

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, 2002

COMMISSION FILE NUMBER 1-15799

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)

590 MADISON AVENUE
NEW YORK, NEW YORK
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

10022
(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 NOVEMBER 13, 2002, THERE WERE OUTSTANDING 42,025,211 SHARES OF THE
REGISTRANT'S COMMON STOCK, \$.0001 PAR VALUE.

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

| | September 30, 2002 | December 31, 2001 |
|---|-----------------------|----------------------|
| | ----- | ----- |
| <S> | <C> | <C> |
| ASSETS | | |
| Cash and cash equivalents | \$ 3,040 | \$ 8,136 |
| Trading securities owned | 4,702 | 17,324 |
| Receivables from clearing brokers | 17,910 | 27,920 |
| Exchange memberships owned, at historical cost | 1,505 | 1,505 |
| Furniture and equipment, net of accumulated depreciation | 9,313 | 9,959 |
| Restricted assets | 1,059 | 2,610 |
| Income taxes receivable | 2,041 | 499 |
| Deferred tax assets | -- | 3,339 |
| Due from affiliates | 327 | 262 |
| Goodwill, net of accumulated amortization | -- | 18,762 |
| Other assets | 5,069 | 8,091 |
| | ----- | ----- |
| Total assets | \$ 44,966 | \$ 98,407 |
| | ===== | ===== |
| LIABILITIES AND SHAREHOLDERS' EQUITY (CAPITAL DEFICIT) | | |
| Securities sold, not yet purchased | \$ 1,890 | \$ 12,404 |
| Accrued compensation | 2,841 | 11,078 |
| Accounts payable and accrued liabilities | 8,068 | 7,608 |
| Deferred rent credit | 7,676 | 7,189 |
| Due to former parent and affiliate | 490 | 434 |
| Notes payable | 5,000 | 2,000 |
| Senior convertible notes payable | 20,000 | 20,000 |
| Subordinated note payable | 2,500 | 2,500 |
| | ----- | ----- |
| Total liabilities | 48,465 | 63,213 |
| | ----- | ----- |
| Commitments and contingencies | -- | -- |
| Shareholders' equity (capital deficit): | | |
| 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 | 56,473 | 56,168 |
| Accumulated deficit | (59,976) | (20,978) |
| | ----- | ----- |
| Total shareholders' equity (capital deficit) | (3,499) | 35,194 |
| | ----- | ----- |
| Total liabilities and shareholders' equity (capital deficit) ... | \$ 44,966 | \$ 98,407 |
| | ===== | ===== |

</TABLE>

See accompanying notes to condensed
consolidated financial statements

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

<TABLE>
<CAPTION>

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2002 | 2001 | 2002 | 2001 |
| <S> | <C> | <C> | <C> | <C> |
| Revenues: | | | | |
| Commissions | \$ 10,712 | \$ 9,826 | \$ 38,322 | \$ 21,646 |
| Principal transactions, net | 954 | 3,261 | 8,045 | 20,249 |
| Investment banking fees | 1,790 | 1,972 | 8,097 | 7,847 |
| Interest and dividends | 579 | 1,049 | 1,799 | 2,823 |
| Syndications and underwritings | 91 | 125 | 264 | 395 |
| Investment advisory fees | 651 | 741 | 2,154 | 2,430 |
| Other income | 1,200 | 1,105 | 3,324 | 2,767 |
| | ----- | ----- | ----- | ----- |
| Total revenues | 15,977 | 18,079 | 62,005 | 58,157 |
| | ----- | ----- | ----- | ----- |
| Expenses: | | | | |
| Compensation and benefits | 12,035 | 13,841 | 44,582 | 40,480 |
| Brokerage, communication and clearance fees | 3,741 | 4,181 | 12,117 | 11,575 |
| Rent and occupancy | 2,046 | 1,975 | 6,047 | 4,849 |
| Depreciation and amortization | 455 | 846 | 1,544 | 1,788 |
| Impairment of goodwill | -- | -- | 18,762 | -- |
| Professional services | 1,113 | 954 | 3,779 | 2,247 |
| Interest | 537 | 587 | 1,494 | 963 |
| Other | 3,799 | 4,108 | 11,284 | 8,720 |
| | ----- | ----- | ----- | ----- |
| Total expenses | 23,726 | 26,492 | 99,609 | 70,622 |
| | ----- | ----- | ----- | ----- |
| Loss from operations before income taxes (benefit) | (7,749) | (8,413) | (37,604) | (12,465) |
| Income taxes (benefit) | 2,265 | (2,728) | 1,394 | (3,914) |
| | ----- | ----- | ----- | ----- |
| Net loss | \$ (10,014) | \$ (5,685) | \$ (38,998) | \$ (8,551) |
| | ===== | ===== | ===== | ===== |
| Loss per Common Share (basic and diluted): | | | | |
| Net loss per Common Share | \$ (.24) | \$ (0.14) | \$ (.93) | \$ (0.22) |
| | ===== | ===== | ===== | ===== |
| Number of shares used in computation | 42,025,211 | 42,025,211 | 42,025,211 | 38,592,936 |
| | ===== | ===== | ===== | ===== |

</TABLE>

See accompanying notes to condensed
consolidated financial statements

LADENBURG THALMANN FINANCIAL SERVICES INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY (CAPITAL DEFICIT)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>
<CAPTION>

| | COMMON STOCK | ADDITIONAL PAID-IN CAPITAL | ACCUMULATED DEFICIT | TOTAL |
|-------------------------------------|-----------------|----------------------------------|------------------------|------------|
| <S> | <C> | <C> | <C> | <C> |
| Balance, December 31, 2001 | \$ 4 | \$ 56,168 | \$ (20,978) | \$ 35,194 |
| Employee compensation (Note 2) | -- | 305 | -- | 305 |
| Net loss | -- | -- | (38,998) | (38,998) |
| | ----- | ----- | ----- | ----- |
| Balance, September 30, 2002 | \$ 4 | \$ 56,473 | \$ (59,976) | \$ (3,499) |
| | ===== | ===== | ===== | ===== |

</TABLE>

See accompanying notes to condensed
consolidated financial statements

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

<TABLE>
<CAPTION>

| | Nine Months Ended September 30, | |
|--|------------------------------------|------------|
| | 2002 | 2001 |
| <S> | <C> | <C> |
| Cash flows from operating activities: | | |
| Net loss | \$ (38,998) | \$ (8,551) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 1,544 | 1,658 |
| Amortization of deferred rent credit | 250 | 409 |
| Deferred taxes | 3,339 | (996) |
| Impairment of goodwill | 18,762 | -- |
| Employee compensation (Note 2) | 305 | -- |
| (Increase) decrease in operating assets: | | |
| Trading securities owned | 12,622 | 12,520 |
| Receivables from clearing brokers | 10,010 | (391) |
| Due from affiliates | (65) | (592) |
| Other assets | 1,480 | 45 |
| Increase (decrease) in operating liabilities: | | |
| Securities sold, not yet purchased | (10,514) | (4,687) |
| Accrued compensation | (8,237) | (3,101) |
| Accounts payable and accrued liabilities | 697 | (2,799) |
| Due to former parent and affiliates | 56 | 13 |
| NET CASH USED IN OPERATING ACTIVITIES | (8,749) | (6,472) |
| Cash flows from investing activities: | | |
| Purchase of furniture, equipment and leasehold improvements | (898) | (2,433) |
| Cash acquired in LTS acquisition | -- | 5,151 |
| Decrease in restricted assets | 1,551 | -- |
| NET CASH PROVIDED BY INVESTING ACTIVITIES | 653 | 2,718 |
| Cash flows from financing activities: | | |
| Payments to Ladenburg stockholders | -- | (10,000) |
| Issuance of subordinated notes payable | -- | 2,500 |
| Issuance of promissory notes payable | 5,000 | 2,000 |
| Payment of promissory note payable | (2,000) | -- |
| Convertible note proceeds | -- | 10,000 |
| NET CASH PROVIDED BY FINANCING ACTIVITIES | 3,000 | 4,500 |
| Net increase (decrease) in cash and cash equivalents | (5,096) | 746 |
| Cash and cash equivalents, beginning of period | 8,136 | 3,928 |
| CASH AND CASH EQUIVALENTS, END OF PERIOD | \$ 3,040 | \$ 4,674 |
| Supplemental disclosure of non-cash activity: | | |
| Detail of acquisition: | | |
| Fair value of assets acquired | \$ -- | \$ 26,619 |
| Goodwill | -- | 19,385 |
| Liabilities assumed, including priority interest | -- | (23,820) |
| Increase to paid-in capital | -- | (17,033) |
| NET CASH RECEIVED IN ACQUISITION | \$ -- | \$ 5,151 |

</TABLE>

See accompanying notes to condensed
consolidated financial statements

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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"), Ladenburg Thalmann International Ltd. and Ladenburg Capital Fund Management Inc., formerly known as GBI Fund Management Corp. ("Ladenburg Fund Management"). The interim financial data as of September 30, 2002 and for the three and nine months ended September 30, 2002 and September 30, 2001 are unaudited; however, in the opinion of the Company, the interim data include all adjustments, consisting of normal recurring and other adjustments, necessary for a fair statement of the results for the interim periods. Because of the nature of the Company's business, the results of any interim period are not necessarily indicative of results for a full year.

Prior to May 7, 2001, Ladenburg Capital and Ladenburg Fund Management were the only subsidiaries of the Company. Ladenburg was an indirect wholly-owned subsidiary of New Valley Corporation ("New Valley") from May 31, 1995 to December 1999, when a minority stake in Ladenburg was sold leaving New Valley with an indirect 80.1% ownership interest. 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. In consideration for the shares of Ladenburg, LTS issued the former stockholders of Ladenburg a majority interest in LTS' common stock. 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. For a more complete discussion of this transaction, including pro forma information, see Note 2 to these condensed consolidated financial statements.

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. In July 2002, the market making activities of Ladenburg Capital were terminated. Certain of the employees working in Ladenburg Capital's market making area were offered employment with Ladenburg. The Company intends to terminate the remaining operations of Ladenburg Capital during the fourth quarter of 2002. Ladenburg Capital expects to withdraw as a broker-dealer at that time. Ladenburg has agreed to service the Ladenburg Capital accounts, and many of the Ladenburg Capital employees are expected to be offered employment with Ladenburg. This will reduce support staff expenses, operating expenses and general administrative expenses.

LADENBURG THALMANN FINANCIAL SERVICES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

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 September 30, 2002, all of the securities owned and securities sold, not yet purchased, and the amount receivable from the clearing brokers reflected on the condensed 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 condensed 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.

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LADENBURG THALMANN FINANCIAL SERVICES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

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.

A summary of the allocation by entity of the Company's goodwill, including the impairment charge discussed below, is as follows:

<TABLE>
<CAPTION>

| | | DECEMBER 31, 2001 | | | | |
|-----|-------------------------|-------------------|-----------------------------|-----------|-------------|--------------------|
| | | GROSS | ACCUMULATED AMORTIZATION | NET | ADJUSTMENTS | SEPTEMBER 30, 2002 |
| | | ----- | ----- | ----- | ----- | ----- |
| <S> | | <C> | <C> | <C> | <C> | <C> |
| | Ladenburg | \$ -- | \$ -- | \$ -- | \$ 5,546 | \$ 5,546 |
| | Ladenburg Capital | 19,385 | (623) | 18,762 | (5,546) | 13,216 |
| | | ----- | ----- | ----- | ----- | ----- |
| | | \$ 19,385 | \$ (623) | \$ 18,762 | \$ -- | \$ 18,762 |
| | | ===== | ===== | ===== | ===== | ===== |
| | Impairment loss | | | | | (18,762) |
| | Total..... | | | | | \$ -- |
| | | | | | | ===== |

</TABLE>

The goodwill of \$19,385 arose as a result of the Ladenburg transaction on May 7, 2001. The following table reconciles net loss for the three and nine months ended September 30, 2001 to its amount adjusted to exclude

previously recorded goodwill amortization expense.

