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**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 8-K**

**CURRENT REPORT**

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

Date of Report (Date of earliest event reported)

March 4, 2005

**LADENBURG THALMANN FINANCIAL SERVICES INC.**

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(Exact Name of Registrant as Specified in Charter)

Florida

1-15799

65-0701248

(State or Other Jurisdiction  
of Incorporation)

(Commission File  
Number)

(IRS Employer  
Identification No.)

590 Madison Avenue, 34th Floor, New York, New York

10022

(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code (212) 409-2000

Not Applicable

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(Former Name or Former Address, if Changed Since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
  - Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
  - Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  - Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))
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### **Item 1.01 Entry Into a Material Definitive Agreement.**

See Item 5.02, which is incorporated by reference herein.

### **Item 3.02 Unregistered Sales of Equity Securities.**

See Item 5.02, which is incorporated by reference herein.

### **Item 5.02 Departure of Directors or Principal Officers; Election of Directors; Appointment of Principal Officers.**

Effective as of March 4, 2005, Ladenburg Thalmann Financial Services Inc. (“Company”) entered into a Severance, Waiver and Release Agreement (“Severance Agreement”) with Charles I. Johnston, the Company’s President and Chief Executive Officer. Under the Severance Agreement, effective March 31, 2005, Mr. Johnston will retire from all of his positions with the Company and all of its subsidiaries including Ladenburg Thalmann & Co. Inc., the Company’s primary operating subsidiary (“Ladenburg”). Pursuant to the Severance Agreement, Mr. Johnston will receive (i) a lump sum payment of \$150,000, (ii) continued health benefits under his existing employment agreement until the earlier of the second anniversary of the date of the Severance Agreement or until he is eligible to be covered by another plan and (iii) the right until March 4, 2006 to exercise options to purchase a total of 100,000 shares of common stock represented by the Stock Option Agreement, dated as of March 9, 2004, between the Company and Mr. Johnston.

In addition, the Company entered into an Employment Agreement (“Employment Agreement”) with Mark D. Klein pursuant to which Mr. Klein will serve as the President, Chief Executive Officer and a Director of the Company and Chairman and Chief Executive Officer of Ladenburg effective as of April 1, 2005. Mr. Klein is a securities industry veteran with deep experience in the investment advisory, alternative investment and brokerage businesses. For the past five years Mr. Klein served as the President and Chief Executive Officer of NBGI Asset Management Inc. and NBGI Securities Inc., both affiliates of the National Bank of Greece, a leading financial institution in Greece. Prior to joining NBGI Asset Management Inc. and NBGI Securities Inc., Mr. Klein founded Newbrook Capital Management and Newbrook Securities in 1994 and served as the President and CEO of the two firms until they were acquired by the National Bank of Greece in 2000. Mr. Klein has also been a senior portfolio manager specializing in high net worth individuals for three major brokerage firms, including PaineWebber and Smith Barney Shearson. In addition to his traditional asset management experience, Mr. Klein founded Independence Holdings LLC, a private equity fund of funds companies. Mr. Klein earned a Masters in Business Administration in Finance and Economics at the J. L. Kellogg Graduate School of Management at Northwestern University and a Bachelors of Business Administration with high distinction from Emory University.

Pursuant to the Employment Agreement, Mr. Klein will receive (i) a base salary of \$500,000 per year, (ii) an annual bonus of \$500,000 if certain performance goals are met and (iii) an option (“Option”) to purchase 5,000,000 shares of the Company’s common stock at a price of \$0.465 per share. The Option, which expires on March 4, 2015, vests as to 10% of the shares on the date of grant and as to an additional 22.5% of the shares in four annual installments commencing on March 4, 2006. In connection with his employment, Mr. Klein entered into a Subscription Agreement with the Company to purchase 2,222,222 shares (“Shares”) of the Company’s common stock at \$0.45 per share (or an aggregate purchase price of \$1,000,000). Mr. Klein will purchase the Shares simultaneously with the closing of the Amended and Restated Debt Conversion Agreement and private financing described below in Item 8.01.

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The Company has agreed to register for re-sale the Shares as well as the shares of common stock issuable upon exercise of the Option. However, Mr. Klein has agreed that he will not sell, transfer or assign any of the Shares until November 15, 2005.

The summary of the foregoing transactions are qualified in their entirety by reference to the text of the related agreements, which are attached as exhibits hereto and are incorporated herein by reference.

### **Item 8.01 Other Events.**

On March 4, 2005, the Company announced that the closing of the previously announced Amended and Restated Debt Conversion Agreement with Frost-Nevada Investments Trust ("Frost-Nevada") and New Valley Corporation ("New Valley"), the holders of the Company's senior convertible promissory notes ("Notes"), and the Company's private financing, has been scheduled to take place on March 11, 2005. Pursuant to the Amended and Restated Debt Conversion Agreement, Frost-Nevada and New Valley will convert their Notes, with an aggregate principal amount of \$18,010,000, together with the accrued interest of \$4,689,107, into 51,778,678 shares of the Company's common stock. Frost-Nevada and New Valley will also each purchase 11,111,111 shares of common stock from the Company for \$5,000,000, or \$0.45 per share.

As a result of the foregoing transactions, which were approved by the Company's stockholders at its Annual Meeting held in January 2005, the Company currently anticipates recording a pre-tax charge in the first quarter of 2005 of approximately \$19,400,000 in its statements of operations reflecting the expense attributable to the reduction in the conversion price of the Notes. After giving effect to the loss, the issuance of common stock upon conversion of the Notes and the equity investment of \$10,000,000 by Frost-Nevada and New Valley, the net effect on the Company's balance sheet will be an increase to shareholders' equity of approximately \$32,700,000.

Upon consummation of the foregoing transactions, Frost-Nevada (and its affiliates) will be the beneficial owner of 37.2% of the Company's common stock and New Valley will be the beneficial owner of 25.7% of the Company's common stock. However, New Valley has informed the Company that it will distribute the 19,876,358 shares it will receive as a result of the conversion of its Note as a dividend to its stockholders promptly following the closing of such transactions. Following the distribution by New Valley, New Valley would beneficially own approximately 9.3% of the Company's common stock.

### **Item 9.01 Financial Statements and Exhibits.**

#### (c) Exhibits.

- 10.1 Severance, Waiver and Release Agreement, dated as of March 4, 2005, between Ladenburg Thalmann Financial Services Inc. and Charles I. Johnston
  - 10.2 Employment Agreement, dated as of March 4, 2005, between Ladenburg Thalmann Financial Services Inc. and Mark D. Klein
  - 10.3 Stock Option Agreement, dated as of March 4, 2005, between Ladenburg Thalmann Financial Services Inc. and Mark D. Klein
  - 10.4 Indemnification Agreement, dated as of March 4, 2005, between Ladenburg Thalmann Financial Services Inc. and Mark D. Klein
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10.5 Subscription Agreement, dated as of March 4, 2005, between Ladenburg Thalmann Financial Services Inc. and Mark D. Klein

99.1 Press release dated March 4, 2005

99.2 Press release dated March 10, 2005

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SIGNATURE

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

Date: March 10, 2005

LADENBURG THALMANN FINANCIAL SERVICES INC.

By: /s/ Salvatore Giardina

Name: Salvatore Giardina

Title: Executive Vice President and Chief Financial Officer





**NEWS****FOR IMMEDIATE RELEASE**

Contact: Paul Caminiti/Carrie Bloom  
Citigate Sard Verbinnen  
212-687-8080

**CLOSING OF AMENDED DEBT CONVERSION AGREEMENT  
AND PRIVATE PLACEMENT SCHEDULED TO OCCUR ON MARCH 11, 2005**

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**NEW YORK, NY, March 4, 2005** – Ladenburg Thalmann Financial Services Inc. (AMEX: LTS) announced today that the closing of the previously announced Amended and Restated Debt Conversion Agreement with Frost-Nevada Investments Trust and New Valley Corporation, the holders of Ladenburg's senior convertible promissory notes, and Ladenburg's private financing, has been scheduled to take place on March 11, 2005. Pursuant to the Amended and Restated Debt Conversion Agreement, Frost-Nevada Investments Trust and New Valley Corporation will convert their notes, with an aggregate principal amount of \$18,010,000, together with the accrued interest of \$4,689,107, into 51,778,678 shares of common stock of Ladenburg. Frost-Nevada and New Valley will also each purchase 11,111,111 shares of common stock from Ladenburg for \$5,000,000, or \$0.45 per share.

