrued interest on the notes will be automatically converted into shares of common stock. The notes also provide that if a change of control occurs, as defined in the notes, LTS must offer to purchase all of the outstanding notes at a purchase price equal to the unpaid principal amount of the notes and the accrued interest.

Ladenburg has a $2,500 junior subordinated revolving credit agreement with its clearing broker that extends through October 31, 2002 under which outstanding borrowings incur interest at LIBOR plus 2%.

On March 27, 2002, LTS borrowed $2,500 from New Valley. The loan, which bears interest at 1% above the prime rate, is due on the earlier of June 30, 2002 or the completion of one or more equity financings where LTS receives at least $5,000 in total proceeds. LTS may from time to time borrow additional funds on a short-term basis from New Valley or other of its shareholders in order to supplement the liquidity of our broker-dealer operations.

5. SHAREHOLDERS' EQUITY

On January 10, 2002, the Company granted non-qualified stock options to five executives pursuant to the Company's 1999 Performance Equity Plan (the "Plan"). The options entitle the holders to purchase an aggregate of 1,200,000 shares of common stock at an exercise price of $0.88 per share, the fair market value of a share of common stock on the date of grant. On March 19, 2002, other employees of the Company or its subsidiaries were awarded qualified and non-qualified options under the Plan to purchase a total of 1,047,485 shares of common stock at a price of $0.60 per share, the fair market value on the date of grant. All options granted in 2002 have a ten-year term and become exercisable as to one-third of the shares on each of the first three anniversaries of the grant.

On January 10, 2002, the Company granted to a new non-employee director of the Company a ten-year option to purchase 20,000 shares of common stock under the Plan at an exercise price of $0.88 per share. The option will become exercisable on the first anniversary of the grant.

6. COMMITMENTS AND CONTINGENCIES

The Company is a defendant in litigation and may be subject to unasserted claims or arbitrations primarily in connection with its activities as a securities broker-dealer and participation in public underwritings. Such litigation and claims involve substantial or indeterminate amounts and are in varying stages of legal proceedings. In the opinion of management, after consultation with counsel, the ultimate resolution of these matters is not expected to have a material adverse effect on the Company's consolidated financial position and results of operations.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

INTRODUCTION

The condensed consolidated financial statements include our accounts and the accounts of our wholly owned subsidiaries. Our subsidiaries include Ladenburg Thalmann & Co. Inc., Ladenburg Capital Management Inc., and Ladenburg Fund Management Inc.

Prior to May 7, 2001, Ladenburg Capital Management and Ladenburg Fund Management were our only subsidiaries. On May 7, 2001, we acquired all of the outstanding common stock of Ladenburg Thalmann & Co., and our name was changed from GBI Capital Management Corp. to Ladenburg Thalmann Financial Services Inc. The acquisition of Ladenburg Thalmann & Co. has been accounted for under the purchase method of accounting as a reverse acquisition. For accounting purposes, Ladenburg Thalmann & Co. has been treated as the acquirer of us as Ladenburg Thalmann & Co.'s stockholders held a majority of our common stock following the transaction. As a result of the reverse acquisition treatment, the historical financial statements prior to May 7, 2001 are those of Ladenburg Thalmann & Co. and our financial results are included beginning May 7, 2001. In connection with the acquisition, all per share data have been restated to reflect retroactively the number of shares of common stock, convertible notes and cash to be received by the former stockholders of Ladenburg Thalmann & Co. We have changed our fiscal year-end from September 30 to December 31 to conform to the fiscal year-end of Ladenburg Thalmann & Co.

CRITICAL ACCOUNTING POLICIES

Financial Reporting Release No. 60, which was recently released by the SEC, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Note 2 to our consolidated financial statements filed with our Annual Report on Form 10-K for the year ended December 31, 2001 includes a summary of the significant accounting policies and methods used in the preparation of our consolidated financial statements. The following is a brief discussion of the more significant accounting policies and methods used by us.