<TABLE>
<CAPTION>

| | THREE MONTHS ENDED SEPTEMBER 30, 2001 | NINE MONTHS ENDED SEPTEMBER 30, 2001 |
|-----------------------------------|---|--|
| | ----- | ----- |
| <S> | <C> | <C> |
| Reported net loss | \$ (5,685) | \$ (8,551) |
| Goodwill amortization | 247 | 403 |
| | ----- | ----- |
| Adjusted net loss | \$ (5,438) | \$ (8,148) |
| | ===== | ===== |
| Reported net loss per share | \$ (0.14) | \$ (0.22) |
| Goodwill amortization | 0.01 | 0.01 |
| | ----- | ----- |
| Adjusted net loss per share | \$ (0.13) | \$ (0.21) |
| | ===== | ===== |

</TABLE>

For initial application of SFAS No. 142, in connection with the reporting of the results for the first quarter of 2002, an independent appraisal firm was engaged to value the Company's goodwill as of January 1, 2002. The appraiser valued the businesses using a weighted average of each unit's projected discounted cash flow, with a weighted average cost of capital of 17.40%, and a fair market approach (using market comparables for ten companies). The appraiser weighted the discounted cash flow for each unit at 70% and the fair market approach at 30%. The discounted cash flow was based on management's projections of operating results at 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.

LADENBURG THALMANN FINANCIAL SERVICES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

In connection with the reporting of the results for the second quarter of 2002, based on the overall market declines in the U.S. equity markets and the conditions prevailing in the broker-dealer industry, the Company completed an additional impairment review and recorded a \$18,762 charge for the impairment of goodwill. The charge reflects overall market declines since the Ladenburg acquisition in May 2001. During this review, the same independent appraisal firm was engaged to value the Company's goodwill as of June 30, 2002. The appraiser valued the Company's businesses using a weighted average of each unit's projected discounted cash flow, with a weighted average cost of capital of 18.50%, and a fair market approach (using market comparables for ten companies). The appraiser weighted the discounted cash flow for each unit at 70% and the fair market approach at 30%. The discounted cash flow was based on management's revised projections of operating results at June 30, 2002. Based on this valuation, an impairment charge of \$18,762 of goodwill was indicated and recorded. The expense is included in the nine months ended September 30, 2002.

2. LADENBURG TRANSACTION

On May 7, 2001, LTS consummated a stock purchase agreement through which it acquired all of the outstanding common stock of Ladenburg from New Valley and Berliner Effektengesellschaft AG ("Berliner"), the former stockholders of Ladenburg. The primary reason for the acquisition was that both LTS and Ladenburg concluded that each company needed to enlarge the size of its business and the scope of services provided to maintain viability as a participant in the current financial markets. In order to acquire the stock of Ladenburg, LTS issued to New Valley and Berliner an aggregate of 23,218,599 shares of common stock and paid to them an aggregate of \$10,000 cash and \$10,000 principal amount of senior convertible promissory notes due December 31, 2005. The notes bear interest at the rate of 7.5% and are currently convertible into a total of 4,799,271 shares of common stock at a conversion price of approximately \$2.08. The notes are secured by a pledge of Ladenburg stock. If, during any period of 20 consecutive trading days, the closing sale price of LTS' 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 the notes at a purchase price equal to the unpaid principal amount of the notes and the accrued interest.

To provide the funds for the acquisition of the common stock of Ladenburg, LTS borrowed \$10,000 from Frost-Nevada, Limited Partnership ("Frost-Nevada") and issued to Frost-Nevada \$10,000 principal amount of senior convertible promissory notes due December 31, 2005. Dr. Frost, a director of LTS from May 2001 until his resignation in July 2002, is the sole stockholder of the general partner of Frost-Nevada, Frost-Nevada Corporation. Dr. Frost, through several entities controlled by him, was

also one of LTS' principal shareholders prior to the time that it became a public company in August 1999. The notes held by Frost-Nevada are identical to the notes held by New Valley and Berliner except for the interest rate which is 8.5% and the conversion price. These notes are currently convertible into a total of 6,497,475 shares of common stock at a conversion price of approximately \$1.54.

The actual number of shares of common stock paid to New Valley and Berliner may be increased and the conversion prices of the notes payable held by New Valley, Berliner and Frost-Nevada may be decreased on or about May 7, 2003 pending a final resolution of LTS' pre-closing litigation adjustments.

Concurrently with the closing of the stock purchase agreement, New Valley purchased 3,945,060 of common stock at \$1.00 per share from Joseph Berland, LTS' former chairman and chief executive officer. Additionally, on the same date, Frost-Nevada purchased a total of 550,000 shares of common stock at \$1.00 per share from Richard Rosenstock, LTS' vice chairman and chief operating officer, Mark Zeitchick and Vincent Mangone, LTS' executive vice presidents, and David Thalheim, LTS' former administrator.

As a result of the foregoing transactions, the former stockholders of Ladenburg directly or indirectly held shares or other equity instruments, representing 27,163,659 shares, or 64.6%, of LTS' common stock, and

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LADENBURG THALMANN FINANCIAL SERVICES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

Frost-Nevada directly or indirectly held shares or other equity instruments, representing 7,935,441 shares, or 16.4%, of LTS' common stock.

Prior to the consummation of the acquisition, New Valley maintained office space at Ladenburg's principal offices. In connection with the consummation of the transaction, New Valley entered into a license agreement with Ladenburg in which New Valley will continue to occupy this space at no cost to New Valley. The license agreement is for one year and is automatically renewed for successive one year periods unless terminated by New Valley. The space, which is not currently occupied by New Valley, has been subleased on a short-term basis by Ladenburg to an unaffiliated third party.

In connection with these transactions, Howard M. Lorber, president and chief operating officer of New Valley, became LTS' chairman. Additionally, Victor M. Rivas, chairman and chief executive officer of Ladenburg, became LTS' president and chief executive officer pursuant to an employment agreement with a term expiring in August 2004. In addition to these individuals, Bennett S. LeBow, Henry C. Beinstein, Robert J. Eide and Dr. Frost became members of LTS' board of directors in May 2001. Messrs. Lorber, Rivas, LeBow and Beinstein are also members of the board of directors of New Valley and Mr. Eide is a member of the board of directors of Vector Group Ltd., New Valley's parent.

Pursuant to the employment agreement with Mr. Rivas, Mr. Rivas is entitled to receive an annual base salary of \$500, subject to periodic increases as determined by LTS' board of directors, as well as a minimum annual bonus of \$500. Mr. Rivas is also entitled to participate in LTS' Annual Incentive Bonus Plan and Special Performance Incentive Plan in accordance with the terms of the plan and Mr. Rivas' employment agreement. Due to the current financial condition of the Company, Mr. Rivas has elected to forfeit the accrued compensation due him under the Special Performance Incentive Plan for the period January 1, 2002 through August 31, 2002 and the balance of the compensation due him under this Plan for the remainder of the 2002 calendar year. The amount forfeited through September 30, 2002 of \$295 has been charged to operations with a corresponding increase to additional paid-in capital.

At the time of the transaction, LTS also entered into amendments to the existing employment agreements with each of Messrs. Berland, Rosenstock, Zeitchick and Mangone. Pursuant to the amendments:

- o Mr. Berland resigned from his positions with LTS and became the executive vice president of corporate finance of Ladenburg Capital through May 2003 at an annual base salary of \$150;
- o Mr. Rosenstock became LTS' vice chairman and chief operating officer and Ladenburg Capital's chief executive officer through August 2004 at an annual base salary of \$340;
- o Mr. Zeitchick remained as LTS' executive vice president and became Ladenburg Capital's co-chairman of the board through August 2004 at an annual base salary of \$90; and
- o Mr. Mangone remained as an executive vice president of LTS and Ladenburg Capital through August 2004 at annual base salary of \$90.

Each of Messrs. Rosenstock, Zeitchick and Mangone continue to be entitled to participate in LTS' Annual Incentive Bonus Plan and Special Performance Incentive Plan in accordance with the terms of the plan and their

respective employment agreements. Due to the current financial condition of the Company, effective September 1, 2002, Messrs. Rosenstock, Zeitchick and Mangone elected to forfeit 25% of the compensation due them under the Special Performance Incentive Plan for the remainder of the 2002 calendar year. Effective September 1, 2002, Mr. Rosenstock also elected to forfeit 25% of the compensation due to him pursuant to his employment agreement for retail and institutional brokerage commissions generated from various registered representatives employed by the Company's subsidiaries. The amount forfeited through September 30, 2002 of \$10 has been charged to operations with a corresponding increase to additional paid-in capital.

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LADENBURG THALMANN FINANCIAL SERVICES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

Following consummation of the transaction, in December 2001, New Valley distributed its shares of LTS common stock to holders of its common shares as a special dividend.

The shares of LTS common stock issued in the transaction were valued at May 7, 2001 at \$1.75 per share. LTS' common stock is very thinly traded, and management considered a number of factors in addition to the average trading price one week before and after closing of the transaction (\$3.03). These other factors included the purchase price of the shares concurrently purchased from LTS' executive officers, the terms of the convertible notes and the value implied by the previous negotiations between the parties. No independent appraisal was obtained in connection with the transaction.

The transaction has been accounted for under the purchase method of accounting as a reverse acquisition taking place as of May 7, 2001, the date on which certain future adjustments will be based. 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. In determining the accounting treatment of the transaction, the Company considered the shares of common stock and the senior convertible promissory notes acquired by New Valley and Berliner on both a basic and fully diluted basis, and the number of outstanding options. Although New Valley later distributed its shares of common stock to its stockholders as described above, the Company determined that it was still appropriate to treat Ladenburg as the acquirer as New Valley's stockholders are in all practical matters the actual former stockholders of Ladenburg.

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.

Pro forma information for the nine months ended September 30, 2001, giving effect to the acquisition and the adoption of SFAS No. 142 as if both occurred on January 1, 2001, is presented below:

NINE MONTHS
ENDED
SEPTEMBER 30, 2001

| | |
|-------------------------------------|---------------------|
| Revenues | \$ 77,059 ===== |
| Loss from operations | \$(13,001) ===== |
| Loss from operations per share | \$ (0.31) ===== |

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. Ladenburg has elected to compute its net capital under the alternate method allowed by these rules and Ladenburg Capital has elected to compute its net capital under the basic method. At September 30, 2002, Ladenburg had net capital, as defined, of \$3,533, which exceeded minimum capital requirements of \$1,000 by \$2,533. At September 30, 2002, Ladenburg Capital had net capital, as defined, of \$1,494, which exceeded minimum capital requirements of \$379 by \$1,115.

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4. NOTES PAYABLE

The components of notes payable at September 30, 2002 are as follows:

| | |
|---------------------------------------|-----------|
| Senior convertible notes payable..... | \$ 20,000 |
| Notes payable..... | 5,000 |
| Subordinated note payable..... | 2,500 |
| | ----- |
| Total..... | \$ 27,500 |
| | ===== |

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 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 collateralized 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.

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 December 31, 2003 or the completion of one or more equity financings where LTS receives at least \$5,000 in total proceeds. On July 16, 2002, LTS borrowed an additional \$2,500 from New Valley (collectively, the "2002 Loans") on the same terms as the March 2002 loan.

On June 28, 2002, New Valley, Berliner and Frost-Nevada agreed with the Company to forbear until May 15, 2003 payment of the interest due to them under the convertible notes on the interest payment dates commencing June 30, 2002 through March 31, 2003 (the "Forbearance Interest Payments"). Interest on the deferred amounts accrues at 8% per annum on the New Valley and Berliner notes, and at 9% per annum on the Frost-Nevada notes. The Company also agreed to apply, to the maximum extent possible, any net proceeds from the Company's proposed rights offering, discussed below, in excess of the amounts invested in the rights offering by the holders of the convertible notes and any net proceeds from any subsequent public offerings to pay to the holders of the convertible notes any amount for the Forbearance Interest Payments then outstanding.

Ladenburg has \$2,500 outstanding under a junior subordinated revolving credit agreement with an affiliate of its clearing broker that extends through October 31, 2004 under which borrowings incur interest at LIBOR plus 2%.

The Company's liquidity position continues to be adversely affected by its inability to generate cash from operations as a result of the continued significant decline in the equity markets. Accordingly, the Company has been forced to cut expenses as necessary. In order to accomplish this, the Company has implemented certain cost-cutting procedures throughout its operations and, in the third quarter of 2002, reduced the size of its workforce.

The Company has renegotiated its current clearing agreement with one of its clearing brokers whereby this clearing broker will become the Company's primary clearing broker, clearing substantially all of the Company's business. As part of the new agreement, the Company will realize significant cost savings from reduced ticket charges and expects to realize additional cost savings from other incentives. In addition, under

the new clearing agreement, an affiliate of the clearing broker will lend the Company approximately \$3,800 upon the conversion of the business currently conducted with another clearing broker to this primary clearing broker. The loans will be forgiven over various periods, up to four years from the date of conversion. The conversion is currently scheduled to occur in late November 2002.