As a result of the foregoing transactions, which were approved by Ladenburg's stockholders at its Annual Meeting held in January 2005, the net effect on Ladenburg's balance sheet will be an increase to shareholders' equity of approximately \$32,700,000. Upon consummation of the foregoing transactions, Frost-Nevada (and its affiliates) will be the beneficial owner of approximately 37.2% of Ladenburg's stock and New Valley will be the beneficial owner of approximately 25.7% of Ladenburg's stock. However, New Valley has informed Ladenburg that it will distribute the 19,876,358 shares it will receive as a result of the conversion of the notes it holds as a dividend to its stockholders promptly following the closing of such transactions. Following the distribution by New Valley, New Valley would beneficially own approximately 9.3% of Ladenburg's stock.

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## **About Ladenburg Thalmann**

Ladenburg Thalmann Financial Services is engaged in retail and institutional securities brokerage, investment banking and asset management services through its principal operating subsidiary, Ladenburg Thalmann & Co. Inc. Founded in 1876 and a New York Stock Exchange member since 1879, Ladenburg Thalmann & Co. is a full service investment banking and brokerage firm based in New York City, with regional offices in Boca Raton, Florida; Los Angeles, California; Irvine, California; and Melville, New York. Ladenburg provides various services including corporate finance, asset management, brokerage, trading and research, principally for middle market and emerging growth companies and high net worth individuals.

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**NEWS**

**FOR IMMEDIATE RELEASE**

Contact: Paul Caminiti/Carrie Bloom  
Citigate Sard Verbinen  
212/687-8080

**LADENBURG THALMANN NAMES MARK KLEIN PRESIDENT AND CEO**

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**NEW YORK, NY, March 10, 2005** – Ladenburg Thalmann Financial Services Inc. (AMEX: LTS) announced today that Mark Klein, a securities industry veteran with deep experience in the investment advisory, alternative investment and brokerage business, has been named President and Chief Executive Officer of Ladenburg Thalmann Financial Services Inc. and Chairman and Chief Executive Officer of Ladenburg Thalmann & Co. Inc. Prior to joining Ladenburg, Mr. Klein served for the past five years as the President and Chief Executive Officer of NBGI Asset Management Inc. and NBGI Securities Inc., both affiliates of the National Bank of Greece, a leading financial institution in Greece. Mr. Klein’s appointment is effective April 1, 2005.

“We are very pleased to welcome Mark as Ladenburg’s new Chief Executive Officer,” stated Howard M. Lorber, Chairman of Ladenburg. “Mark is a seasoned securities industry executive with a long and well-established track record of successfully managing and building investment advisory and brokerage businesses, including alternative asset management businesses. We are confident that Ladenburg will greatly benefit from his leadership.”

“I am delighted to join Ladenburg Thalmann and look forward to leading the Company and its many talented professionals. Ladenburg is one of the oldest and most respected financial services companies in the industry,” said Mark Klein. “I intend to re-establish the firm as one of the preeminent players in the securities industry and create long-term value for its shareholders and employees.”

Prior to joining NBGI Asset Management Inc. and NBGI Securities Inc., Mr. Klein founded Newbrook Capital Management and Newbrook Securities in 1994 and served as the

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President and CEO of the two firms until they were acquired by the National Bank of Greece in 2000. Mr. Klein has also been a senior portfolio manager specializing in high net worth individuals for three major brokerage firms, including PaineWebber and Smith Barney Shearson. In addition to his traditional asset management experience, Mark founded Independence Holdings LLC, a private equity fund of funds companies. Mr. Klein earned a Masters in Business Administration in Finance and Economics at the J. L. Kellogg Graduate School of Management at Northwestern University and a Bachelors of Business Administration with high distinction from Emory University.

The Company has granted Mr. Klein an option to purchase 5,000,000 shares of the Company's Common Stock at an exercise price of \$0.465 per share. The option, which expires on March 4, 2015, will vest as to 10% of the shares on the date of grant and as to an additional 22.5% of the shares in four annual installments commencing on March 4, 2006. In connection with his employment, Mr. Klein will also purchase 2,222,222 shares of the Company's common stock at \$0.45 per share (or an aggregate purchase price of \$1,000,000). Mr. Klein will purchase the Shares simultaneously with the closing of the previously announced Amended and Restated Debt Conversion Agreement and private financing, scheduled to occur on March 11, 2005.

Mr. Klein succeeds Charles Johnston, who has decided to pursue other opportunities. "We want to thank Charles for his dedication and hard work during this transitional year for the Company and wish him the best of luck," concluded Mr. Lorber.

#### **About Ladenburg Thalmann**

Ladenburg Thalmann Financial Services is engaged in retail and institutional securities brokerage, investment banking and asset management services through its principal operating subsidiary, Ladenburg Thalmann & Co. Inc. Founded in 1876 and a New York Stock Exchange member since 1879, Ladenburg Thalmann & Co. is a full service investment banking and brokerage firm based in New York City, with regional offices in Boca Raton, Florida; Los Angeles, California; Irvine, California; and Melville, New York. Ladenburg provides various services including corporate finance, asset management, brokerage, trading and research, principally for middle market and emerging growth companies and high net worth individuals.

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## SEVERANCE AGREEMENT, WAIVER, AND RELEASE

This Severance Agreement, Waiver and Release (the "Agreement"), dated as of March 4, 2005, is entered into by Charles I. Johnston ("Johnston") and Ladenburg Thalmann Financial Services Inc. ("LTFS").

WHEREAS, Johnston has been employed by LTFS as its Chairman and Chief Executive Officer pursuant to the parties' Employment Agreement, dated as of March 9, 2004 (the "Employment Agreement");

WHEREAS, Johnston now desires to retire from his positions with LTFS and each of LTFS' subsidiaries and affiliates (collectively, the "Company");

WHEREAS, the parties mutually desire to resolve any and all disputes between them, including all issues pertaining to the amount and calculation of compensation and benefits due under the Employment Agreement;

NOW, THEREFORE, in consideration of the acts, payments, covenants, and mutual agreements herein described and agreed to be performed, Johnston and the Company agree as follows (capitalized terms not defined herein shall have the meanings ascribed to them in the Employment Agreement):

1. Effective as of the close of business on March 31, 2005, Johnston shall be deemed to have resigned from all positions with the Company.
2. In connection with Johnston's resignation, the Company shall pay Johnston, as severance, a lump sum of \$150,000 by the close of business on March 31, 2005.
3. The Company shall continue to pay or provide, consistent with the Company's prior practices applicable to Johnston immediately prior to the date hereof as if Johnston is an active employee of the Company, health benefits for Johnston (and his dependents) and all other benefits described in Section 5(A) of the Employment Agreement, until the earlier of (i) the second anniversary of the date hereof and (ii) the date Johnston becomes eligible to be covered under another substantially equivalent program by reason of employment or consultancy elsewhere.
4. Effective March 31, 2005, the Employment Agreement shall be deemed terminated, except for the provisions of Sections 5(C), Sections 6(A), (C) and (D) and Section 8 thereof which shall survive termination of the Employment Agreement. For the avoidance of doubt, the restrictive covenants provided in Section 6(B) of the Employment Agreement shall terminate on March 31, 2005.
5. The terms and provisions of the Indemnification Agreement between Johnston and LTFS, dated as of March 9, 2004 ("Indemnification Agreement"), shall remain in full force and effect and shall survive termination of the Employment Agreement.
6. Johnston shall be entitled to exercise options to purchase 100,000 shares of common stock represented by the two Stock Option Agreements, each dated as of March 9, 2004, between LTFS and Johnston. Such 100,000 options shall remain exercisable for a period

of twelve (12) months from the date of hereof. The option to purchase the remaining 2,400,000 shares of common stock shall terminate.