GENERAL. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

CLEARING ARRANGEMENTS. Ladenburg Thalmann & Co. and Ladenburg Capital Management do not carry accounts for customers or perform custodial functions related to customers' securities. Ladenburg Thalmann & Co. and Ladenburg Capital Management introduce all of their customer transactions, which are not reflected in these financial statements, to their respective clearing brokers, which maintain the customers' accounts and clear such transactions. Additionally, the clearing brokers provide the clearing and depository operations for Ladenburg Thalmann & Co.'s and Ladenburg Capital Management's proprietary securities transactions. These activities may expose Ladenburg Thalmann & Co. and Ladenburg Capital Management to off-balance-sheet risk in the event that customers do not fulfill their obligations with the clearing broker, as Ladenburg Thalmann & Co. and Ladenburg Capital Management have agreed to indemnify their respective clearing brokers for any resulting losses.

CUSTOMER CLAIMS. In the normal course of business, our operating subsidiaries have been and continue to be the subject of numerous civil actions and arbitrations arising out of customer complaints relating to our activities as a broker-dealer, as an employer and as a result of other business activities. In general, the cases involve various allegations that our employees had mishandled customer accounts. Based on our historical experience and consultation with counsel, we typically reserve an amount we believe will be sufficient to cover any damages assessed against us. However, we have in the past been assessed damages that exceeded our reserves. If we misjudged the amount of damages that may be assessed against us from pending or threatened claims, or if we are unable to adequately estimate the amount of damages that will be assessed against us from claims that arise in the future and reserve accordingly, our operating income would be reduced.

FAIR VALUE. "Trading securities owned" and "Securities sold, not yet purchased" on our consolidated statements of financial condition are carried at fair value or amounts that approximate fair value, with related unrealized gains and losses recognized in our results of operations. The determination of fair value is fundamental to our financial condition and results of operations and, in certain circumstances, it requires management to make complex judgments.

Fair values are based on listed market prices, where possible. If listed market prices are not available or if the liquidation of our positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations. Fair values for certain derivative contracts are derived from pricing models that consider current market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions.

Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. Changes in the fixed income and equity markets will impact our estimates of fair value in the future, potentially affecting principal trading revenues. The illiquid nature of certain securities or debt instruments also requires a high degree of judgment in determining fair value due to the lack of listed market prices and the potential impact of the liquidation of our position on market prices, among other factors.

IMPAIRMENT OF GOODWILL AND VALUATION OF DEFERRED TAX ASSETS. At March 31, 2002, we had $18,762 of goodwill and other intangible assets, and $3,192 of net deferred tax assets, accounting for approximately 26% of our total assets. On January 1, 2002, we adopted Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets," and were required to analyze our goodwill for impairment issues on January 1, 2002 and will be required to analyze such goodwill on a periodic basis thereafter. We did not record an impairment charge related to our goodwill in connection with the adoption of SFAS No. 142 on January 1, 2002. If the assumptions used in analyzing goodwill for impairment at January 1, 2002 change in the future, we may be required to record an impairment charge in the future. In addition, SFAS No. 142 requires that goodwill and other intangible assts with indefinite useful lives no longer be amortized. See Note 1 to the Condensed Consolidated Financial Statements for a discussion of the adoption of SFAS No. 142.

The carrying value of our net deferred tax assets assumes that we will be able to generate sufficient future taxable income, based on estimates and assumptions. If these estimates and related assumptions change in the future, we may be required to record additional valuation allowances against our deferred tax assets resulting in additional income tax expense in our consolidated statement of operations. Management evaluates the realizability of the deferred tax assets quarterly and assesses the need for additional valuation allowances quarterly. During the year ended December 31, 2001, we recorded $4,565 of valuation allowances related to our net deferred tax assets. The valuation allowance related to our net deferred tax assets at March 31, 2002 is approximately $5,500.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 2002 VERSUS THREE MONTHS ENDED MARCH 31, 2001

Our revenues for the three months ended March 31, 2002 increased $6,705 from 2001 primarily as a result of increased commissions of $9,788 offset by decreases in principal transactions of $3,791.