During the fourth quarter of 2002, in order to decrease future operating expenses, the Company intends to terminate the operations of Ladenburg Capital. Ladenburg Capital expects to withdraw as a broker-dealer at that time. Ladenburg has agreed to service the Ladenburg Capital accounts, and

many of the Ladenburg Capital employees are expected to be offered employment with Ladenburg. This will reduce support staff expenses, operating expenses and general administrative expenses.

The Company filed a registration statement in May 2002 for a proposed \$10,000 rights offering to the holders of the Company's outstanding common stock, convertible notes, warrants and options in order to raise additional necessary working capital. New Valley agreed to purchase up to \$5,000 of the Company's common stock in the proposed rights offering if such shares were otherwise unsubscribed for. However, on August 6, 2002, the Company announced that it had decided to postpone the rights offering due to market conditions. The Company intends to review the situation during the fourth quarter to determine if conditions for the offering have improved, although the Company does not currently anticipate that the rights offering can be successfully completed absent a material improvement in market conditions and a significant increase in the Company's stock price. In the circumstance where the rights offering were ultimately consummated, the Company would be required to use the proceeds of the proposed rights offering to repay the 2002 Loans as well as all accumulated Forbearance Interest Payments, to the extent possible.

On October 8, 2002, LTS borrowed an additional \$2,000 from New Valley. The loan, which bears interest at 1% above the prime rate, matures on the earliest of December 31, 2002, the next business day after the Company receives its federal income tax refund for the fiscal year ended September 30, 2002, and the next business day after the Company receives a loan from an affiliate of its clearing broker in connection with the conversion of additional clearing business to this broker. The terms of the New Valley loan restrict LTS from incurring or assuming any indebtedness that is not subordinated to the loan so long as the loan is outstanding.

The Company's overall capital and funding needs are continually reviewed to ensure that its liquidity and capital base can support the estimated needs of its business units. These reviews take into account business needs as well as regulatory capital requirements of the Company's subsidiaries. Based on these reviews, if the proposed rights offering could be successfully completed, management believes that its capital structure would be adequate for current operations and reasonably foreseeable future needs. However, because the rights offering is currently postponed and does not appear to be a viable option at this time, should the Company otherwise require additional financing, it will need to seek to raise additional capital through other available sources, including through borrowing additional funds on a short-term basis from New Valley or from other parties, including the Company's shareholders and clearing brokers. In connection with the Company's recent renegotiation of the clearing agreement with one of its clearing brokers, in addition to other incentives, the Company will receive loans of approximately \$3,800 from an affiliate of the clearing broker. If the Company continues to be unable to generate cash from operations and is unable to find alternative sources of funding, it would have an adverse impact on the Company's liquidity and 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.

At the Company's annual meeting held on November 6, 2002, the shareholders of the Company approved an amendment to the Company's articles of incorporation to increase the number of authorized shares of common stock from 100,000,000 to 200,000,000. The shareholders also approved at the meeting an amendment to the Plan to increase the number of shares of common stock available for issuance under the Plan from 5,500,000 shares to 10,000,000 shares and to increase the limit on grants to individuals in any one calendar year from 300,000 shares to 1,000,000 shares.

In May 2002, the board of directors of the Company adopted the Company's Qualified Employee Stock Purchase Plan (the "ESP Plan"), which was approved by the shareholders at the annual meeting. The ESP Plan provides that the

Board's compensation committee, which administers the plan, may permit the Company's employees to acquire up to 5,000,000 shares of common stock during option periods at a discount of up to 15% below the then current market price of the Company's common stock. The ESP Plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code.

For purposes of computing per share amounts, 9,917,333 potential common shares relating to outstanding stock options and 11,296,746 shares relating to convertible notes have been excluded because they would be anti-dilutive.

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. Due to the uncertain nature of litigation in general, we are unable to estimate a range of possible loss related to lawsuits filed against the Company. The Company has insurance coverage for certain matters, which may cover a portion of any expenses incurred in connection with these arbitrations and lawsuits. The Company believes its accrual for arbitration and lawsuit losses, in excess of its anticipated reimbursements from insurance carriers, of \$3,166 at September 30, 2002 is adequate.

Ladenburg Capital has initiated a lawsuit against one of its landlords seeking a declaratory judgment that the lease in a building near the World Trade Center be deemed terminated because, among other things, the premises were unsafe and uninhabitable for a period of 270 days after September 11, 2001, pursuant to a lease provision giving Ladenburg Capital the right to terminate in those circumstances. The Company believes that Ladenburg Capital will prevail and intends to pursue this claim vigorously. However, in the event that Ladenburg Capital does not prevail, it may incur additional expenses should it decide not to occupy the space.

The Company is currently attempting to renegotiate several of its existing lease commitments. As a result of these negotiations, the Company may incur additional expenses in the fourth quarter of 2002 to terminate these long-term commitments.

During the fourth quarter of 2002, the Company intends to early adopt SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". Under SFAS 146, a cost associated with an exit or disposal

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LADENBURG THALMANN FINANCIAL SERVICES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)
(Unaudited)

activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred. For operating leases, a liability for costs that will continue to be incurred under the lease for its remaining term without economic benefit to the entity shall be recognized and measured at its fair value when the entity ceases using the right conveyed by the lease (the "cease-use date"). The fair value of the liability at the "cease-use date" shall be determined based on the remaining lease rentals, reduced by estimated sublease rentals that could be reasonably obtained for the property. The Company's results of future operations may be impacted to the extent of foregone rental income, in the event the Company does not sublet the office space for an amount at least equal to its lease obligation.

7. INCOME TAXES

The Company accounts for taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", which requires the recognition of tax benefits or expense on the temporary differences between the tax basis and book basis of its assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those timing differences are expected to be recovered or settled. Deferred tax amounts as of September 30, 2002, which consist principally of the tax benefit of net operating loss carryforwards and accrued expenses, amounts to \$11,074. After consideration of all the evidence, both positive and negative, especially the fact the Company has sustained operating losses during 2001 and for the nine months ended September 30, 2002 and that the Company continues to be affected by conditions in the economy, management has determined that a valuation allowance at September 30, 2002 was necessary to fully offset the deferred tax assets based on the likelihood of future realization.

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, Ladenburg Capital, Ladenburg Thalmann International Ltd. and Ladenburg Fund Management.

Prior to May 7, 2001, Ladenburg Capital and Ladenburg Fund Management were our only subsidiaries. On May 7, 2001, we acquired all of the outstanding common stock of Ladenburg, and our name was changed from GBI Capital Management Corp. to Ladenburg Thalmann Financial Services Inc. The acquisition of Ladenburg has been accounted for under the purchase method of accounting as a reverse acquisition. Under reverse acquisition accounting, LTS was treated as the acquired entity as Ladenburg's former stockholders held a majority of our common stock following the transaction. As a result, LTS' operating results were included as of May 7, 2001, the date of acquisition, with the historical financial statements of Ladenburg. As appropriate, in the discussion of operating results, increases in reported revenues and expenses as a result of the acquired operations of LTS will be referred to as the "Ladenburg Capital operations." 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. We have changed our fiscal year-end from September 30 to December 31 to conform to the fiscal year-end of Ladenburg.

In September 2002, we replaced PricewaterhouseCoopers LLP as our independent auditors and engaged Eisner LLP to act as our independent auditors for the fiscal year ending December 31, 2002. Our audit committee recommended and approved the decision to change independent auditors. There were no disagreements in accounting or auditing issues that impacted this decision.

In October 2002, our chief financial officer, who is also the chief financial officer of New Valley and other organizations, resigned from his position to devote his full time to his other business obligations. We appointed Salvatore Giardina to replace him. Mr. Giardina has been affiliated with our broker-dealer subsidiary, Ladenburg, since February 1990 and has been its chief financial officer since August 1998.

We recently renegotiated our current clearing agreement with one of our clearing brokers whereby this clearing broker will become our primary clearing broker, clearing substantially all of our business. As part of the new agreement, we will realize significant cost savings from reduced ticket charges, and expect to realize additional cost savings from other incentives. In addition, under the new clearing agreement, an affiliate of the clearing broker will lend us approximately \$3,800 upon the conversion of the business currently conducted with another clearing broker to this primary clearing broker. The loans will be forgiven over various periods, up to four years from the date of the conversion. The conversion is currently scheduled to occur in late November 2002.

During the fourth quarter of 2002, in order to reduce future operating expenses, we intend to terminate the operations of Ladenburg Capital. Ladenburg Capital expects to withdraw as a broker-dealer at that time. Ladenburg has agreed to service the Ladenburg Capital accounts, and many of the Ladenburg Capital employees are expected to be offered employment with Ladenburg. This will reduce support staff expenses, operating expenses and general administrative expenses.

CRITICAL ACCOUNTING POLICIES

A financial reporting release, which was recently issued 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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)

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 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. We continually assess risk associated with each customer who is on margin and record an estimated loss when management believes collection from the customer is unlikely. We incurred (income) losses from these arrangements of \$93 and \$161 for the three and nine months ended September 30, 2002, respectively, and \$90 and \$(126) for the three and nine months ended September 30, 2001, respectively.

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. Due to the uncertain nature of litigation in general, we are unable to estimate a range of possible loss related to lawsuits filed against us, but 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. We have accrued \$3,166 for arbitration and lawsuit losses as of September 30, 2002. 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.

SEPTEMBER 11, 2001 EVENTS. On September 11, 2001 terrorists attacked the World Trade Center complex in New York, which subsequently collapsed and damaged surrounding buildings, including one occupied by a branch office of Ladenburg Capital. These events resulted in the suspension of trading of U.S. equity securities for four business days and precipitated the relocation of approximately 180 employees to Ladenburg's mid-town New York headquarters. Although some of Ladenburg Capital's businesses were temporarily disrupted, all its businesses remained functioning and serving clients. We are insured for loss caused by physical damage to property. This includes repair or replacement of property and lost profits due to business interruption, including costs related to lack of access to facilities. We will record future reimbursements from insurance proceeds related to certain September 11, 2001 expenses when the reimbursements are actually received. The net book value of the lost property has been recorded as a receivable as of December 31, 2001 and the insurance proceeds for the lost property will be recorded upon receipt. Insurance proceeds received may vary from the lost property's net book value. We received insurance proceeds of \$150 in July 2002 representing an advance relating to damaged property, which was applied against our receivable. The receivable balance as of September 30, 2002 was \$1,207.

Ladenburg Capital has initiated a lawsuit against one of its landlords seeking a declaratory judgment that the lease in a building near the World Trade Center be deemed terminated because, among other things, the premises were unsafe and uninhabitable for a period of 270 days after September 11, 2001, pursuant to a lease provision giving Ladenburg Capital the right to terminate in those circumstances. We believe that Ladenburg Capital will prevail and intend to pursue this claim vigorously. However, in the event that Ladenburg Capital does not prevail, it may incur additional expense should it decide not to occupy the space.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)

NEW ACCOUNTING PRONOUNCEMENT. We are currently attempting to renegotiate several of our existing lease commitments. As a result of these negotiations, we may incur additional expenses in the fourth quarter of 2002 to terminate these long-term commitments.

During the fourth quarter of 2002, we intend to early adopt SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities". Under SFAS 146, a cost associated with an exit or disposal activity shall be recognized and measured initially at its fair value in the period in which the liability is incurred. For operating leases, a liability for costs that will continue to be incurred under the lease for its remaining term without economic benefit to the entity shall be recognized and measured at its fair value when the entity ceases using the right conveyed by the lease (the "cease-use date"). The fair value of the liability at the "cease-use date" shall be determined based on the remaining lease rentals, reduced by estimated sublease rentals that could be reasonably obtained for the property. Our results of future operations may be impacted to the extent of foregone rental income, in the event we do not sublet the office space for an amount at least equal to our lease obligation.

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 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. 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 on a periodic basis thereafter. In connection with the reporting of results for the second quarter of 2002, based on the overall declines in the U.S. equity markets and the conditions prevailing in the broker-dealer industry, we engaged an independent appraisal firm to value our goodwill as of June 30, 2002. Based on this valuation, an impairment charge of \$18,762 of goodwill was indicated and recorded. The expense is included in the nine months ended September 30, 2002. The goodwill was generated in the Ladenburg acquisition in May 2001, and the charge reflected overall market declines since the acquisition. See Note 1 to our condensed consolidated financial statements for a discussion of the adoption of SFAS No. 142 and the impairment charge.