#### COMPLETE RELEASE

In consideration of the Company's obligations stated above, Johnston hereby forever releases the Company, its past and present employees, officers, directors, parent companies, subsidiaries, divisions, successors and assigns from all claims Johnston may now have based on his employment with the Company or the separation of that employment through the date of execution of this Agreement to the maximum extent permitted by law. This includes a release, to the maximum extent permitted by law, of any rights or claims Johnston may have under: (1) the Age Discrimination Employment Act, which generally prohibits age discrimination in employment; Title VII of the Civil Rights Act of 1964, which generally prohibits discrimination in employment based on race, color, national origin, religion or sex; the Equal Pay Act, which generally prohibits paying men and women unequal pay for equal work; the Americans with Disabilities Act, which generally prohibits discrimination on the basis of disability; the Employee Retirement Income Security Act of 1974, which governs the provision of pension and welfare benefits; and all other federal, state or local laws prohibiting employment discrimination, or (2) Section 806 of 18 U.S.C. 1514A, which generally provides certain protection for employees of publicly traded companies and all other federal, state or local laws providing similar protection. This also includes a release by Johnston of any claims for wrongful discharge, any compensation claims (other than as provided in this Agreement) or any other claims under any statute, rule, regulation, or under the common law. This release covers both claims known and unknown to Johnston based on his employment with the Company or the separation of that employment through the date of execution of this Agreement.

Johnston further promises never to file or voluntarily participate or voluntarily assist in any lawsuit, arbitration or other legal action asserting any claims that are released under this Agreement, provided, however, that nothing herein shall restrict Johnston's ability to respond to any inquiry from applicable regulatory authorities or to provide information pursuant to legal process or to participate in any lawsuit, arbitration or other legal action pursuant to legal process. If Johnston breaches this Section and files a lawsuit or arbitration based on legal claims that he has released and the court or arbitrator decides in favor of the Company, Johnston will pay for all costs incurred by the Company, including reasonable attorneys' fees, in defending against such claim.

In consideration of Johnston providing the Company with the release as referenced above, the Company for itself, and on behalf of its past, present and/or future parent companies, and any and all of its or their subsidiaries, divisions, employee benefit and/or pension plans or funds, successors and assigns, and all of its or their past and/or present employees, directors, attorneys and assigns, hereby forever releases Johnston, his heirs, successors and assigns, from any and all claims (whether known or unknown) it may now have based upon his employment with the Company, the separation or termination of that employment, his holding any office or position with the Company or any employee benefit plan through the date of execution of this Agreement to the maximum extent permitted by law.

The Company further promises and covenants not to voluntarily participate or assist in any lawsuit, arbitration or other legal action asserting any claims that are released under this Agreement, provided, however, that nothing herein shall restrict the Company's ability to provide complete information concerning Johnston's employment when required to do so under applicable law, rule or regulatory requirements. If the Company breaches this Section and files a lawsuit or arbitration based upon legal claims that it has released and the court or arbitrator decides in favor of Johnston, the Company agrees that it will pay for all costs incurred by Johnston, including reasonable attorneys'

fees, in defending against the Company's claim.

Notwithstanding anything herein to the contrary, nothing contained herein shall release any claims Johnston or the Company may have to enforce their rights under this Agreement or the Indemnification Agreement.

#### RETURN OF MATERIALS

At the Company's request, Johnston will promptly deliver to the Company all memoranda, notes, records, reports, customer lists, manuals, drawings and other documents (and all copies thereof) relating to the business of the Company and all property associated therewith (excluding the Computers), which he may now possess or have under his control (other than his rolodex or similar address and telephone directories, any documents provided to Johnston in his capacity as a participant in any employee benefit plan or program, any agreement between Johnston and the Company with regard to Johnston's employment with, or termination from, the Company and any information that is required for the preparation of Johnston's personal tax return).

#### FUTURE COOPERATION

Johnston agrees to reasonably cooperate with the Company and its legal advisors in connection with business matters in which Johnston was involved or any claims investigations, administrative proceedings or lawsuits which relate to his employment with the Company and of which Johnston has knowledge. Any request for cooperation will be upon reasonable advance notice and in writing. All cooperation from Johnston will be at mutually convenient times and locations and shall be subject to Johnston's personal and business commitments. The Company shall pay Johnston's reasonable out of pocket expenses in connection with such cooperation, and the Company will pay Johnston an hourly rate mutually agreed to between the parties at the time the Company requests Johnston's reasonable cooperation (other than for cooperation during court testimony).

#### RIGHT TO RECOVER PAYMENTS; ARBITRATION

If Johnston materially violates his obligations under this Agreement (as determined by a court or arbitrator), and fails to cure such violation(s) within fifteen business days following receipt of notice from the Company specifically setting forth the obligation(s) violated, the paragraph(s) violated and the actions and/or inactions constituting the violation(s), the Company's obligations under this Agreement shall cease (other than any rights to indemnification). Any controversy arising out of or relating to this Agreement shall be submitted to one arbitrator in New York City pursuant to the National Rules for the Resolution of Employment Disputes of the American Arbitration Association. The arbitrator's award shall be final and binding on all parties, and judgment may be entered on an arbitrator's award in any court having competent jurisdiction. The losing party shall pay all costs and expenses, including reasonable legal fees, incurred by the prevailing party in any such arbitration.

#### NO MITIGATION/SET-OFF

Johnston is not required to seek other employment or otherwise mitigate the amount of any payments to be made by the Company pursuant to this Agreement, and there shall be no offset against any amounts due to Johnston under this Agreement on account of any remuneration attributable to any subsequent employment that Johnston may obtain. The Company's obligation to pay or provide Johnston with the amounts and benefits provided under this Agreement shall not be subject to set-off, counterclaim, or recoupment of amounts owed by Johnston to the Company except for any specific amounts that Johnston agrees he owes to the Company.



## CONSULTATION WITH ATTORNEY

Johnston hereby confirms that he has been advised to consult with an attorney concerning this Agreement and acknowledges that he has had ample opportunity to do so before signing said Agreement.

## ENTIRE AGREEMENT

This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and cannot be altered except in writing signed by both parties. Except as otherwise provided herein, the terms of this Agreement and the Indemnification Agreement supersede any other oral or written arrangement between Johnston and the Company with respect to Johnston's employment or the separation of his employment by the Company (other than any stock option or other equity agreement). Both parties acknowledge that no representations were made to induce execution of this Agreement which are not expressly contained in this Agreement.

## SUCCESSORSHIP; CONTROLLING LAW

This Agreement will be binding on the Company and its successors and assigns and will also be binding on Johnston, his heirs, administrators, executors and assigns. This Agreement shall be assignable by the Company only to an acquirer of all or substantially all of the assets of the Company. The Company shall require any successor to all or substantially all of the business and/or assets of the Company, whether direct or indirect, by purchase, merger, consolidation, acquisition of stock, or otherwise, to expressly assume and agree to perform this Agreement in the same manner and to the same extent as the Company would be required to perform it if no such succession had taken place. This Agreement will be construed under the law of the State of New York, without regard to conflict of law principles.

## PERIOD FOR REVIEW AND CONSIDERATION OF AGREEMENT

Johnston understands that he has a period of twenty-one (21) days from the date of this Agreement to review and consider this Agreement before signing it. Johnston may use as much of this twenty-one (21) day period as he wishes prior to signing. If Johnston has not signed and returned this Agreement to Ladenburg Thalmann Financial Services Inc., at the address provided under the "Notice" paragraph below, by the date which is twenty-one (21) days after the date of this Agreement, Johnston will not be eligible to receive the payments and benefits described in this Agreement (provided, notwithstanding the foregoing, that the Indemnification Agreement and any stock option agreements between the Company and Johnston shall continue in accordance with their terms).

## EMPLOYEE'S RIGHTS TO REVOKE AGREEMENT

Johnston may revoke this Agreement within seven (7) days of signing it. Revocation can be made by delivering a written notice of revocation to Joseph Giovanniello Jr., at the address noted in the following paragraph. If Johnston revokes this Agreement, it will not be effective or enforceable and Johnston will not receive the payments described herein (provided, notwithstanding the foregoing, that the Employment Agreement, the Indemnification Agreement and any stock option agreements between the Company and Johnston shall continue in accordance with their terms).