Our expenses for the three months ended March 31, 2002 increased $10,528 primarily as a result of increased employee compensation of $5,321 and increased brokerage, communication and clearance fees of $1,438.

Our revenues for the three months ended March 31, 2002 consisted of commissions of $13,950, principal transactions of $5,057, investment banking fees of $3,946, dividends and interest of $683, investment advisory fees of $827 and other income of $1,152. Ladenburg Thalmann & Co.'s revenues in the 2001 period consisted of commissions of $4,162, principal transactions of $8,848,

investment banking fees of $3,574, syndicate and underwriting income of $46, dividends and interest of $746, investment advisory fees of $1,010 and other income of $524. Our expenses for the three months ended March 31, 2002 consisted of employee compensation and benefits of $17,590 and other expenses of $12,212. Expenses of Ladenburg Thalmann & Co. in the 2001 period consisted of employee compensation and benefits of $12,269 and other expenses of $7,005.

The $9,788 (235.2%) increase in commissions was the result of the impact of the Ladenburg Thalmann & Co. transaction, which provided additional commission income of $11,318 offset by the significant decline in the market for equity securities for the three months ended March 31, 2002.

The $372 (10.4%) increase in investment banking fees was primarily the result of increased revenue from private placement and advisory assignments.

The $3,791 (42.8%) decrease in principal transactions was primarily the result of the continued significant decline in the market for equity securities offset by the Ladenburg Thalmann & Co. transaction, which added an additional $1,073 of principal transactions from our acquired operations.

The increase in compensation expense of $5,321 was primarily the result of an increase in compensation expense associated with our acquired operations, offset by a decrease in performance-based compensation.

Income tax benefit for the three months ended March 31, 2002 was $655 compared to $92 in 2001. The income tax rate for both periods does not bear a customary relationship to effective tax rates as a result of state and local income tax expense and the utilitization of net operating loss carrybacks.

LIQUIDITY AND CAPITAL RESOURCES

Approximately 49.5% of our assets at March 31, 2002 are highly liquid, consisting primarily of cash and cash equivalents, securities inventories and receivables from other broker-dealers, all of which fluctuate, depending upon the levels of customer business and trading activity. Receivables from broker-dealers, which are primarily from our clearing brokers, turn over rapidly. As a securities dealer, we may carry significant levels of securities inventories to meet customer needs. Our inventory of market-making securities is readily marketable; however, holding large blocks of the same security may limit liquidity and prevent realization of full market value for the securities. A relatively small percentage of our total assets, excluding goodwill, are fixed. The total assets or the individual components of total assets may vary significantly from period to period because of changes relating to customer demand, economic and market conditions, and proprietary trading strategies.

Our brokerage subsidiaries, Ladenburg Thalmann & Co. and Ladenburg Capital Management, are subject to the net capital rules of the SEC. Therefore, they are subject to certain restrictions on the use of capital and its related liquidity. Ladenburg Thalmann & Co.'s net capital position, as defined, of $4,296, exceeded minimum capital requirements of $1,000 by $3,296 at March 31, 2002. As of March 31, 2002, Ladenburg Capital Management had net capital, as defined, of $3,001, which exceeded minimum capital requirements of $1,000 by $2,001.

Cash used by operating activities for the three months ended March 31, 2002 was $3,882 as compared to $1,510 for 2001. The difference is primarily due to the net loss of $3,532 in 2002 versus $272 in 2001 and the net decrease in our net trading securities of $6,288 compared to $9,783 in 2001 and a decrease of $7,386 in accrued compensation and expenses versus $1,932 in the 2001 period. The amounts were offset by an decrease receivables from clearing brokers in 2002 of $2,655 versus an increase of $8,289 in 2001.