VALUATION OF DEFERRED TAX ASSETS. We account for taxes in accordance with SFAS No. 109, "Accounting for Income Taxes", which requires the recognition of tax benefits or expense on the temporary differences between the tax basis and book basis of its assets and liabilities. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those timing differences are expected to be recovered or settled. Deferred tax amounts as of September 30, 2002, which consist principally of the tax benefit of net operating loss carryforwards and accrued expenses, amounts to \$11,074. After consideration of all the evidence, both positive and negative, especially the fact we have sustained operating losses during 2001 and for the nine months ended September 30, 2002 and that we continue to be affected by conditions in the economy, management has determined that a valuation allowance at September 30, 2002 was necessary to offset the deferred tax assets based on the likelihood of future realization. Accordingly, during the quarter ended

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)

September 30, 2002, we increased our valuation allowance to fully offset the deferred tax assets based on the likelihood of future realization.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2002 VERSUS THREE MONTHS ENDED SEPTEMBER 30, 2001

Our revenues for the three months ended September 30, 2002 decreased \$2,102 from 2001 primarily as a result of decreased principal transactions of \$2,307 and decreased interest and dividends of \$470, net of \$886 increase in commissions. Our revenues have been adversely affected by the overall declines in the U.S. equity markets and the continuing weak operating environment for the broker-dealer industry.

Our expenses for the three months ended September 30, 2002 decreased \$2,766 primarily as a result of decreased employee compensation and benefits of \$1,806 and decreased brokerage, communication and clearance fees of \$440.

Our revenues for the three months ended September 30, 2002 consisted of commissions of \$10,712, net principal transactions of \$954, investment banking fees of \$1,790, syndicate and underwriting income of \$91, interest and dividends of \$579, investment advisory fees of \$651 and other income of \$1,200. Our revenues for the three months ended September 30, 2001 consisted of commissions of \$9,826, net principal transactions of \$3,261, investment banking fees of \$1,972, syndicate and underwriting income of \$125, interest and dividends of \$1,049, investment advisory fees of \$741 and other income of \$1,105. Our expenses for the three months ended September 30, 2002 consisted of employee compensation and benefits of \$12,035 and other expenses of \$11,691. Our expenses for the three months ended September 30, 2001 consisted of employee compensation and benefits of \$13,841 and other expenses of \$12,651.

The \$886 (9.0%) increase in commission income was primarily a result of the depressed market for equity securities for the three months ended September 30, 2001, due to the terrorist attack on the USA as well as the temporary closing of the U.S. equity markets during that period.

The \$2,307 (70.7%) decrease in principal transactions was primarily the result of decreases in trading income of \$1,813 in the 2002 period and a decrease in sales credits caused by the continued significant decline in the market for equity securities.

Investment banking fees were generally consistent with the prior year period and decreased by \$182 (9.2%).

Income tax expense for the three months ended September 30, 2002 was \$2,265 compared to an income tax benefit of \$2,728 in 2001. After consideration of all the evidence, both positive and negative, especially the fact we have sustained operating losses during 2001 and for the nine months ended September 30, 2002 and that we continue to be affected by conditions in the economy, management has determined that a valuation allowance at September 30, 2002 was necessary to offset the deferred tax assets based on the likelihood of future realization. Accordingly, during the quarter ended September 30, 2002, we increased our valuation allowance to fully offset the deferred tax assets based on the likelihood of future realization. In addition, the income tax rate for the 2002 and 2001 periods does not bear a customary relationship to effective tax rates as a result of state and local income tax expense and limitations on the utilization of net operating loss carrybacks.

NINE MONTHS ENDED SEPTEMBER 30, 2002 VERSUS NINE MONTHS ENDED SEPTEMBER 30, 2001

Our revenues for the nine months ended September 30, 2002 increased \$3,848 from 2001 primarily as a result of increased commissions of \$16,676, net of decreased net principal transactions of \$12,204. For comparative purposes, the 2002 period includes revenues generated by the Ladenburg Capital operations for the nine months ended September 30, 2002, while the 2001 period includes revenues generated by the Ladenburg Capital operations from May 7, 2001 to September 30, 2001.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued) (Dollars in Thousands, Except Per Share Amounts)

Our expenses for the nine months ended September 30, 2002, exclusive of the \$18,762 goodwill impairment charge, increased \$10,225 primarily as a result of an increase in compensation and benefits of \$4,102, an increase in brokerage, communication and clearance fees of \$542, an increase in professional services of \$1,532, an increase in rent and occupancy of \$1,198 and an increase in interest expense of \$531 offset by a decrease in depreciation and amortization of \$244. For comparative purposes, the 2002 period includes expenses incurred by the Ladenburg Capital operations for the nine months ended September 30, 2002, while the 2001 period includes expenses incurred by the Ladenburg Capital operations from May 7, 2001 to September 30, 2001.

Our revenues for the nine months ended September 30, 2002 consisted of commissions of \$38,322, net principal transactions of \$8,045, investment banking fees of \$8,097, syndicate and underwriting income of \$264, interest and dividends of \$1,799, investment advisory fees of \$2,154 and other income of \$3,324. Our revenues for the nine months ended September 30, 2001 consisted of commissions of \$21,646, net principal transactions of \$20,249, investment banking fees of \$7,847, syndicate and underwriting income of \$395, interest and dividends of \$2,823, investment advisory fees of \$2,430 and other income of \$2,767. Our expenses for the nine months ended September 30, 2002 consisted of employee compensation and benefits of \$44,582, impairment of goodwill of \$18,762 and other expenses of \$36,265. Our expenses for the nine months ended September 30, 2001 consisted of employee compensation and benefits of \$40,480 and other expenses of \$30,142.

The \$16,676 (77.0%) increase in commissions was the result of the impact of the acquired Ladenburg Capital operations, which provided additional commission income of \$30,868 in 2002 versus \$11,039 in the 2001 period, offset by a \$3,153 decrease at Ladenburg as a result of the significant decline in the market for equity securities for the nine months ended September 30, 2002.

Investment banking fees were consistent with the prior year, increasing by \$250 (3.2%).

The \$12,204 (60.3%) decrease in principal transactions was primarily the result of decreases in trading income of \$9,063 in the 2002 period and a decrease in sales credits caused by the continued significant decline in the market for equity securities.

The increase in compensation expense of \$4,102 (10.1%) was primarily due to the inclusion of Ladenburg Capital operations.

In connection with the reporting of the results for the second quarter of 2002, based on the overall declines in the U.S. equity markets and the conditions prevailing in the broker-dealer industry, we completed an impairment review and recorded a \$18,762 charge for the impairment of goodwill, which was generated in the Ladenburg acquisition. The charge reflects overall market declines since the acquisition in May 2001. During this review, an independent appraisal firm was engaged to value our goodwill as of June 30, 2002. The appraiser valued our businesses using a weighted average of each unit's projected discounted cash flow, with a weighted average cost of capital of 18.50%, and a fair market approach (using market comparables for ten companies).

The appraiser weighted the discounted cash flow for each unit at 70% and the fair market approach at 30%. The discounted cash flow was based on management's revised projections of operating results at June 30, 2002. Based on this valuation, an impairment charge of \$18,762 of goodwill was indicated and recorded. The expense is included in the nine months ended September 30, 2002.

Income tax expense benefit for the nine months ended September 30, 2002 was \$1,394 compared to an income tax benefit of \$3,914 in 2001. As discussed above, during the quarter ended September 30, 2002, we increased our valuation allowance to fully offset the deferred tax assets based on the likelihood of future realization. In addition, the income tax rate for the 2002 and 2001 periods does not bear a customary relationship to effective tax rates as a result of state and local income tax expense and limitations on utilization of net operating loss carrybacks.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)

LIQUIDITY AND CAPITAL RESOURCES

Approximately 57.0% of our assets at September 30, 2002 are highly liquid, consisting primarily of cash and cash equivalents, trading securities owned and receivables from clearing brokers, all of which fluctuate depending upon the levels of customer business and trading activity. Receivables from 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. 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.

Our brokerage subsidiaries, Ladenburg and Ladenburg Capital, 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's net capital position, as defined, of \$3,533, exceeded minimum capital requirements of \$1,000 by \$2,533 at September 30, 2002. As of September 30, 2002, Ladenburg Capital had net capital, as defined, of \$1,494, which exceeded minimum capital requirements of \$379 by \$1,115. Failure to maintain the required net capital may subject Ladenburg or Ladenburg Capital to suspension or expulsion by the NASD, the SEC and other regulatory bodies and 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 those operations of our broker-dealer subsidiaries that require the intensive use of capital, such as underwriting and trading activities, and also could restrict our ability to withdraw capital from these subsidiaries, which in turn, could limit our ability to pay dividends and repay and service our debt.

The Company's primary sources of liquidity include cash inflows from operations, borrowings and equity offerings.

Cash used in operating activities for the nine months ended September 30, 2002 was \$8,749 as compared to \$6,472 for the 2001 period. The difference is primarily due to the net loss of \$38,693 in 2002 versus \$8,551 in 2001 and the decrease of \$8,237 in accrued compensation versus \$3,101 in the 2001 period. The amounts were offset by the impairment of goodwill in the 2002 period of \$18,762 and a decrease in receivables from clearing brokers in 2002 of \$10,010 versus an increase of \$391 in the 2001 period.

Cash flows provided from investing activities for the nine months ended September 30, 2002 were \$653 compared to \$2,718 for the 2001 period. The difference is primarily attributable to cash of \$5,151 acquired in the 2001 LTS acquisition, offset by a decrease in restricted assets of \$1,551 in the 2002 period and a reduction in purchases of furniture, equipment and leasehold improvements (\$2,433 in the 2001 period versus \$898 in the 2002 period). Our restricted assets at September 30, 2002 and December 31, 2001 consisted primarily of collateral for a letter of credit which is used as collateral for a long-term lease of commercial office space. The decrease in restricted assets during the nine months ended September 30, 2002 was primarily the result of a \$1,500 reduction in the letter of credit pursuant to the lease terms.

The capital expenditures of \$898 and \$2,433 for the nine months ended September 30, 2002 and 2001, respectively, 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 nine months ended September 30, 2002 were \$3,000 compared to \$4,500 for the 2001 period. The difference is primarily attributable to the 2001 issuance of \$10,000 of senior convertible notes payable to Frost-Nevada, \$2,000 of notes payable to New Valley and Frost-Nevada in August 2001 and Ladenburg's borrowings of \$2,500 under its junior subordinated revolving credit agreement in 2001. The amounts are offset by \$10,000 of cash paid to Ladenburg's former stockholders in connection with the acquisition of Ladenburg in 2001. In the 2002 period, cash flows from

financing activities reflect the \$5,000 of notes payable that were issued to New Valley, offset by the repayment of \$2,000 of notes payable.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)

In conjunction with the acquisition of the Ladenburg Capital operations, 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 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.

On August 31, 2001, we borrowed \$1,000 from each of New Valley and Frost-Nevada in order to supplement the liquidity of our broker-dealer operations. 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 December 31, 2003 or the completion of one or more equity financings where we receive at least \$5,000 in total proceeds. On July 16, 2002, we borrowed an additional \$2,500 from New Valley (collectively, the "2002 Loans") on the same terms as the March 2002 loan. On June 28, 2002, New Valley, Berliner and Frost-Nevada also agreed with us to forbear until May 15, 2003 payment of the interest due to them under the senior convertible notes held by these entities on the interest payment dates of the notes commencing June 30, 2002 through March 2003 (the "Forbearance Interest Payments").

Ladenburg had \$2,500 outstanding under a junior subordinated revolving credit agreement with an affiliate of its clearing broker that extends through October 31, 2004 under which borrowings incur interest at LIBOR plus 2%.

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.

Our liquidity position continues to be adversely affected by our inability to generate cash from operations as a result of the continued significant decline in the equity markets. Accordingly, we have been forced to cut expenses as necessary. In order to accomplish this, we have implemented certain cost-cutting procedures throughout our operations, and, in the third quarter of 2002, reduced the size of our workforce.

We recently renegotiated our current clearing agreement with one of our clearing brokers whereby this clearing broker will become our primary clearing broker, clearing substantially all of our business. As part of the new agreement, we will realize significant cost savings from reduced ticket charges and expect to realize additional costs savings from other incentives. In addition, under the new clearing agreement, an affiliate of the clearing broker will lend us approximately \$3,800 upon the conversion of the business currently conducted with another clearing broker to this primary clearing broker. The loans will be forgiven over various periods, up to four years from the date of the conversion. The conversion is currently scheduled to occur in late November 2002.