## NOTICE

For purposes of this Agreement, notices and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or mailed by United States certified or registered mail, return receipt requested, postage prepaid, addressed to the Company at Ladenburg Thalmann Financial Services Inc., 590 Madison Avenue, 34th

Floor, New

York, New York 10022, Legal Department, Attn: Joseph Giovanniello Jr. and to Johnston at his principal residence, as contained in the most recent records of the Company, with a copy to Christopher Manno, Esq., Willkie Farr & Gallagher LLP, 787 Seventh Avenue, New York, New York 10019 or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon receipt.

MISCELLANEOUS

In the event of Johnston's death, or a judicial determination of his incompetence, the compensation and benefits due to Johnston under this Agreement shall be paid to his estate or legal representative.

The Company hereby represents and warrants that the execution, delivery and performance of this Agreement has been duly authorized by the Company, and all actions required to execute and perform this Agreement have been duly authorized by the Company.

This Agreement may be signed in counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument.

LADENBURG THALMANN FINANCIAL SERVICES INC.

By: /s/ Salvatore Giardina

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Name: Salvatore Giardina

Title: Vice President and Chief Financial  
Officer

AGREED AND ACCEPTED:

/s/ Charles I. Johnston

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CHARLES I. JOHNSTON

Date: March 8, 2005

## EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT, dated as of March 4, 2005 (the "Effective Date") by and between Ladenburg Thalmann Financial Services Inc. (the "Company"), and Mark D. Klein ("Executive").

IN CONSIDERATION of the premises and the mutual covenants set forth below, the parties hereby agree as follows:

1. Employment. The Company hereby agrees to employ Executive as the President and Chief Executive Officer of the Company, and Executive hereby accepts such employment, on the terms and conditions hereinafter set forth.

2. Term. The period of employment of Executive by the Company under this Agreement (the "Employment Period") shall commence on April 1, 2005 (the "Commencement Date") and shall continue through the second (2nd) anniversary thereof; provided, that, on the second anniversary of the Commencement Date and on each anniversary thereafter, the Employment Period shall automatically be extended for one (1) additional year unless either party gives written notice to the other party not to extend this Agreement at least ninety (90) days prior to the end of the Employment Period. The Employment Period may be sooner terminated by either party in accordance with Section 6 of this Agreement.

3. Position and Duties. During the Employment Period, Executive shall serve as President and Chief Executive Officer of the Company, and shall report solely and directly to the Board of Directors of the Company (the "Board"). Executive shall have those powers and duties normally associated with the position of President and Chief Executive Officer of entities comparable to the Company and such other powers and duties as may be prescribed by the Board; provided, that, such other powers and duties are consistent with Executive's position as President and Chief Executive Officer. Executive shall devote his full business time to satisfactorily perform his duties and responsibilities for the Company hereunder. Notwithstanding the above, Executive shall be permitted, to the extent such activities do not substantially interfere with the performance by Executive of his duties and responsibilities hereunder, to (i) manage Executive's personal, financial and legal affairs, and (ii) to serve on civic or charitable boards or committees (it being expressly understood and agreed that Executive's continuing to serve on any such board and/or committees on which Executive is serving, or with which Executive is otherwise associated, as of the Commencement Date, (all of which are listed on Schedule A hereto), shall be deemed not to interfere with the performance by Executive of his duties and responsibilities under this Agreement). During the Employment Period, the Company will use its best efforts to cause Executive to be nominated to serve as a director of the Company, and Executive agrees to serve as a director of the Company, without additional compensation. During the Employment Period, Executive also shall serve as Chairman and Chief Executive Officer of the Company's subsidiary, Ladenburg Thalmann & Co. Inc. ("Ladenburg").

4. Place of Performance. The principal place of employment of Executive shall be at the Company's principal executive offices in Manhattan, New York.

5. Compensation and Related Matters.

(a) Base Salary and Bonus. During the Employment Period, the Company shall pay Executive a base salary at the rate of not less than \$500,000

per year ("Base Salary"). Executive's Base Salary shall be paid in approximately equal installments in accordance with the Company's customary payroll practices. The Compensation Committee of the Board (the "Committee") shall review Executive's Base Salary for increase (but not decrease) no less frequently than annually and consistent with the compensation practices and guidelines of the Company. If Executive's Base Salary is increased by the Company, such increased Base Salary shall then constitute the Base Salary for all purposes of this Agreement.

(b) Bonus. In addition to Base Salary, Executive shall be eligible to be paid an annual bonus of \$500,000 per year (the "Bonus"), based upon the achievement of performance goals which have been agreed to by the parties. For the first year of the Term (the twelve months following the Commencement Date), the performance goals shall be: preparation of a business plan and operating budget; review and evaluation of current personnel and development of management incentive program; origination of at least \$1 million of gross revenue from any source (including existing sources if generated by new hires or if in excess of amount generated from that source in previous year, by any employees) (for the avoidance of doubt, there shall be no offset against this amount if revenue from existing sources is lost). For the second year of the Term (which shall for bonus purposes be coterminous with the first full fiscal year that begins and ends during the Term), and each full fiscal year thereafter (if any), performance goals shall be set by Executive and reasonably agreed to by the Committee. In addition, Executive shall be eligible for such additional bonuses as may be determined by the Board.

(c) Expenses. The Company shall promptly reimburse Executive for all reasonable out-of-pocket business expenses incurred by Executive in performing his duties hereunder upon the presentation of reasonably itemized statements of such expenses in accordance with the Company's policies and procedures now in force or as such policies and procedures may be modified with respect to all senior executive officers of the Company.

(d) Vacation. Executive shall be entitled five (5) weeks vacation annually. Unused vacation may be carried forward from year to year. In addition to vacation, Executive shall be entitled to the number of sick days and personal days per year that other senior executive officers of the Company are entitled under the Company's policies.

(e) Services Furnished. During the Employment Period, the Company shall furnish Executive, with office space, secretarial assistance and such other similar facilities and services on a basis that is reasonably determined by Executive.

(f) Director and Officer Liability Insurance. During the Employment Period, the Company shall use its commercially reasonable efforts to obtain and maintain adequate

officer and director liability insurance in such amounts as the Board shall so determine (which in no event shall be less than \$5,000,000) (provided the Company shall not be required to expend on an annual basis more than 125% of the amount expended in 2004 for such coverage). Executive shall be covered at all times by such policy in all of his capacities with the Company. In addition, for a period of six (6) years after the Date of Termination, the Company shall use its commercially reasonable efforts to maintain in effect one or more policies of directors' and officers' liability insurance with respect to any claim, action, suit, proceeding or investigation arising from facts or events which occurred during the Executive's employment with the Company and such policy or policies shall be with a carrier or carriers reasonably satisfactory to the parties intended to be benefited thereby and with limits, exclusions, deductibles, and other characteristics no less favorable than those in place on

the date Executive ceased being an employee of the Company (provided the Company shall not be required to expend on an annual basis more than 125% of the amount expended in 2004 for such coverage). Any and all such policies shall be issued by leading insurance carriers and shall otherwise be in form and substance reasonably satisfactory to those persons who are officers and directors of the Company as of the date hereof. The provisions of this clause (f) shall survive termination of this Agreement and/or any termination of Executive's employment with the Company.

(g) Welfare, Pension and Employee Benefit Plans. During the Employment Period, Executive (and his spouse and dependents to the extent provided therein) shall be entitled to participate in and be covered under all the welfare benefit plans or programs maintained by the Company from time to time for the benefit of its senior executives including, without limitation, all medical, hospitalization, dental, disability, accidental death and dismemberment and travel accident insurance plans and programs. The Company shall at all times provide to Executive (and his spouse and dependents to the extent provided under the applicable plans or programs) (subject to modifications affecting all senior executive officers) the same type and levels of participation and benefits as are being provided to other senior executives (and their spouses and dependents to the extent provided under the applicable plans or programs) on the Commencement Date. In addition, during the Employment Period, Executive shall be eligible to participate in all pension, retirement, savings and other employee benefit plans and programs maintained from time to time by the Company for the benefit of its senior executives. During the Employment Period, the Company shall maintain a term life insurance policy for the benefit of Executive which provides for a death benefit of at least \$2,000,000 and a long-term disability insurance plan which provides Executive with disability benefits equal to at least 60% of his average annual compensation until Executive is at least age 65. Executive represents that he is no worse than a "standard risk" for an insured party.

(h) Stock Options.