Cash flows provided by investing activities for the three months ended March 31, 2002 were $1,292 compared to cash flows used in investing activities of $1,415 for the 2001 period. The difference is primarily attributable to a $1,560 reduction in a letter of credit that is used as collateral for a long-term lease of commercial office space.

The capital expenditures of $268 in 2002 and $1,379 in 2001 related principally to the enhancements and improvements to computer equipment and furniture and fixtures. Capital expenditures in the 2001 period included the purchase for $1,118 of computer equipment and furniture and fixtures previously leased.

Cash flows provided from financing activities for the three months ended December 31, 2002 were $500 compared to $0 for 2001.

On August 31, 2001, we borrowed $1,000 from each of New Valley and Frost-Nevada. The loans, which bore interest at 1% above the prime rate, were repaid in January 2002. On March 27, 2002, we borrowed $2,500 from New Valley. The loan, which bears interest at 1% above the prime rate, is due on the earlier of June 30, 2002 or the completion of one or more equity financings where we receive at least $5,000 in total proceeds. We may from time to time borrow additional funds on a short-term basis from New Valley or other of our shareholders in order to supplement the liquidity of our broker-dealer operations.

Ladenburg Thalmann & Co. has a $2,500 junior subordinated revolving credit agreement that extends through October 31, 2002 with its clearing broker under which outstanding borrowings incur interest at LIBOR plus 2%. As of March 31, 2002 borrowings of $2,500 were outstanding.

Our brokerage subsidiaries, as guarantors of their customer accounts to their clearing brokers, are exposed to off-balance-sheet risks in the event that their customers do not fulfill their obligations with the respective clearing broker. In addition, to the extent our subsidiaries maintain a short position in certain securities, they are exposed to a future off-balance-sheet market risk, since their ultimate obligation may exceed the amount recognized in the financial statements.

In conjunction with the Ladenburg Thalmann & Co. transaction, we issued a total of $20,000 principal amount of senior convertible notes due December 31, 2005. The $10,000 principal amount of notes issued to the former stockholders of Ladenburg Thalmann & Co. bears interest at 7.5% per annum, and the $10,000 principal amount of notes issued to Frost-Nevada bears interest at 8.5% per annum. The notes are currently convertible into a total of 11,296,746 shares of our common stock and are secured by a pledge of the stock of Ladenburg Thalmann & Co.

Our overall capital and funding needs are continually reviewed to ensure that our capital base can support the estimated needs of our business units. These reviews take into account business needs as well as regulatory capital requirements of our subsidiaries. Based upon these reviews, management believes that our capital structure is adequate for current operations and reasonably foreseeable future needs.

We are obligated under noncancellable lease agreements, which provide for minimum lease payments, net of lease abatement and inclusive of escalation charges, of $5,672 in 2002 and approximately $5,500 per year until 2015.

MARKET RISK

Market risk generally 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 to both 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 March 31, 2002 with fair market values of $11,036 in long positions and $9,724 in short positions. We performed an entity-wide analysis of our financial instruments and assessed the related risk. Based on this analysis, in the opinion of management, the market risk associated with our financial instruments at March 31, 2002 will not have a material adverse effect on our consolidated financial position or results of operations.

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.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

See Note 6 to our condensed consolidated financial statements included in Part I, Item 1 of this Report.

Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

No securities of ours that were not registered under the Securities Act of 1933 have been issued or sold by us during the quarter ended March 31, 2002, except as discussed in Note 5 to our condensed consolidated financial statements. The foregoing transactions were effected in reliance of the exemption from registration afforded by Section 4(2) of the Securities Act of 1933.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

4.1 Promissory Note dated March 27, 2002 issued to New Valley Corporation.

10.1 Form of Stock Option Agreement, dated as of January 10, 2002, between Ladenburg Thalmann Financial Services Inc. and certain executive officers (incorporated by reference to Exhibit 10.3 of the Company's Registration Statement on Form S-3 (File No. 333-81964)).