During the fourth quarter of 2002, in order to reduce future operating expenses, we intend to terminate the operations of Ladenburg Capital. Ladenburg Capital expects to withdraw as a broker-dealer at that time. Ladenburg has agreed to service the Ladenburg Capital accounts, and many of the Ladenburg Capital employees are expected to be offered employment with Ladenburg. This will reduce support staff expenses, operating expenses and general administrative expenses.

We filed a registration statement in May 2002 for a proposed \$10,000 rights offering to the holders of our outstanding common stock, convertible notes, warrants and options in order to raise additional necessary working capital. New Valley has agreed to purchase up to \$5,000 of our common stock in the proposed rights offering if such shares are otherwise unsubscribed for. However, on August 6, 2002, we announced that we had decided to postpone the rights offering due to market conditions. We intend to review the situation during the fourth quarter to determine if conditions for the offering have improved, although we do not currently anticipate that the rights offering can be successfully completed absent a material improvement in market conditions and a significant increase in our stock price. In the circumstance where the rights offering were ultimately consummated, we

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - (Continued)
(Dollars in Thousands, Except Per Share Amounts)

would be required to use the proceeds of the proposed rights offering to repay the 2002 Loans as well as all accumulated Forbearance Interest Payments, to the

extent possible.

On October 8, 2002, we borrowed an additional \$2,000 from New Valley. The loan, which bears interest at 1% above the prime rate, matures on the earliest of December 31, 2002, the next business day after we receive our federal income tax refund for the fiscal year ended September 30, 2002, and the next business day after we receive a loan from an affiliate of our clearing broker in connection with the conversion of additional clearing business to this broker. The terms of the loan restrict us from incurring or assuming any indebtedness that is not subordinated to the loan so long as the loan is outstanding.

Our overall capital and funding needs are continually reviewed to ensure that our liquidity and 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 on these reviews, if the proposed rights offering could be successfully completed, management believes that our capital structure would be adequate for current operations and reasonably foreseeable future needs. However, because the rights offering is currently postponed and does not appear to be a viable option at this time, should we otherwise require additional financing, we will need to seek to raise additional capital through other available sources, including through borrowing additional funds on a short-term basis from New Valley or from other parties, including our shareholders and clearing brokers. In connection with our recent renegotiation of the current clearing agreement with one of our clearing brokers, in addition to other incentives, we will receive loans of approximately \$3,800 from an affiliate of our clearing broker. If we continue to be unable to generate cash from operations and are unable to find alternative sources of funding, it would have an adverse impact on our liquidity and operations.

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.

We are currently attempting to renegotiate several of our existing lease commitments in connection with the termination of the operations of Ladenburg Capital in the fourth quarter of 2002. As a result of these negotiations, we may incur additional expenses in the fourth quarter of 2002 to terminate these long-term commitments.

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 in the normal course of business, 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 counter party risk through the use of credit exposure information, the monitoring of collateral values and the establishment of credit limits.

We maintained inventories of trading securities at September 30, 2002 with fair market values of \$4,702 in long positions and \$1,890 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 September 30, 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.

ITEM 4. CONTROLS AND PROCEDURES

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 Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file 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.

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 the design and operation of our disclosure controls and procedures within 90 days of the filing date of this quarterly report, and, based on their evaluation, our principal executive officer and principal financial officer have concluded that these controls and procedures are effective. There were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the date of their evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

See Note 6 to the condensed consolidated financial statements of the Company 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 September 30, 2002.

Item 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) EXHIBITS

- 3.1 Articles of Amendment to the Articles of Incorporation, dated November 6, 2002.
- 10.1 1999 Performance Equity Plan (Amended and Restated).
- 10.2 Qualified Employee Stock Purchase Plan (incorporated by reference to Appendix A in the Company's Proxy Statement dated October 3, 2002).
- 10.3 Letter Agreement, dated October 10, 2002, between the Company and Victor M. Rivas
- 10.4 Letter Agreement, dated October 10, 2002, between the Company and Richard J. Rosenstock
- 10.5 Letter Agreement, dated October 10, 2002, between the Company and Mark Zeitchick
- 10.6 Letter Agreement, dated October 10, 2002, between the Company and Vincent A. Mangone
- 99.1 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.
- 99.2 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.

(b) REPORTS ON FORM 8-K

| DATE ---- | ITEMS ----- | FINANCIAL STATEMENTS ----- |
|--------------------|----------------|-------------------------------|
| July 8, 2002 | 5 | None |
| September 30, 2002 | 4 | 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: November 14, 2002

By: /s/ SALVATORE GIARDINA

Salvatore Giardina
Vice President and Chief Financial Officer
(Duly Authorized Officer and
Chief Accounting Officer)

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CERTIFICATION

I, Victor M. Rivas, 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 quarterly 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 quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - a) designed such disclosure controls and procedures 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 quarterly report is being prepared;
 - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
 - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ VICTOR M. RIVAS

Victor M. Rivas
President and Chief Executive Officer

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CERTIFICATION

I, Salvatore Giardina, 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 quarterly 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 quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly 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 quarterly report;

4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:

a) designed such disclosure controls and procedures 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 quarterly report is being prepared;

b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, 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 in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 14, 2002

/s/ SALVATORE GIARDINA

Salvatore Giardina
Vice President and Chief Financial Officer

ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
LADENBURG THALMANN FINANCIAL SERVICES INC.

- - - - -
PURSUANT TO SECTION 607.1006 OF THE
1989 BUSINESS CORPORATION ACT OF FLORIDA
- - - - -

The undersigned President and Chief Executive Officer of Ladenburg
Thalmann Financial Services Inc. ("Corporation"), DOES HEREBY CERTIFY:

FIRST: The name of the Corporation is Ladenburg Thalmann Financial
Services Inc.

SECOND: The Articles of Incorporation of the Corporation is hereby
amended by deleting the first sentence of Article III in its entirety and by
substituting the following new first sentence in lieu thereof:

"The aggregate number of shares which the Corporation
shall have the authority to issue is two hundred and two
million (202,000,000) shares, of which two hundred million
(200,000,000) shares shall be "Common Stock," par value \$.0001
per share, and of which two million (2,000,000) shares shall
be "Preferred Stock," par value \$.0001 per share."

THIRD: The foregoing Amendment to the Articles of Incorporation was
duly approved by the Corporation's Board of Directors on January 22, 2002 in
accordance with the provisions of Section 607.1003 of the Florida 1989 Business
Corporation Act and thereafter was duly adopted by the Corporation's
shareholders by a sufficient number of votes cast for the approval of the
amendment at a shareholders meeting on November 6, 2002 in accordance with the
provisions of Sections 607.1003 and 607.0725 of the Florida 1989 Business
Corporation Act.

IN WITNESS WHEREOF, I have executed this Certificate of Amendment this
6th day of November, 2002.

Victor M. Rivas
President and Chief Executive Officer

Initially Approved by Board of Directors on May 27, 1999
Initially Approved by Shareholders on August 23, 1999
Amendments Approved by Board of Directors and Compensation Committee
On January 4, 2001 and February 7, 2001
Amendments Approved by Shareholders on May 7, 2001
Amendments Approved by Board of Directors on January 22, 2002
Amendment Approved by Shareholders on November 6, 2002

[AMENDED AND RESTATED THROUGH NOVEMBER 6, 2002]

LADENBURG THALMANN FINANCIAL SERVICES INC.
1999 PERFORMANCE EQUITY PLAN

ARTICLE I

PURPOSE: DEFINITIONS.

1.1 PURPOSE. The purpose of the Ladenburg Thalmann Financial Services Inc. 1999 Performance Equity Plan is to enable the Company to offer to its key employees, officers, directors and consultants whose past, present and any potential contributions to the Company and its Subsidiaries have been, are or will be important to the success of the Company, an opportunity to acquire a proprietary interest in the Company. The various types of long-term incentive awards which may be provided under the Plan will enable the Company to respond to changes in compensation practices, tax laws, accounting regulations and the size and diversity of its businesses.

1.2 DEFINITIONS. For purposes of the Plan, the following terms shall be defined as set forth below.

(a) "Agreement" means the agreement between the Company and the Holder setting forth the terms and conditions of an award under the Plan.

(b) "Board" means the Board of Directors of the Company.

(c) "Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto and the regulations promulgated thereunder.

(d) "Committee" means the Stock Option Committee of the Board or any other committee of the Board, which Board may designate to administer the Plan or any portion thereof. If no Committee is so designated, then all references in this Plan to "Committee" shall mean the Board.

(e) "Common Stock" means the Common Stock of the Company, no par value per share.

(f) "Company" means Ladenburg Thalmann Financial Services Inc., a corporation organized under the laws of the State of Florida.

(g) "Deferred Stock" means Stock to be received, under an award made pursuant to Section 9 below, at the end of a specified deferral period.

(h) "Disability" means disability as determined under

procedures established by the Committee for purposes of the Plan.

(i) "Effective Date" means the date set forth in Section 13.1 below.

(j) "Fair Market Value," unless otherwise required by any applicable provision of the Code or any regulations issued thereunder, means, as of any given date: (i) if the Common Stock is listed on a national securities exchange or quoted on the Nasdaq National Market or Nasdaq Small Cap Market, the last sale price of the Common Stock in the principal trading market for the Common Stock on the last trading day preceding the date of grant of an award hereunder, as reported by the exchange or Nasdaq, as the case may be; (ii) if the Common Stock is not listed on a national securities exchange or quoted on the Nasdaq National Market or Nasdaq SmallCap Market, but is traded in the over-the-counter market, the closing bid price for the Common Stock on the last trading day preceding the date of grant of an award hereunder for which such quotations are reported by the OTC Bulletin Board or the National Quotation Bureau, Incorporated or similar publisher of such quotations; and (iii) if the fair market value of the Common Stock cannot be determined pursuant to clause (i) or (ii) above, such price as the Committee shall determine, in good faith.

(k) "Holder" means a person who has received an award under the Plan.

(l) "Incentive Stock Option" means any Stock Option intended to be and designated as an "incentive stock option" within the meaning of Section 422 of the Code.

(m) "Nonqualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

(n) "Normal Retirement" means retirement from active employment with the Company of any Subsidiary on or after age 65.

(o) "Other Stock-Based Award" means an award under Section 10 below, that is valued in whole or in part by reference to, or is otherwise based upon, Stock.

(p) "Parent" means any present or future parent corporation of the Company, as such term is defined in section 424(e) of the Code.

(q) "Plan" means the Ladenburg Thalmann Financial Services Inc. 1999 Performance Equity Plan, as hereinafter amended from time to time.

(r) "Repurchase Value" shall mean the Fair Market Value in the event the award to be settled under Section 2.2(h) or repurchased under Section 14.12 is comprised of shares of Common Stock and the difference between Fair Market Value and the Exercise Price (if lower than Fair Market Value) in the event the award is a Stock Option or Stock Appreciation Right; in each case, multiplied by the number of shares subject to the award.

(s) "Restricted Stock" means Stock, received under an award made pursuant to Section 8 below, that is subject to restrictions under said Section 8.

(t) "SAR Value" means the excess of the Fair Market Value (on the exercise date) of the number of shares for which the Stock Appreciation Right is exercised over the exercise price that the participant would have otherwise had to pay to exercise the related Stock Option and purchase the relevant shares.

(u) "Stock" means the Common Stock of the Company, no par value per share.

(v) "Stock Appreciation Right" means the right to receive from the Company, on surrender of all or part of the related Stock Option, without a cash payment to the Company, a number of shares of Common Stock equal to the SAR Value divided by the exercise price of the Stock Option.

(w) "Stock Option" or "Option" means any option to purchase shares of Stock which is granted pursuant to the Plan.

(x) "Stock Reload Option" means any option granted under Section 6.3 below, as a result of the payment of the exercise price of a Stock Option and/or the withholding tax related thereto in the form of Stock owned by the Holder or the withholding of Stock by the Company.

(y) "Subsidiary" means any present or future subsidiary corporation of the Company, as such term is defined in Section 424(f) of the Code.

ARTICLE II

ADMINISTRATION.