(i) Grant of Stock Option. On the date of this Agreement, the Company hereby grants to Executive a stock option to purchase 5,000,000 shares of Company common stock (the "Option") at an exercise price per share equal to \$.465 pursuant to the terms of the option agreement executed simultaneously herewith ("Option Agreement"). The Option shall be granted pursuant to the terms of the Company's 1999 Equity Plan or other comparable plan.

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(ii) Vesting. Subject to the terms of the Option Agreement, the Option shall vest as to 10% of the shares subject thereto on the date of grant and as to an additional 22.5% on each of the 1st, 2nd, 3rd and 4th anniversaries of the date of grant.

(iii) Adjustment. The Option shall be subject to adjustment for stock splits, stock dividends and similar transactions to preserve the economic intent of such grant.

(iv) Term of Option. Subject to the terms of the Option Agreement, the Option shall remain exercisable for 10 years from the date of grant.

(v) Treatment of Option upon Termination of Employment. In the event that Executive's employment is terminated by reason of his death, Disability (as defined below), by the Company without Cause (as defined below) or by Executive for Good Reason (as defined below), all unvested Options that would have vested had Executive remained employed for the remainder of the then

current Employment Period shall immediately vest and all outstanding Options shall remain exercisable for a period of one (1) year following Executive's termination of employment, but not beyond their term.

(vi) Treatment of Option upon Change in Control. In the event of a Change in Control (as defined herein), Executive's Options shall immediately vest and become exercisable and remain exercisable for the remainder of the term of the Options.

(vii) Securities Exchange Commission (the "SEC") Registration. The Company agrees to file an appropriate registration statement with the SEC covering the common stock issuable upon exercise of the Option and the re-sale of the shares subject to such Option.

(i) Sale of Shares. As further inducement for Executive to enter into this Agreement, the Company has authorized the sale to Executive of 2,222,222 shares of its common stock at \$.45 per share (for an aggregate purchase price of \$1 million) pursuant to the terms of a subscription agreement executed simultaneously herewith ("Subscription Agreement"). Pursuant to the terms of the Subscription Agreement, the closing of the purchase of the shares shall occur simultaneously with the Company's previously announced debt conversion and private placement.

(j) Legal Expenses. The Company will pay Executive for all reasonable legal fees and expenses in connection with the preparation of this Agreement and any agreements related thereto.

6. Termination. Executive's employment hereunder may be terminated during the Employment Period under the following circumstances:

(a) Death. Executive's employment hereunder shall terminate upon his death.

(b) Disability. If, as a result of Executive's incapacity due to physical or mental illness, Executive shall have been substantially unable to perform his normal duties hereunder for an entire period of six (6) consecutive months, and within thirty (30) days after

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written Notice of Termination is given after such six (6) month period, Executive shall not have returned to the substantial performance of his duties on a full-time basis, the Company shall have the right to terminate Executive's employment hereunder for "Disability", and such termination in and of itself shall not be, nor shall it be deemed to be, a breach of this Agreement.

(c) Cause. The Company shall have the right to terminate Executive's employment for Cause, and such termination in and of itself shall not be, nor shall it be deemed to be, a breach of this Agreement. For purposes of this Agreement, the Company shall have "Cause" to terminate Executive's employment upon Executive's: (i) conviction of a felony, (ii) alcoholism or drug addiction which materially impairs his ability to perform his duties hereunder, (iii) continued, intentional and willful failure to substantially and materially perform his material duties hereunder (other than absences due to illness or vacation) after the Board provides Executive a written notice specifically identifying the manner in which Executive has failed to materially perform his duties and Executive has not cured such failure within 30 days of such notice, or (iv) willful and deliberate misconduct that results, or is reasonably likely to result, in material and demonstrative harm to the Company or any of its subsidiaries or Affiliates.

For purposes of this Section 6(c), no act, or failure to act, by Executive shall be considered "willful" unless committed in bad faith and without a reasonable

belief that the act or omission was in the best interests of the Company or any entity in control of, controlled by or under common control with the Company ("Affiliates") thereof. Cause shall not exist under clause (iii) unless and until the Board determines that Executive was guilty of the conduct set forth in clause (iii). This Section 6(c) shall not prevent Executive from challenging in any arbitration or court of competent jurisdiction the Board's determination that Cause exists or that Executive has failed to cure any act (or failure to act) that purportedly formed the basis for the Board's determination.

(d) Good Reason. Executive may terminate his employment for "Good Reason" any time after Executive has actual knowledge of the occurrence, without the written consent of Executive, of one of the following events:

(i) (A) any change in the duties or responsibilities (including reporting responsibilities) of Executive that is inconsistent in any material adverse respect with Executive's position(s), duties, responsibilities or status with the Company (or Ladenburg) immediately prior to such change (including any diminution of such duties or responsibilities) or (B) a material adverse change in Executive's titles or offices with the (including, membership on the Board) with the Company (or Ladenburg);

(ii) a reduction in Executive's Base Salary or Bonus;

(iii) the relocation of the Company's principal executive offices or Executive's own office location to a location outside of Manhattan, New York;

(iv) the Company's or any Affiliate's failure to provide in all material respects the indemnification set forth in the Indemnification Agreement entered into by the Company and Executive on the date of this Agreement;

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(v) a Change in Control of the Company, provided, that Executive must provide Notice of Termination within 90 days of such Change of Control;

(vi) the failure of the Company to obtain the assumption agreement from any successor as contemplated in Section 12(a); or

(vii) any other breach of a material provision of this Agreement by the Company or any Affiliate after written notice from Executive specifically identifying the breach and the Company has not cured such breach within 30 days of such notice.

Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any event or condition constituting Good Reason.

(e) Without Cause. The Company shall have the right to terminate Executive's employment hereunder without Cause by providing Executive with a Notice of Termination, and such termination shall not in and of itself be, nor shall it be deemed to be, a breach of this Agreement.

(f) Without Good Reason. Executive shall have the right to terminate his employment hereunder without Good Reason by providing the Company with a Notice of Termination at least thirty (30) days prior to such termination, and such termination shall not in and of itself be, nor shall it be deemed to be, a breach of this Agreement.

For purposes of this Agreement, a "Change in Control" of the Company means the

occurrence of one of the following events: (i) consummation of a reorganization, merger or consolidation, sale, disposition of all or substantially all of the assets or stock of the Company or any other similar corporate event (a "Business Combination"), in each case, unless, following such Business Combination, all or substantially all of the individuals or entities who were the beneficial owners, respectively, of the voting securities of the Company entitled to vote generally in the election of directors immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through one or more subsidiaries); or (ii) Board approval of a complete dissolution or liquidation of the Company; or (iii) any "person" (as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (the "Exchange Act") and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), other than Dr. Phillip Frost, any member of his immediate family, and any "person" or "group" (as used in Section 13(d)(3) of the Exchange Act) that is controlled by Dr. Frost or any member of his immediate family, any beneficiary of the estate of Dr. Frost, or any trust, partnership, corporation or other entity controlled by any of the foregoing, is or becomes, after the Commencement Date, a "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 35% or more of the combined voting power of the Company's then outstanding securities eligible to vote for the election of the Board.

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7. Termination Procedure.

(a) Notice of Termination. Any termination of Executive's employment by the Company or by Executive during the Employment Period (other than termination pursuant to Section 6(a)) shall be communicated by written Notice of Termination to the other party hereto in accordance with Section 13. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth (other than termination pursuant to Sections 6(e) or 6(f)) in reasonable detail the facts and circumstances claimed to provide a basis for termination of Executive's employment under the provision so indicated.

(b) Date of Termination. "Date of Termination" shall mean (i) if Executive's employment is terminated by his death, the date of his death, (ii) if Executive's employment is terminated pursuant to Section 6(b), thirty (30) days after Notice of Termination (provided that Executive shall not have returned to the substantial performance of his duties on a full-time basis during such thirty (30) day period), and (iii) if Executive's employment is terminated for any other reason, the date on which a Notice of Termination is given or any later date (within thirty (30) days after the giving of such notice) set forth in such Notice of Termination.

8. Compensation Upon Termination or During Disability. In the event Executive is disabled or his employment terminates during the Employment Period, the Company shall provide Executive with the payments and benefits set forth below. Executive acknowledges and agrees that the payments set forth in this Section 8 constitute liquidated damages for termination of his employment during the Employment Period.