10.2 Schedule of Omitted Documents in the Form of Exhibit 10.1, including material detail in which such documents differ from Exhibit 10.1 (incorporated by reference to Exhibit 10.3.1 of the Company's Registration Statement on Form S-3 No. 333-81964)).

10.3 Stock Option Agreement, dated January 10, 2002, between Ladenburg Thalmann Financial Services Inc. and Richard J. Lampen (incorporated by reference to Exhibit 10.2 of the Company's Registration Statement on Form S-3 (File No. 333-81964)).

(b) REPORTS ON FORM 8-K

None

SIGNATURE

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

LADENBURG THALMANN FINANCIAL SERVICES INC.
(Registrant)

Date: May 14, 2002 By: /s/ J. BRYANT KIRKLAND III

J. Bryant Kirkland III
Chief Financial Officer
(Duly Authorized Officer and
Chief Accounting Officer)

EXHIBIT 4.1

PROMISSORY NOTE

$2,500,000.00 March 27, 2002

FOR VALUE RECEIVED, LADENBURG THALMANN FINANCIAL SERVICES INC., a Florida corporation ("Maker"), having an address at 590 Madison Avenue, New York, New York 10022, hereby promises to pay to the order of NEW VALLEY CORPORATION, a Delaware corporation, its successors and/or assigns (any of which is hereinafter referred to as "Holder"), at 100 S.E. Second Street, Miami, Florida 33131, in lawful money of the United States, the sum of Two Million Five Hundred Thousand Dollars and No Cents ($2,500,000.00), together with interest thereon at the Prime Rate as published in the Wall Street Journal plus 1% from the date hereof to the date of payment, on the earlier of (i) June 30, 2002 and (ii) the tenth business day following the consummation of one or more equity financings whereby the Maker receives at least $5 million in total proceeds. At the Holder's request, payments shall be made by wire transfer to an account designated by the Holder. This Note, however, may be prepaid in whole or in part at any time without penalty or premium but with payment of accrued interest to the date of prepayment.

So long as any amount under this Note remains outstanding and unpaid, Maker will not, unless otherwise consented to in writing by the Holder, create, incur, assume or suffer to exist (excluding the $20 million aggregate principal amount of senior convertible promissory notes previously issued to Berliner Effektengesellschaft AG, Frost-Nevada, Limited Partnership and Holder) any indebtedness for borrowed funds (institutional or otherwise) which is not subordinated in all respects to the indebtedness under this Note.

Holder may, with or without notice to Maker or any guarantor or other party liable herefor, extend or renew this Note, or extend the time for making payment of any amount provided for herein, or accept any amount in advance, all without affecting the liability of Maker or any other party or guarantor liable herefor.

Upon the occurrence of a default, the whole sum of principal shall become due immediately at the option of Holder. Default shall include, but not be limited to: (i) failure to make any payment hereunder at the time prescribed for payment; (ii) filing, as to the Maker or any guarantor or indorser of this Note, of an involuntary petition which is not dismissed within sixty (60) days or of a voluntary petition under the provisions of the Federal Bankruptcy Code or any state statute for the relief of debtors; (iii) the granting of any lien or any encumbrance by Maker on the Refund; (iv) default in the payment of principal or interest on any obligation in excess of $50,000 for borrowed money beyond the period of grace, if any, provided with respect thereto or default in the performance or observance of any other term, condition or agreement contained in any such obligation or in any agreement relating thereto, if the effect thereof is to cause, or permit the holder or holders of such obligation (or a trustee on behalf of such holder or holders) to cause such obligation to become due prior to its stated maturity and such default remains unremedied for a period of 10 days; (vi) final judgment for the payment of money in excess of $50,000 shall be rendered against Maker and the same shall remain undischarged for a period of thirty (30) days during which execution of such judgment shall not be effectively stayed; (vii) the non-payment, for any reason, of any check tendered to Holder by Maker; or (viii) any breach or other default by the Maker under this Note or the $10 million principal amount senior convertible promissory note issued by Maker to Holder on May 7, 2001.