2.1 COMMITTEE MEMBERSHIP. The Plan shall be administered by the Board or a Committee. Committee members shall serve for such term as the Board may in each case determine, and shall be subject to removal at any time by the Board. The Committee members, to the extent possible, shall be "non-employees" as defined in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and "outside directors" within the meaning of Section 162(m) of the Code.

2.2 POWERS OF COMMITTEE. The Committee shall have full authority to award, pursuant to the terms of the Plan: (i) Stock Options; (ii) Stock Appreciation Rights, (iii) Restricted Stock, (iv) Deferred Stock, (v) Stock Reload Options and/or (vi) Other Stock-Based Awards. For purposes of illustration and not of limitation, the Committee shall have the authority (subject to the express provisions of this Plan):

(a) To select the officers, key employees, directors and consultants of the Company or any Subsidiary to whom Stock Options, Stock Appreciation Rights, Restricted Stock, Deferred Stock, Reload Stock Options and/or Other Stock-Based Awards may from time to time be awarded hereunder.

(b) To determine the terms and conditions, not inconsistent with the terms of the Plan, of any award granted hereunder (including, but not limited to, number of shares, share price or other consideration, such as other securities of the Company or other property, any restrictions or limitations, and any vesting, exchange, surrender, cancellation, acceleration, termination, exercise or forfeiture provisions, as the Committee shall determine).

(c) To determine any specified performance goals or such other factors or criteria which need to be attained for the vesting of an award granted hereunder.

(d) To determine the terms and conditions under which awards granted hereunder are to operate on a tandem basis and/or in conjunction with or apart from other equity awarded under this Plan and cash awards made by the Company or any Subsidiary outside of this Plan.

(e) To permit a Holder to elect to defer a payment under the Plan under such rules and procedures as the Committee may establish, including the crediting of interest on deferred amounts denominated in cash and of dividend equivalents on deferred amounts denominated in Stock.

(f) To determine the extent and circumstances under which Stock and other amounts payable with respect to an award hereunder shall be deferred which may be either automatic or at the election of the Holder.

(g) To substitute (i) new Stock Options for previously granted Stock Options, which previously granted Stock Options have higher option exercise prices and/or contain other less favorable terms, and (ii) new awards of any other type for previously granted awards of the same type, which previously granted awards are upon less favorable terms.

(h) To make payments and distributions with respect to awards (I.E., to "settle" awards) through cash payments in an amount equal to the Repurchase Value.

Notwithstanding anything contained herein to the contrary, the Committee shall not grant to any one Holder in any one calendar year awards for more than 1,000,000 shares in the aggregate.

2.3 INTERPRETATION OF PLAN.

(a) COMMITTEE AUTHORITY. Subject to Section 12 below, the Committee shall have the authority to adopt, alter and repeal such administrative rules, guidelines and practices governing the Plan as it shall, from time to time, deem advisable, to interpret the terms and provisions of the Plan and any award issued under the Plan (and to determine the form and substance of all Agreements relating thereto), and to otherwise supervise the administration of the Plan. Subject to Section 12 below, all decisions made by the Committee pursuant to the provisions of the Plan shall be made in the Committee's sole discretion and shall be final and binding upon all persons, including the Company, its Subsidiaries and Holders.

(b) INCENTIVE STOCK OPTIONS. Anything in the Plan to the contrary notwithstanding, no term or provision of the Plan relating to Incentive Stock Options (including, but not limited to, Stock Reload Options or Stock Appreciation Rights granted in conjunction with an Incentive Stock Option) or any Agreement providing for Incentive Stock Options shall be interpreted, amended or altered, nor shall any discretion or authority granted under the Plan be so exercised, so as to disqualify the Plan under Section 422 of the Code, or, without the consent of the Holder(s) affected, to disqualify any Incentive Stock Option under such Section 422.

(c) SECTION 162(M) LIMITATIONS. Anything in the Plan to the contrary notwithstanding, no term or provision of the Plan or any Agreement providing for awards hereunder shall be interpreted, amended, or altered, nor should any discretion or authority granted under the Plan be exercised, so as to disqualify the Plan under Section 162(m) of the Code."

ARTICLE III

STOCK SUBJECT TO PLAN.

3.1 NUMBER OF SHARES. The total number of shares of Common Stock reserved and available for distribution under the Plan shall be 10,000,000 shares. Shares of Common Stock under the Plan may consist, in whole or in part, of authorized and unissued shares or treasury shares. If any shares of Stock that have been granted pursuant to a Stock Option cease to be subject to a Stock

Option, or if any shares

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of Stock that are subject to any Stock Appreciation Right, Restricted Stock, Deferred Stock award, Reload Stock Option or Other Stock-Based Award granted hereunder are forfeited or any such award otherwise terminates without a payment being made to the Holder in the form of Stock, such shares shall again be available for distribution in connection with future grants and awards under the Plan. Only net shares issued upon a stock-for-stock exercise (including stock used for withholding taxes) shall be counted against the number of shares available under the Plan.

3.2 ADJUSTMENT UPON CHANGES IN CAPITALIZATION, ETC. In the event of any change in the shares of Common Stock of the Company as a whole occurring as the result of a stock split, reverse stock split, stock dividend payable on shares of Common Stock, combination or exchange of shares, or other extraordinary or unusual event occurring after the grant of an Award, the Committee shall determine, in its sole discretion, whether such change equitably requires an adjustment in the terms of any Award or the aggregate number of shares reserved for issuance under the Plan. Any such adjustments will be made by the Committee, whose determination will be final, binding and conclusive.

ARTICLE IV

ELIGIBILITY.

Awards may be made or granted to key employees, officers, directors and consultants who are deemed to have rendered or to be able to render significant services to the Company or its Subsidiaries and who are deemed to have contributed or to have the potential to contribute to the success of the Company. No Incentive Stock Option shall be granted to any person who is not an employee of the Company or a Subsidiary at the time of grant. Notwithstanding the foregoing, an award may be made or granted to a person in connection with his hiring or retention, or at any time on or after the date he reaches an agreement (oral or written) with the Company with respect to such hiring or retention, even though it may be prior to the date the person first performs services for the Company or its Subsidiaries; PROVIDED, HOWEVER, that no portion of any such award shall vest prior to the date the person first performs such services.

ARTICLE V

Intentionally Omitted

ARTICLE VI

STOCK OPTIONS.

6.1 GRANT AND EXERCISE. Stock Options granted under the Plan may be of two types (i) Incentive Stock Options, and (ii) Nonqualified Stock Options. Any Stock Option granted under the Plan shall contain such terms, not inconsistent with this Plan, or with respect to Incentive Stock Options, not inconsistent with the Plan and the Code, as the Committee may from time to time approve. The committee shall have the authority to grant Incentive Stock Options, Non-Qualified Stock Options, or both types of Stock Options and which may be granted alone or in addition to other awards granted under the Plan. To the extent that any Stock Option intended to qualify as an Incentive Stock Option does not so qualify, it shall constitute a separate Nonqualified Stock Option.

An Incentive Stock Option may be granted only within the ten year period commencing from the Effective Date and may only be exercised within ten years of the date of grant (or five years in the case of an Incentive Stock Option granted to an optionee ("10% Shareholder") who, at the time of grant, owns Stock possessing more than 10% of the total combined voting power of all classes of stock of the Company.

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6.2 TERMS AND CONDITIONS. Stock Options granted under the Plan shall be subject to the following terms and conditions:

(a) EXERCISE PRICE. The exercise price per share of Stock purchasable under a Stock Option shall be determined by the Committee at the time of grant and may not be less than 100% of the Fair Market Value of the Stock as defined above; PROVIDED, HOWEVER, that the exercise price of an Incentive Stock Option granted to a 10% Shareholder shall not be less than 110% of the Fair Market Value of the Stock.

(b) OPTION TERM. Subject to the limitations in Section 6.1 above, the term of each Stock Option shall be fixed by the Committee.

(c) EXERCISABILITY. Stock Options shall be exercisable at such time or times and subject to each terms and conditions as shall be determined by the Committee and as set forth in Section 11 below. If the Committee provides, in its discretion, that any Stock Option is exercisable only in installments, i.e., that it vests over time, the Committee may waive such installment exercise provisions at any time at or after the time of grant in whole or in part, based upon such factors as the Committee shall determine.

(d) METHOD OF EXERCISE. Subject to whatever installment, exercise and waiting period provisions are applicable in a particular case, Stock Options may be exercised in whole or in part at any time during the term of the Option, by giving written notice of exercise to the Company specifying the number of shares of Stock to be purchased. Such notice shall be accompanied by payment in full of the purchase price, which shall be in cash or, if provided in the Agreement, either in shares of Stock (including Restricted Stock and other contingent awards under this Plan) or partly in cash and partly in such Stock, or such other means which the Committee determines are consistent with the Plan's purpose and applicable law. Cash payments shall be made by wire transfer, certified or bank check or personal check, in each case payable to the order of the Company; PROVIDED, HOWEVER, that the Company shall not be required to deliver certificates for shares of Stock with respect to which an Option is exercised until the Company has confirmed the receipt of good and available funds in payment of the purchase price thereof. Payments in the form of Stock shall be valued at the Fair Market Value of a share of Stock on the date prior to the date of exercise. Such payments shall be made by delivery of stock certificates in negotiable form which are effective to transfer good and valid title thereto to the Company, free of any liens or encumbrances. Subject to the terms of the Agreement, the Committee may, in its sole discretion, at the request of the Holder, delivery upon the exercise of a Nonqualified Stock Option a combination of shares of Deferred Stock and Common Stock; PROVIDED, HOWEVER, that, notwithstanding the provisions of Section 9 of the Plan, such Deferred Stock shall be fully vested and not subject to forfeiture. A Holder shall have none of the rights of a Shareholder with respect to the shares subject to the Option until such shares shall be transferred to the Holder upon the exercise of the Option. The Committee may permit a Holder to elect to pay the Exercise Price upon the exercise of a Stock Option by irrevocably authorizing a third party to sell shares of Common Stock (or a sufficient portion of the shares) acquired upon exercise of the Stock Option and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise.

(e) TRANSFERABILITY. Except as may be set forth in the next sentence of this Section or in the Agreement, no Stock Option shall be transferable by the Holder other than by will or by the laws of descent and distribution, and all Stock Options shall be exercisable, during the Holder's lifetime, only by the Holder (or, to the extent of legal incapacity or incompetency, the Holder's guardian or legal representative). Notwithstanding the foregoing, a Holder, with the approval of the Committee, may transfer a Stock Option (i) (A) by gift, for no consideration, or (B) pursuant to a domestic relations order,

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in either case, to or for the benefit of the Holder's "Immediate Family" (as defined below), or (ii) to an entity in which the Holder and/or members of Holder's Immediate Family own more than fifty percent of the voting interest, in exchange for an interest in that entity, provided that such transfer is being made for estate, tax and/or personal planning purposes and will not have adverse tax consequences to the Company and subject to such limits as the Committee may establish and the execution of such documents as the Committee may require. In such event, the transferee shall remain subject to all the terms and conditions applicable to the Stock Option prior to such transfer. The term "Immediate Family" shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law or sister-in-law, including adoptive relationships, any person sharing the Holder's household (other than a tenant or employee), a trust in which these persons have more than fifty percent beneficial interest, and a foundation in which these persons (or the Holder) control the management of the assets.

(f) TERMINATION BY REASON OF DEATH. If a Holder's employment by the Company or a Subsidiary terminates by Reason of Death, any Stock Option held by such Holder, unless otherwise determined by the Committee at the time of grant and set forth in the Agreement, shall be fully vested and may thereafter be exercised by the legal representative of the estate or by the legatee of the Holder under the will of the Holder, for a period of one year (or such other greater or lesser period as the Committee may specify at grant) from the date of such death or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

(g) TERMINATION BY REASON OF DISABILITY. If a Holder's employment by the Company or any Subsidiary terminates by Reason of Disability, any Stock Option held by such Holder unless otherwise determined by the Committee at the time of grant and set forth in the Agreement, shall be fully vested and may thereafter be exercised by the Holder for a period of one year (or such other greater or lesser period as the Committee may specify at the time of grant) from the date of such termination of employment or until the expiration of the stated term of such Stock Option, whichever period is the shorter.