(a) Termination By Company without Cause, By Executive for Good Reason or Expiration of the Term. If Executive's employment is terminated by the Company without Cause, by Executive for Good Reason or if the Company provides Executive the notice contemplated in Section 2 hereof not to extend the Employment Period:



(i) within five (5) days following such termination, the Company shall pay to Executive in a lump-sum: (A) (1) if such termination occurs on or after the second anniversary of the Commencement Date, an amount equal to \$750,000 (or if greater, 150% of Executive's then current Base Salary (not taking into account any reductions in such Base Salary which have not been agreed to in writing by Executive)) or (2) if such termination occurs prior to the second anniversary of the Commencement Date, the greater of (a) or (b), where (a) is equal to \$750,000 (or if greater, 150% of Executive's then current Base Salary (not taking into account any reductions in such Base Salary which have not been agreed to in writing by Executive)) and (b) is equal to the remaining Base Salary and Bonus (assuming that Executive would have attained all of the performance targets applicable to such Bonus) that would have been paid to Executive for the remainder of the then current Employment Period if his employment had not been terminated and (B) his earned, but yet unpaid Base Salary, Bonus and accrued vacation pay through the Date of Termination; and

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(ii) the Company shall maintain in full force and effect, for the continued benefit of Executive, his spouse and his dependents for a period of two (2) years following the Date of Termination the medical, hospitalization, dental, and life insurance programs in which Executive, his spouse and his dependents were participating immediately prior to the Date of Termination at the level in effect and upon substantially the same terms and conditions (including without limitation contributions required by Executive for such benefits) as existed immediately prior to the Date of Termination; provided, that, if Executive, his spouse or his dependents cannot continue to participate in the Company programs providing such benefits, the Company shall arrange to provide Executive, his spouse and his dependents with the economic equivalent of such benefits which they otherwise would have been entitled to receive under such plans and programs ("Continued Benefits"), provided, that, such Continued Benefits shall terminate on the date or dates Executive receives equivalent coverage and benefits, without waiting period or pre-existing condition limitations, under the plans and programs of a subsequent employer (such coverage and benefits to be determined on a coverage-by-coverage or benefit-by-benefit, basis); and

(iii) the Company shall reimburse Executive pursuant to Section 5(c) for reasonable expenses incurred, but not paid prior to such termination of employment; and

(iv) Executive shall be entitled to any other rights, compensation and/or benefits as may be due to Executive in accordance with the terms and provisions of any agreements, plans or programs of the Company; and

(v) Executive shall be entitled to any other rights, compensation and/or benefits as may be due to Executive in accordance with the terms and provisions of any agreements, plans or programs of the Company.

(b) Cause or By Executive without Good Reason. If Executive's employment is terminated by the Company for Cause or by Executive (other than for Good Reason):

(i) the Company shall pay Executive his earned, but yet unpaid Base Salary, Bonus and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination; and

(ii) the Company shall reimburse Executive pursuant to Section 5(c) for reasonable expenses incurred, but not paid prior to such termination of employment; and

(iii) Executive shall be entitled to any other rights, compensation and/or benefits as may be due to Executive in accordance with the terms and provisions of any agreements, plans or programs of the Company.

(c) Disability. During any period that Executive fails to perform his duties hereunder as a result of incapacity due to physical or mental illness ("Disability Period"),

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Executive shall continue to receive his full Base Salary and Bonus set forth in Section 5(a) until his employment is terminated pursuant to Section 6(b). In the event Executive's employment is terminated for Disability pursuant to Section 6(b):

(i) the Company shall (A) pay to Executive his earned, but yet unpaid Base Salary, Bonus and accrued vacation pay through the Date of Termination, as soon as practicable following the Date of Termination and (B) provide Continued Benefits for a period of two (2) years following the Date of Termination; and

(ii) the Company shall reimburse Executive pursuant to Section 5(c) for reasonable expenses incurred, but not paid prior to such termination of employment; and

(iii) Executive shall be entitled to any other rights, compensation and/or benefits as may be due to Executive in accordance with the terms and provisions of any agreements, plans or programs of the Company.

(d) Death. If Executive's employment is terminated by his death:

(i) the Company shall pay in a lump sum to Executive's beneficiary, legal representatives or estate, as the case may be, Executive's earned, but yet unpaid Base Salary, Bonus and accrued vacation pay through the Date of Termination; and

(ii) the Company shall provide Executive's spouse and dependents with Continued Benefits for two (2) years; and

(iii) the Company shall reimburse Executive's beneficiary, legal representatives, or estate, as the case may be, pursuant to Section 5(c) for reasonable expenses incurred, but not paid prior to such termination of employment; and

(iv) Executive's beneficiary, legal representatives or estate, as the case may be, shall be entitled to any other rights, compensation and benefits as may be due to any such persons or estate in accordance with the terms and provisions of any agreements, plans or programs of the Company.

(e) Additional Payments. (i) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment, award, benefit or distribution (or any acceleration of any payment, award, benefit or distribution) by the Company or any entity which effectuates a Change in Control (or other change in ownership) to or for the benefit of Executive

(the "Payments") would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then the Company shall pay to Executive an additional payment (a "Gross-Up Payment") in an amount such that after payment by Executive of all taxes (including any Excise Tax) imposed upon the Gross-Up Payment, Executive retains an amount of the Gross-Up Payment equal to the

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sum of (x) the Excise Tax imposed upon the Payments and (y) the product of any deductions disallowed because of the inclusion of the Gross-Up Payment in Executive's adjusted gross income and the highest applicable marginal rate of federal income taxation for the calendar year in which the Gross-Up Payment is to be made. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to (A) pay federal income taxes at the highest marginal rates of federal income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, (B) pay applicable state and local income taxes at the highest marginal rate of taxation for the calendar year in which the Gross-Up Payment is to be made, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes and (C) have otherwise allowable deductions for federal income tax purposes at least equal to those which could be disallowed because of the inclusion of the Gross-Up Payment in Executive's adjusted gross income.

(ii) Subject to the provisions of Section 8(e)(i), all determinations required to be made under this Section 8(e), including whether and when a Gross-Up Payment is required, the amount of such Gross-Up Payment and the assumptions to be utilized in arriving at such determinations, shall be made by a nationally recognized public accounting firm that is selected by Executive (the "Accounting Firm") which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the receipt of notice from the Company or Executive that there has been a Payment, or such earlier time as is requested by the Company or Executive (collectively, the "Determination"). All fees and expenses of the Accounting Firm shall be borne solely by the Company and the Company shall enter into any agreement requested by the Accounting Firm in connection with the performance of the services hereunder. The Gross-Up Payment under this Section 8(e) with respect to any Payments made to Executive shall be made no later than thirty (30) days following such Payment. If the Accounting Firm determines that no Excise Tax is payable by Executive, it shall furnish Executive with a written opinion to such effect, and to the effect that failure to report the Excise Tax, if any, on Executive's applicable federal income tax return should not result in the imposition of a negligence or similar penalty.

(iii) As a result of the uncertainty in the application of Section 4999 of the Code at the time of the Determination, it is possible that Gross-Up Payments which will not have been made by the Company should have been made ("Underpayment") or Gross-Up Payments are made by the Company which should not have been made ("Overpayment"), consistent with the calculations required to be made hereunder. In the event that Executive thereafter is required to make payment of any Excise Tax or additional Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred and any such Underpayment (together with interest at the rate provided in Section 1274(b)(2)(B) of the Code) shall be promptly paid by the Company to or for the benefit of Executive. In the event the amount of the Gross-Up Payment exceeds the amount necessary to reimburse Executive for his Excise Tax, the Accounting Firm shall determine the amount of the Overpayment that has been made and any such Overpayment (together with interest at the rate provided in Section 1274(b)(2) of the Code) shall be promptly paid by Executive (to the extent he

has received a refund if the applicable Excise Tax has been paid to the Internal Revenue Service) to or for the benefit of the Company. Executive shall cooperate, to the extent his expenses are reimbursed by the Company, with any reasonable requests by the Company in connection with any contest or disputes with the Internal Revenue Service in connection with the Excise Tax.

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9. Mitigation. Executive shall not be required to mitigate amounts payable under this Agreement by seeking other employment or otherwise, and there shall be no offset against amounts due Executive under this Agreement on account of subsequent employment except as specifically provided herein.