The times for the payment of the principal sum as herein stated are of the essence of this Note. Upon the occurrence of a default, the amount of the principal sum hereunder, plus reasonable attorneys fees and expenses, shall bear interest from the date thereof to the actual date of payment (whether such payment is made voluntarily or as a result of legal process) at the maximum rate of interest permitted by law or 18% per annum, whichever is lower, from the date of the default to the date of actual payment.

The Maker shall not consolidate or merge into, or transfer or lease all or substantially all of its assets to, any person unless (i) the person is a corporation, (ii) the person assumes in a writing reasonably acceptable to the Holder all the obligations of the Maker under this Note and (iii) immediately after the transaction, no default exists. The surviving transferee or lessee corporation shall be the successor Maker, but the predecessor Maker in the case of a transfer or lease shall not be released from the obligation to pay the principal of and interest of this Note.

Maker and each other party liable herefor, whether principal, endorser, guarantor or otherwise, jointly and severally hereby (i) waive presentment, demand, protest, notice of dishonor and/or protest, notice of non-payment and all other notices or demands in connection with the delivery, acceptance, performance, default, enforcement or guaranty of this Note, (ii) waive recourse to suretyship defenses generally, including extensions of time, releases of security and other indulgences which may be granted from time to time by Holder to Maker or any party liable herefor, and (iii) agree to pay all costs and expenses, including reasonable attorneys fees, in connection with the enforcement or collection of this Note.

Nothing contained in this Note or in any other agreement between Maker and Holder shall require Maker to pay, or Holder to accept, interest in an amount which would subject Holder to any penalty or forfeiture under applicable law. In no event shall the total of all charges payable hereunder, whether of interest or of such other charges which may or might be characterized as interest, exceed the maximum rate permitted to be charged under applicable law. Should Holder receive any payment which is or would be in excess of that permitted to be charged under such applicable law, such payment shall have been and shall be deemed to have been made in error and shall automatically be applied to reduce the principal balance outstanding on this Note.

Holder shall not, by any act, delay, omission or otherwise, be deemed to have waived any of its rights and/or remedies hereunder, and no waiver whatsoever shall be valid unless in writing, signed by Holder, and then only to the extent therein set forth. The making of any demands or the giving of any notices by Holder or a waiver by Holder of any right and/or remedy hereunder on any one occasion shall not be construed as a bar to or waiver of any right and/or remedy which Holder would otherwise have on any future occasion. All rights and remedies of Holder shall be cumulative and may be exercised singly or concurrently.

This Note may be assigned at any time by Holder to any person controlling, controlled by or under common control with the Holder or to any affiliate of the Holder on notice to Maker.

The terms and provisions hereof shall survive the payment, cancellation or surrender of this Note. Any instrument taken by Holder in payment of, or for application against, any obligation of Maker or any other party liable herefor shall not operate as a discharge of such obligation until the instrument is finally paid, notwithstanding the fact that a bank may be the maker, drawer or acceptor of such instrument.

This Note shall be governed and construed in accordance with the law of the State of New York without giving effect to choice of law principles. MAKER AND EACH OTHER PARTY LIABLE HEREFOR, IN ANY LITIGATION IN WHICH HOLDER SHALL BE AN ADVERSE PARTY, WAIVES TRIAL BY JURY AND WAIVES THE RIGHT TO INTERPOSE ANY DEFENSE, SETOFF OR COUNTERCLAIM OF ANY NATURE OR DESCRIPTION. ANY SUCH LITIGATION SHALL BE SUBJECT TO THE EXCLUSIVE JURISDICTION OF THE NEW YORK STATE OR FEDERAL COURTS LOCATED IN NEW YORK CITY.

LADENBURG THALMANN FINANCIAL SERVICES INC.

By: /s/ VICTOR M. RIVAS

Name: Victor M. Rivas
Title: President and Chief Executive Officer