(h) OTHER TERMINATION. Subject to the provisions of Section 14.3 below, and unless otherwise determined by the Committee at the time of grant and set forth in the Agreement, if a Holder is an employee of the Company or a Subsidiary at the time of grant and if such Holder's employment by the Company or any Subsidiary terminates for any reason other than Death or Disability, the Stock Option shall thereupon automatically terminate, except that if the Holder's employment is terminated by the Company or a Subsidiary without cause or due to Normal Retirement, then the portion of such Stock Option which has vested on the date of termination of employment may be exercised for the lesser of three months after termination of employment or the balance of

such Stock Option's term.

(i) ADDITIONAL INCENTIVE OPTION LIMITATION. In the case of an Incentive Stock Option, the aggregate Fair Market Value of Stock (determined at the time of grant of the Option) with respect to which Incentive Stock Options become exercisable by a Holder during any calendar year (under all such plans of the Company and its Parent and Subsidiary) shall not exceed \$100,000.

(j) BUYOUT AND SETTLEMENT PROVISIONS. The Committee may, at any time, in its sole discretion, offer to buy out a Stock Option previously granted, based upon such terms and conditions as the committee shall establish and communicate to the Holder at the time that such offer is made.

(k) STOCK OPTION AGREEMENT. Each grant of a Stock Option shall be confirmed by, and shall be subject to the terms of the Agreement executed by the Company and the Holder.

6.3 STOCK RELOAD OPTION. The Committee may also grant to the Holder (concurrently with the

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grant of an Incentive Stock Option and at or after the time of grant in the case of a Nonqualified Stock Option) a Stock Reload Option up to the amount of shares of Stock held by the Holder for a least six months and used to pay all or part of the exercise price of an Option and, if any, withheld by the Company as payment for withholding taxes. Such Stock Reload Option shall have an exercise price equal to the Fair Market Value as of the date of the Stock Reload Option grant. Unless the Committee determines otherwise, a Stock Reload Option may be exercised commencing one year after it is granted and shall expire on the date of expiration of the Option to which the Reload Option is related.

ARTICLE VII

STOCK APPRECIATION RIGHTS.

7.1 GRANT AND EXERCISE. The committee may grant Stock Appreciation Rights to participants who have been or are being granted Options under the Plan as a means of allowing such participants to exercise their Options without the need to pay the exercise price in cash. In the case of a Nonqualified Stock Option, a Stock Appreciation Right may be granted either at or after the time of the grant of such Nonqualified Stock Option. In the case of an Incentive Stock Option, a Stock Appreciation Right may be granted only at the time of the grant of such Incentive Stock Option.

7.2 TERMS AND CONDITIONS. Stock Appreciation Rights shall be subject to the following terms and conditions:

(a) EXERCISABILITY. Stock Appreciation Rights shall be exercisable as shall be determined by the Committee and as set forth in the Agreement, subject to the limitations, if any, imposed by the Code, with respect to related Incentive Stock Options.

(b) TERMINATION. A Stock Appreciate Right shall terminate and shall no longer be exercisable upon the termination or exercise of the related Stock Option.

(c) METHOD OF EXERCISE. Stock Appreciation Rights shall be exercisable upon such terms and conditions as shall be determined by the Committee and set forth in the Agreement and by surrendering the applicable portion of the related Stock Option. Upon such exercise and surrender, the

Holder shall be entitled to receive a number of Option Shares equal to the SAR Value divided by the exercise price of the Option.

(d) SHARES AFFECTED UPON PLAN. The granting of a Stock Appreciation Right shall not affect the number of shares of Stock available under awards under the Plan. The number of shares available for awards under the Plan will, however, be reduced by the number of shares of Stock acquirable upon exercise of the Stock Option to which such Stock Appreciation Right relates.

ARTICLE VIII

RESTRICTED STOCK.

8.1 GRANT. Shares of Restricted Stock may be awarded either alone or in addition to other awards granted under the Plan. The Committee shall determine the eligible persons to whom, and the time or times at which grants or Restricted Stock will be awarded, the number of shares to be awarded, the price (if any) to be paid by the Holder, the time or times within which such awards may be subject to forfeiture ("Restricted Period"), the vesting schedule and rights to acceleration thereof, and all other terms and conditions of the awards.

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8.2 TERMS AND CONDITIONS. Each Restricted Stock award shall be subject to the following terms and conditions:

(a) CERTIFICATES. Restricted Stock, when issued, will be represented by a stock certificate or certificates registered in the name of the Holder to whom such Restricted Stock shall have been awarded. During the Restriction Period, certificates representing the Restricted Stock and any securities constituting Retained Distributions (as defined below) shall bear a legend to the effect that ownership of the Restricted Stock (and such Retained distributions), and the enjoyment of all rights appurtenant thereto, are subject to the restrictions, terms and conditions provided in the Plan and the Agreement. Such certificates shall be deposited by the Holder with the Company, together with stock powers or other instruments of assignment, each endorsed in blank, which will permit transfer to the Company of all or any portion of the Restricted Stock and any securities constituting Retained Distributions that shall be forfeited or that shall not become vested in accordance with the Plan and the Agreement.

(b) RIGHTS OF HOLDER. Restricted Stock shall constitute issued and outstanding shares of Common Stock for all corporate purposes. The Holder will have the right to vote such Restricted Stock, to receive and retain all regular cash dividends and other cash equivalent distributions as the Board may in its sole discretion designate, pay or distribute on such Restricted Stock and to exercise all other rights, powers and privileges of a holder of Common Stock with respect to such Restricted Stock, with the exceptions that (i) the Holder will not be entitled to delivery of the stock certificate or certificates representing such Restricted Notes until the Restriction Period shall have expired and unless all other vesting requirements with respect thereto shall have been fulfilled; (ii) the Company will retain custody of the stock certificate or certificates representing the Restricted Stock during the Restriction Period; (iii) other than regular cash dividends and other cash equivalent distributions as the Board may in its sole discretion designate, pay or distribute, the Company will retain custody of all distributions ("Retained Distributions") made or declared with respect to the Restricted Stock (and such Retained Distributions will be subject to the same restrictions, terms and conditions as are applicable to the Restricted Stock) until such time, if ever, as the Restricted Stock with respect to which such Retained Distributions shall

have been made, paid or declared shall have become vested and with respect to which the Restricted Period shall have expired; (iv) a breach of any of the restrictions, terms or conditions contained in this Plan or the Agreement or otherwise established by the Committee with respect to any Restricted Stock or Retained Distributions will cause a forfeiture of such Restricted Stock and any Retained Distributions with respect thereto.

(c) VESTING; FORFEITURES. Upon the expiration of the Restriction Period with respect to each award of Restricted Stock and the satisfaction of any other applicable restrictions, terms and conditions (i) all or part of such Restricted Stock shall become vested in accordance with terms of the Agreement, subject to Section 11 below, and (ii) any Retained Distributions with respect to such Restricted Stock shall become vested to the extent that the Restricted Stock related thereto shall have become vested, subject to Section 11 below. Any such Restricted Stock and Retained Distributions that do not vest shall be forfeited to the Company and the Holder shall not thereafter have any rights with respect to such Restricted Stock and Retained Distributions that shall have been so forfeited.

ARTICLE IX

DEFERRED STOCK.

9.1 GRANT. Shares of Deferred Stock may be awarded either alone or in addition to other awards granted under the Plan. The Committee shall determine the eligible persons to whom and the time

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or times at which grants of Deferred Stock will be awarded, the number of shares of Deferred Stock to be awarded to any person, the duration of the period (the "Deferral Period") during which, and the conditions under which, receipt of the shares will be deferred, and all other terms and conditions of the awards.

9.2 TERMS AND CONDITIONS. Each Deferred Stock award shall be subject to the following terms and conditions.

(a) CERTIFICATES. At the expiration of the Deferral Period (or the Additional Deferral Period referred to in Section 9.2(d) below, where applicable), share certificates shall be issued and delivered to the Holder, or his legal representative, representing the number equal to the shares covered by the Deferred Stock award.

(b) RIGHTS OF HOLDER. A person entitled to receive Deferred Stock shall not have any rights of a Shareholder by virtue of such award until the expiration of the applicable Deferral Period and the issuance and delivery of the certificates representing such Stock. The shares of Stock issuable upon expiration of the Deferral Period shall not be deemed outstanding by the Company until the expiration of such Deferral Period and the issuance and delivery of such Stock to the Holder.

(c) VESTING; FORFEITURES. Upon the expiration of the Deferral Period with respect to each award of Deferred Stock and the satisfaction of any other applicable restrictions, terms and conditions all or part of such Deferred Stock shall become vested in accordance with the terms of the Agreement, subject to Section 11 below. Any such Deferred Stock that does not vest shall be forfeited to the Company and the Holder shall not thereafter have any rights with respect to such Deferred Stock.

(d) ADDITIONAL DEFERRAL PERIOD. A Holder may request to, and the Committee may at any time defer the receipt of an award (or an installment of an award) for an additional specified period or until a specified event

("Additional Deferral Period"). Subject to any exceptions adopted by the Committee, such request must generally be made at least one year prior to expiration of the Deferral Period for such Deferred Stock award (or such installment).

ARTICLE X

OTHER STOCK-BASED AWARDS.

10.1 GRANT AND EXERCISE. Other Stock-Based Awards may be awarded, subject to limitations under applicable law, that are denominated or payable in, valued in whole or in part by reference to, or otherwise based on, or related to, shares of Common Stock, as deemed by the Committee to be consistent with the purposes of the Plan, including, without limitation, purchase rights, shares of Common Stock awarded which are not subject to any restrictions or conditions, convertible or exchangeable debentures, or other rights convertible into shares of Common Stock and awards valued by reference to the value of securities of or the performance of specified Subsidiaries. Other Stock-Based Awards may be awarded either alone or in addition to or in tandem with any other awards under this Plan or any other plan of the Company.

10.2 ELIGIBILITY FOR OTHER STOCK-BASED AWARDS. The Committee shall determine the eligible persons to whom and the time or times at which grants of such other stock-based awards shall be made, the number of shares of Common Stock to be awarded pursuant to such awards, and all other terms and conditions of the awards.

10.3 TERMS AND CONDITIONS. Each Other Stock-Based Award shall be subject to such terms and conditions as may be determined by the Committee and to Section 11 below.

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ARTICLE XI

ACCELERATED VESTING AND EXERCISABILITY.

11.1 NON-APPROVED TRANSACTIONS. Except as otherwise expressly provided in the Agreement, if any "person" (as such term is used in Section 13(d) and 14(d) of the Exchange Act), is or becomes the "beneficial owner" (as referred to in Rule 13-3) under the Exchange Act), directly or indirectly, of securities of the Company representing 25% or more of the combined voting power of the Company's then outstanding securities in one or more transactions, and the Board does not authorize or otherwise approve such acquisition, then, the vesting periods of any and all Options and other Awards granted and outstanding under the Plan shall be accelerated and all such Options and Awards will immediately and entirely vest, and the respective holders thereof will have the immediate right to purchase and/or receive any and all Common Stock subject to such Options and awards on the terms set forth in this Plan and the respective agreements respecting such Options and Awards.

11.2. APPROVED TRANSACTIONS. Except as otherwise expressly provided in the Agreement, the Committee may, in the event of an acquisition of substantially all of the Company's assets or at least 50% of the combined voting power of the Company's then outstanding securities in one or more transactions (including by way of merger or reorganization) which has been approved by the Company's Board of Directors, accelerate the vesting of any and all Stock Options and other awards granted and outstanding under the Plan.

ARTICLE XII

AMENDMENT AND TERMINATION.

The Board may at any time, and from time to time, amend, alter, suspend or discontinue any of the provisions of the Plan, but no amendment, alteration, suspension or discontinuance shall be made which would impair the rights of a Holder under any Agreement theretofore entered into hereunder, without the Holder's consent.

ARTICLE XIII

TERM OF PLAN.

13.1 EFFECTIVE DATE. The Plan shall be effective as of May 27, 1999 (the "Effective Date"), subject to the approval of the Plan by the Company's shareholders within one year after the Effective Date. Any awards granted under the Plan prior to such approval shall be effective when made (unless otherwise specified by the Committee at the time of grant), but shall be conditioned upon, and subject to, such approval of the Plan by the Company's shareholders and no awards shall vest or otherwise become free of restrictions prior to such approval.

13.2 TERMINATION DATE. Unless terminated by the Board, this Plan shall continue to remain effective until such time no further awards may be granted and all awards granted under the Plan are no longer outstanding. Notwithstanding the foregoing, grants of Incentive Stock Options may only be made during the ten year period following the Effective Date.

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ARTICLE XIV

GENERAL PROVISIONS.