10. Restrictive Covenants.

(a) Confidential Information. Executive shall hold in a fiduciary capacity for the benefit of the Company all trade secrets and confidential information, knowledge or data relating to the Company and its businesses and investments, which shall have been obtained by Executive during Executive's employment by the Company and which is not generally available public knowledge (other than by acts by Executive in violation of this Agreement). Except as may be required or appropriate in connection with his carrying out his duties under this Agreement, Executive shall not, without the prior written consent of the Company or as may otherwise be required by law or any legal process, or as is necessary in connection with any adversarial proceeding against the Company (in which case Executive shall use his reasonable best efforts in cooperating with the Company in obtaining a protective order against disclosure by a court of competent jurisdiction), communicate or divulge any such trade secrets, information, knowledge or data to anyone other than the Company and those designated by the Company or on behalf of the Company in the furtherance of its business or to perform duties hereunder.

(b) Non-Solicitation. (i) Executive hereby agrees, in consideration of his employment hereunder and in view of the confidential position to be held by Executive hereunder, that after his termination of employment in which he is entitled to the benefits set forth in Section 8 hereof and through the one (1) year anniversary thereof (the "Restricted Period"), Executive shall not directly or indirectly induce any employee of the Company to terminate such employment or to become employed by any other company.

(ii) Executive agrees that during the Restricted Period, Executive shall not interfere with or endeavor to entice any of the Company's customers and/or clients to cease conducting business with the Company; provided, that, this clause (b)(ii) shall not apply with respect to any customer and/or client of the Company with whom Executive had or has a business relationship immediately prior to the Commencement Date.

(c) Remedies. Executive hereby expressly acknowledges that any breach or threatened breach by Executive of any of the terms set forth in Section 10 of this Agreement may result in significant and continuing injury to the Company, the monetary value of which would be impossible to establish. Therefore, Executive agrees that the Company shall be entitled to apply for injunctive relief in a court of appropriate jurisdiction.

11. Arbitration. Except as provided for in Section 10 of this Agreement, if any contest or dispute arises between the parties with respect to this Agreement, such contest or dispute shall be submitted to binding arbitration for resolution in New York, New York in accordance with the rules and procedures of the Employment Dispute Resolution Rules of the American Arbitration Association then in effect. The decision of the arbitrator shall be final and

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binding on both parties, and any court of competent jurisdiction may enter judgment upon the award. The losing party shall pay all expenses relating to such arbitration, including, but not limited to, the winning party's legal fees and expenses.

12. Successors; Binding Agreement.

(a) Company's Successors. No rights or obligations of the Company under this Agreement may be assigned or transferred except that the Company will require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. As used in this Agreement, "Company" shall mean the Company as hereinbefore defined and any successor to its business and/or assets (by merger, purchase or otherwise) which executes and delivers the agreement provided for in this Section 12 or which otherwise becomes bound by all the terms and provisions of this Agreement by operation of law.

(b) Executive's Successors. No rights or obligations of Executive under this Agreement may be assigned or transferred by Executive other than his rights to payments or benefits hereunder, which may be transferred only by will or the laws of descent and distribution. Upon Executive's death, this Agreement and all rights of Executive hereunder shall inure to the benefit of and be enforceable by Executive's beneficiary or beneficiaries, personal or legal representatives, or estate, to the extent any such person succeeds to Executive's interests under this Agreement. Executive shall be entitled to select and change a beneficiary or beneficiaries to receive any benefit or compensation payable hereunder following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of his incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to his beneficiary(ies), estate or other legal representative(s). If Executive should die following his Date of Termination while any amounts would still be payable to him hereunder if he had continued to live, all such amounts unless otherwise provided herein shall be paid in accordance with the terms of this Agreement to such person or persons so appointed in writing by Executive, or otherwise to his legal representatives or estate.

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13. Notice. For the purposes of this Agreement, notices, demands and all other communications provided for in this Agreement shall be in writing and shall be deemed to have been duly given when delivered either personally or by United States certified or registered mail, return receipt requested, postage prepaid, addressed as follows:

If to Executive:

Mark D. Klein  
3 Olmsted Road  
Scarsdale, New York 10583

with a copy to:

Akin Gump Strauss Hauer & Feld LLP  
1333 New Hampshire Avenue, N.W.  
Washington, D.C. 20036  
Attention: Bruce S. Mendelsohn

If to the Company:

Ladenburg Thalmann Financial Services, Inc.  
590 Madison Avenue  
New York, NY 10022  
Attention: General Counsel

with a copy to:

Graubard Miller  
405 Lexington Avenue  
New York, NY 10174  
Attention: David Alan Miller

or to such other address as any party may have furnished to the others in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

14. Miscellaneous. No provisions of this Agreement may be amended, modified, or waived unless such amendment or modification is agreed to in writing signed by Executive and by a duly authorized officer of the Company, and such waiver is set forth in writing and signed by the party to be charged. No waiver by either party hereto at any time of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof have been made by either party which are not set forth expressly in this Agreement. The respective rights and obligations of the parties hereunder of this Agreement shall survive Executive's termination of employment and the termination of this Agreement to the extent necessary for the intended

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preservation of such rights and obligations. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of New York without regard to its conflicts of law principles.

15. Validity. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

16. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

17. Entire Agreement. Except as other provided herein, this Agreement sets forth the entire agreement of the parties hereto in respect of the subject matter contained herein and supersede all prior agreements, promises, covenants, arrangements, communications, representations or warranties, whether oral or written, by any officer, employee or representative of any party hereto in respect of such subject matter. Except as other provided herein, any prior agreement of the parties hereto in respect of the subject matter contained herein is hereby terminated and cancelled.

18. Withholding. All payments hereunder shall be subject to any required withholding of Federal, state and local taxes pursuant to any applicable law or regulation.

19. Noncontravention. The Company and Executive each represent to

the other that the Company and Executive, as the case may be, are not prevented from entering into, or performing, this Agreement by the terms of any law, order, rule or regulation, its by-laws or declaration of trust, or any agreement to which the Company or Executive, as the case may be, is a party.

20. Section Headings. The section headings in this Agreement are for convenience of reference only, and they form no part of this Agreement and shall not affect its interpretation.

- SIGNATURE PAGE FOLLOWS -

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IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the date first above written.

LADENBURG THALMANN FINANCIAL  
SERVICES INC.

By: /s/ Salvatore Giardina

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Salvatore Giardina, Vice President and  
CFO

/s/ Mark D. Klein

-----

Mark D. Klein

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LADENBURG THALMANN FINANCIAL SERVICES INC.  
590 MADISON AVENUE, 34TH FLOOR  
NEW YORK, NY 10022

As of March 4, 2005

Mr. Mark D. Klein  
3 Olmstead Road  
Scarsdale, New York 10583

Dear Mr. Klein:

We are pleased to inform you that Ladenburg Thalmann Financial Services Inc. (the "Company") has granted you a nonqualified option (the "Option") to purchase 5,000,000 shares of the Company's common stock, par value \$.0001 per share (the "Common Stock"), at a purchase price of \$0.465 per share (any of the underlying shares of Common Stock to be issued upon exercise of the Option are referred to hereinafter as the "Shares"). Capitalized forms used and not otherwise defined herein shall have the meanings ascribed to them in the employment agreement of even date herewith between you and the Company ("Employment Agreement").

1. Subject to the terms hereof, the Option may be exercised on or prior to March 4, 2015 (after which date the Option will, to the extent not previously exercised, expire). The Option shall vest and become exercisable as to 500,000 of the Shares on and after the date hereof and as to 1,125,000 of the Shares on and after each of March 4, 2006, 2007, 2008 and 2009, provided you are then employed by the Company and/or one of its present or future subsidiaries or affiliates (for purposes of this Agreement, any other entity controlling, controlled by, or under common control with, the Company); provided, however, that the entire Option shall vest earlier and become immediately exercisable in the event that your employment is terminated by reason of your death or Disability, by the Company without Cause or by you for Good Reason (collectively, "Vesting Events").