14.1 WRITTEN AGREEMENTS. Each award granted under the Plan shall be confirmed by, and shall be subject to the terms of the Agreement executed by the Company and the Holder. The Committee may terminate any award made under the Plan if the Agreement relating thereto is not executed and returned to the Company within ten (10) days after the Agreement has been delivered to the Holder for his or her execution.

14.2 UNFUNDED STATUS OF PLAN. The Plan is intended to constitute an "unfunded" plan for incentive and deferred compensation. With respect to any payments not yet made to a Holder by the Company, nothing contained herein shall give any such Holder any rights that are greater than those of a general creditor of the Company.

14.3 EMPLOYEES:

(a) ENGAGING IN COMPETITION WITH THE COMPANY; SOLICITATION OF CUSTOMERS AND EMPLOYEES; DISCLOSURE OF CONFIDENTIAL INFORMATION. Except as otherwise expressly provided in the Agreement, in the event a Holder's employment with the Company or a Subsidiary is terminated for any reason whatsoever, and within eighteen (18) months after the date thereof such Holder either (i) accepts employment with any competitor of, or otherwise engages in competition with, the Company or any of its Subsidiaries, (ii) solicits any customers or employees of the Company or any of its Subsidiaries to do business with or render services to the Holder or any business with which the Holder becomes affiliated or to which the Holder renders services or (iii) discloses to anyone outside the Company or uses any confidential information or material of the Company or any of its Subsidiaries in violation of the Company's policies or

any agreement between the Holder and the Company or any of its Subsidiaries, the Committee, in its sole discretion, may require such Holder to return to the Company the economic value of any Shares that was realized or obtained by such Holder at any time during the period beginning on the date that is 6 months prior to the date such Holder's employment with the Company is terminated. In such event, Holder agrees to remit to the Company, in cash, an amount equal to the difference between the Fair Market Value of the Shares on the date of termination (or the sales price of such Shares if the Shares were sold during such 6 month period) and the price the Holder paid the Company for such Shares, the Committee, in its sole discretion, may require such Holder to return to the Company the economic value of any award which was realized or obtained by such Holder at any time during the period beginning on that date which is six (6) months prior to the date of such Holder's termination of employment with the Company.

(b) TERMINATION FOR CAUSE. Except as otherwise expressly provided in the Agreement, the Committee may, in the event of a Holder's employment with the Company or a Subsidiary is terminated for cause, annul any award granted under this Plan to such employee and, in such event, the Committee, in its sole discretion, may require such Holder to return to the Company the economic value of any award which was realized or obtained by such Holder at any time during the period beginning on that date which is six (6) months prior to the date of such Holder's termination of employment with the Company.

(c) NO RIGHT OF EMPLOYMENT. Nothing contained in the Plan or in any award hereunder shall be deemed to confer upon any Holder who is an employee of the Company or any Subsidiary any right to continued employment with the Company or any Subsidiary, nor shall it interfere

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in any way with the right of the Company or any Subsidiary to terminate the employment of any Holder who is an employee at any time.

(d) INVESTMENT REPRESENTATIONS. The Committee may require each person acquiring shares of Stock pursuant to a Stock Option or other award under the Plan to represent to and agree with the Company in writing that the Holder is acquiring the shares for investment without a view to distribution thereof. Each person acquiring shares of Common Stock pursuant to a Stock Option or other award under the Plan shall be required to abide by all policies of the Company in effect at the time of such acquisition and thereafter with respect to the ownership and trading of the Company's securities.

14.4 ADDITIONAL INCENTIVE ARRANGEMENTS. Nothing contained in the Plan shall prevent the Board from adopting such other or additional Incentive arrangements as it may deemed desirable, including, but not limited to, the granting of Stock Options and the awarding of stock and cash otherwise than under the Plan; and such arrangements may be either generally applicable or applicable only in specified cases.

14.5 WITHHOLDING TAXES. Not later than the date as of which an amount must first be included in the gross income of the Holder for Federal income tax purposes with respect to any option or other award under the Plan, the Holder shall pay to the Company, or make arrangements satisfactory to the Committee regarding the payment of, any Federal, state and local taxes of any kind required by law to be withheld or paid with respect to such amount. If permitted by the Committee, tax withholding or payment obligations may be settled with Common Stock, including Common Stock that is part of the award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditioned upon such payment or arrangements and the Company or the

Holder's employer (if not the Company) shall, to the extent permitted by law, have the right to deduct any such taxes from any payment of any kind otherwise due to the Holder from the Company or any Subsidiary.

14.6 GOVERNING LAW. The Plan and all awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of New York (without regard to choice of law provisions).

14.7 OTHER BENEFIT PLANS. Any award granted under the Plan shall not be deemed compensation for purposes of computing benefits under any retirement plan of the Company or any Subsidiary and shall not affect any benefits under any other benefit plan nor or subsequently in effect under which the availability or amount of benefits is related to the level of compensation (unless required by specific reference in any such other plan to awards under this Plan).

14.8 NON-TRANSFERABILITY. Except as otherwise expressly provided in the Plan or the Agreement, no right or benefit under the Plan may be alienated, sold, assigned, hypothecated, pledged, exchanged, transferred, encumbered or charged, and any attempt to alienate, sell, assign, hypothecate, pledge, exchange, transfer, encumber or charge the same shall be void.

14.9 APPLICABLE LAWS. The obligations of the Company with respect to all Stock Options and awards under the Plan shall be subject to (i) all applicable laws, rules and regulations and such approvals by any governmental agencies as may be required, including, without limitation, the Securities Act of 1933, as amended, and (ii) the rules and regulations of any securities exchange on which the Stock may be listed.

14.10 CONFLICTS. If any of the terms or provisions of the Plan or an Agreement (with respect to Incentive Stock Options) conflict with the requirements of Sections 162(m) or 422 of the Code, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of

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said Sections 162(m) or 422 of the Code. Additionally, if this Plan or any Agreement does not contain any provision required to be included herein under Sections 162(m) or 422 of the Code, such provision shall be deemed to be incorporated herein and therein with the same force and effect as if such provision had been set out at length herein and therein. If any of the terms or provisions of any Agreement conflict with any terms or provision of the Plan, then such terms or provisions shall be deemed inoperative to the extent they so conflict with the requirements of the Plan. Additionally, if any Agreement does not contain any provision required to be included therein under the Plan, such provision shall be deemed to be incorporated therein with the same force and effect as if such provision had been set out at length therein.

14.11 NON-REGISTERED STOCK. The shares of Stock to be distributed under this Plan have not been, as of the Effective Date, registered under the Securities Act of 1933, as amended, or any applicable state or foreign securities laws and the Company has no obligation to any Holder to register the Stock or to assist the Holder in obtaining an exemption from the various registration requirements, or to list the Stock on a national securities exchange.

14.12 REPURCHASE OF STOCK. Except as otherwise expressly provided in the Agreement, the Committee may, in the event of an acquisition of substantially all of the Company's assets or at least 50% of the combined voting power of the Company's then outstanding securities in one or more transactions (including by way of merger or reorganization) which has been approved by the Company's Board of Directors, require a Holder of any award granted under this

Plan to relinquish such award to the Company upon the tender by the Company to Holder of cash in an amount equal to the Repurchase Value of such award.

October 10, 2002

Ladenburg Thalmann Financial Services Inc.
Ladenburg Thalmann & Co. Inc.
590 Madison Avenue, 34th Floor
New York, New York 10022

RE: EMPLOYMENT AGREEMENT

Gentlemen:

Reference is made to my Employment Agreement (the "Agreement"), dated as of February 8, 2001, with Ladenburg Thalmann & Co. Inc. In light of the current financial condition of Ladenburg Thalmann Financial Services Inc. ("LTS") and its subsidiaries, I hereby waive, for the period September 1, 2002 to December 31, 2002, my participation in LTS's Special Performance Incentive Plan (the "Plan") and any payments due to me under the Plan for such period. In addition, I also agree that, for the period January 1, 2002 to August 31, 2002, \$400,000 of my Guaranteed Bonus (as defined in the Agreement) shall be credited on a pro rata basis (\$266,667) against any amounts due to me under the Plan.

Sincerely,

/s/ Victor M. Rivas

Victor M. Rivas

Acknowledged and agreed this
10th day of October, 2002

Ladenburg Thalmann Financial Services Inc.

By: /s/ VICTOR M. RIVAS

Ladenburg Thalmann & Co. Inc.

By: /s/ VICTOR M. RIVAS

October 10, 2002

Ladenburg Thalmann Financial Services Inc.
Ladenburg Capital Management Inc.
590 Madison Avenue, 34th Floor
New York, New York 10022

RE: EMPLOYMENT AGREEMENT

Gentlemen:

Reference is made to my Employment Agreement (the "Agreement"), dated as of August 24, 1999, as amended, with Ladenburg Thalmann Financial Services Inc. ("LTS") and Ladenburg Capital Management Inc. In light of the current financial condition of LTS and its subsidiaries, I hereby waive, for the period September 1, 2002 to December 31, 2002, 25% of any payments due to me for such period under LTS's Special Performance Incentive Plan (the "Plan") and agree that such waiver shall not be deemed to be Reason under the Agreement with respect to any payment due to me under the Plan for the fiscal year ending December 31, 2002. In addition, I also waive, for the period September 1, 2002 to December 31, 2002, 25% of any payments due to me for such period under Section 3 of the Second Amendment to the Agreement.

Sincerely,

/s/ Richard Rosenstock

Richard Rosenstock

Acknowledged and agreed this
10th day of October, 2002

Ladenburg Thalmann Financial Services Inc.

By: /s/ SALVATORE GIARDINA

Ladenburg Capital Management Inc.

By: /s/ ROBERT GORCZAKOWSKI

October 10, 2002

Ladenburg Thalmann Financial Services Inc.
Ladenburg Capital Management Inc.
590 Madison Avenue, 34th Floor
New York, New York 10022

RE: EMPLOYMENT AGREEMENT

Gentlemen:

Reference is made to my Employment Agreement, dated as of August 24, 1999, as amended, with Ladenburg Thalmann Financial Services Inc. ("LTS") and Ladenburg Capital Management Inc. In light of the current financial condition of LTS and its subsidiaries, I hereby waive, for the period September 1, 2002 to December 31, 2002, 25% of any payments due to me for such period under LTS's Special Performance Incentive Plan (the "Plan") and agree that such waiver shall not be deemed to be Reason under the Agreement with respect to any payment due to me under the Plan for the fiscal year ending December 31, 2002.

Sincerely,

/s/ Mark Zeitchick

Mark Zeitchick

Acknowledged and agreed this
10th day of October, 2002

Ladenburg Thalmann Financial Services Inc.

By: /s/ SALVATORE GIARDINA

Ladenburg Capital Management Inc.

By: /s/ RICHARD ROSENSTOCK

October 10, 2002

Ladenburg Thalmann Financial Services Inc.
Ladenburg Capital Management Inc.
590 Madison Avenue, 34th Floor
New York, New York 10022

RE: EMPLOYMENT AGREEMENT

Gentlemen:

Reference is made to my Employment Agreement, dated as of August 24, 1999, as amended, with Ladenburg Thalmann Financial Services Inc. ("LTS") and Ladenburg Capital Management Inc. In light of the current financial condition of LTS and its subsidiaries, I hereby waive, for the period September 1, 2002 to December 31, 2002, 25% of any payments due to me for such period under LTS's Special Performance Incentive Plan (the "Plan") and agree that such waiver shall not be deemed to be Reason under the Agreement with respect to any payment due to me under the Plan for the fiscal year ending December 31, 2002.

Sincerely,

/s/ Vincent Mangone

Vincent Mangone

Acknowledged and agreed this
10th day of October, 2002

Ladenburg Thalmann Financial Services Inc.

By: /s/ SALVATORE GIARDINA

Ladenburg Capital Management Inc.

By: /s/ RICHARD ROSENSTOCK

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

In connection with the Quarterly Report of Ladenburg Thalmann Financial Services Inc. (the "Company") on Form 10-Q for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Victor M. Rivas, 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.

November 14, 2002

/s/ VICTOR M. RIVAS

Victor M. Rivas
President and Chief Executive Officer

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

In connection with the Quarterly Report of Ladenburg Thalmann Financial Services Inc. (the "Company") on Form 10-Q for the period ended September 30, 2002 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Salvatore Giardina, 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.

November 14, 2002

/s/ SALVATORE GIARDINA

Salvatore Giardina
Vice President and Chief Financial Officer