2. The Option, from and after the date it vests and becomes exercisable pursuant to Section 1 hereof, may be exercised in whole or in part by delivering to the Company a written notice of exercise in the form attached hereto as Exhibit A (or such other form approved by the Company), specifying the number of the Shares to be purchased and the purchase price therefor, together with payment of the purchase price of the Shares to be purchased. The purchase price is to be paid in cash or by delivering shares of Common Stock already owned by you for at least six months ("Mature Shares") and having a "Fair Market Value" on the date of exercise equal to the purchase price of the Option being exercised, or a combination of such shares and cash. "Fair Market Value," unless otherwise required by any applicable provision of the Internal Revenue

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Code of 1986, as amended from time to time, and any successor thereto and the regulations promulgated 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 Compensation Committee of the Company shall determine, in good faith.

In addition, payment of the purchase price of the Shares to be purchased may also be made by delivering a properly executed notice to the Company, together with a copy of the irrevocable instructions to a broker to deliver promptly to the Company the amount of sale or loan proceeds necessary to pay the purchase price, and, if required, the amount of any federal, state or local withholding taxes.

No Shares shall be issued until full payment therefor has been made. You shall have all of the rights of a stockholder of the Company holding the Common Stock that is subject to the Option (including, if applicable, the right to vote the Shares and the right to receive dividends thereon), when you have given written notice of exercise, have paid in full for such Shares and, if requested, have given the certificate described in Section 8 hereof.

3. In the event your employment with the Company is terminated for any reason, the Option shall forthwith terminate, provided that, if a Vesting Event has occurred, you may exercise any then unexercised portion of the Option then vested and exercisable pursuant to Section 1 hereof at any time prior to the earlier of one year after the termination of your employment and the expiration of the Option. In the event of your death or Disability, the Option may be exercised by your personal representative or representatives, or by the person or persons to whom your rights under the Option shall pass by will or by the applicable laws of descent and distribution.

4. The Option is not transferable except by will or the applicable laws of descent and distribution. Notwithstanding the foregoing, with the approval of the Compensation Committee, you may transfer the Option (i) (A) by gift, for no consideration, or (B) pursuant to a domestic relations order, in either case, to or for the benefit of your "Immediate Family" (as defined below), or (ii) to an entity in which you and/or members of your 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 Compensation

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Committee may establish and the execution of such documents as the Compensation Committee may require. In such event, the transferee shall remain subject to all the terms and conditions applicable to the 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 your 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 you) control the management of the assets.

5. 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 date hereof, the Board of Directors of the Company (the "Board") shall make appropriate adjustments in the terms of the Option to preserve the economic interest of the grant. Any such adjustments will be made by the Board, whose determination will be final, binding and conclusive.

6. The grant of the Option does not confer on you any right to continue in the employ of the Company or any of its subsidiaries or affiliates or interfere in any way with the right of the Company or its subsidiaries or affiliates to terminate the term of your employment.

7. The Company shall require as a condition to the exercise of any portion of the Option that you pay to the Company, or make other arrangements regarding the payment of, any federal state or local taxes required by law to be withheld as a result of such exercise. If the Board consents, you may pay such taxes using Mature Shares, valued at Fair Market Value.

8. Unless at the time of the exercise of any portion of the Option a registration statement under the Securities Act of 1933, as amended (the "Act"), is in effect as to the Shares, the Shares shall be acquired for investment and not for sale or distribution, and if the Company so requests, upon any exercise of the Option, in whole or in part, you agree to execute and deliver to the Company a reasonable certificate to such effect.

9. You agree to abide by all of the Company's policies in effect at the time you acquire any Shares and thereafter, including the Company's Insider Trading Policy, with respect to the ownership and trading of the Company's securities.

10. The Company represents and warrants to you as follows: (i) this Agreement and the grant of the Option hereunder have been authorized by all necessary corporate action by the Company and this letter is a valid and binding Agreement of the Company enforceable against the Company in accordance with its terms; (ii) the Company will obtain, at its expense, any regulatory approvals necessary or advisable in connection with the grant of the Option or the issuance of the Shares; and (iii) the Company currently has reserved and available, and will

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continue to have reserved and available during the term of the Option, sufficient authorized and issued shares of its Common Stock for issuance upon exercise of the Option.

11. Promptly following the date hereof, the Company shall use its best efforts to file and keep in effect a Registration Statement on Form S-8 or other applicable form to register under the Act the resale of the Shares issuable to you upon exercise of the Option.

12. This Agreement contains all the understandings between the Company and you pertaining to the matters referred to herein, and supercedes all undertakings and agreements, whether oral or in writing, previously entered into by the Company and you with respect hereto. No provision of this Agreement may be amended or waived unless such amendment or waiver is agreed to in writing signed by you and a duly authorized officer of the Company. No waiver by the Company or you of any breach by the other party hereto of any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of a similar or dissimilar condition or provision at the same time, any prior time or any subsequent time. If any provision of this Agreement or the application of any such provision to any party or circumstances shall be

determined by any court of competent jurisdiction to be invalid and unenforceable to any extent, the remainder of this Agreement or the application of such provision to such person or circumstances other than those to which it is so determined to be invalid and unenforceable, shall not be affected thereby, and each provision hereof shall be validated and shall be enforced to the fullest extent permitted by law. This Agreement will be governed by and construed in accordance with the laws of the State of New York, without regard to its conflicts of laws principles. This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Would you kindly evidence your acceptance of the Option and your agreement to comply with the provisions hereof by executing this Agreement in the space provided below.

Very truly yours,

LADENBURG THALMANN FINANCIAL SERVICES INC.

By: /s/ Salvatore Giardina

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Salvatore Giardina

Vice President and Chief Financial Officer

AGREED TO AND ACCEPTED:

/s/ Mark D. Klein

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MARK D. KLEIN

EXHIBIT A

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

Gentlemen:

Notice is hereby given of my election to purchase \_\_\_\_\_ shares of Common Stock, \$.0001 par value (the "Shares"), of Ladenburg Thalmann Financial Services Inc., at a price of \$\_\_\_\_\_ per Share, pursuant to the provisions of the stock option granted to me as of March \_\_, 2005. Enclosed in payment for the Shares is:

[ ] my check in the amount of \$\_\_\_\_\_.

[ ] \_\_\_\_\_ Shares having a total value of \$\_\_\_\_\_, such value being based on the closing price(s) of the Shares on the date hereof.

The following information is supplied for use in issuing and registering the Shares purchased hereby:

Number of Certificates  
and Denominations

\_\_\_\_\_

Name

\_\_\_\_\_

Address

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Social Security No.

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Dated:

Very truly yours,

Mark D. Klein

## INDEMNIFICATION AGREEMENT

This Agreement, made and entered into effective as of the 4th day of March, 2005 ("Agreement"), by and between Ladenburg Thalmann Financial Services Inc., a Florida corporation ("Corporation"), and Mark D. Klein ("Indemnitee"):

WHEREAS, highly competent persons recently have become more reluctant to serve publicly-held corporations as directors, officers, or in other capacities, unless they are provided with better protection from the risk of claims and actions against them arising out of their service to and activities on behalf of such corporation; and

WHEREAS, the current impracticability of obtaining adequate insurance and the uncertainties related to indemnification have increased the difficulty of attracting and retaining such persons; and

WHEREAS, the Board of Directors of the Corporation ("Board") has determined that the inability to attract and retain such persons is detrimental to the best interests of the Corporation's stockholders and that such persons should be assured that they will have better protection in the future; and

WHEREAS, it is reasonable, prudent and necessary for the Corporation to obligate itself contractually to indemnify such persons to the fullest extent permitted by applicable law so that such persons will serve or continue to serve the Corporation free from undue concern that they will not be adequately indemnified; and

WHEREAS, this Agreement is a supplement to and in furtherance of Article VII of the By-laws of the Corporation, and Article XI of the Articles of Incorporation of the Corporation, as amended, and any resolutions adopted pursuant thereto and shall neither be deemed to be a substitute therefor nor to diminish or abrogate any rights of Indemnitee thereunder; and

WHEREAS, Indemnitee is willing to serve and to take on additional service for or on behalf of the Corporation on the condition that he or she be indemnified according to the terms of this Agreement;

NOW, THEREFORE, in consideration of the premises and the covenants contained herein, the Corporation and Indemnitee do hereby covenant and agree as follows:

1. Definitions. For purposes of this Agreement:

1.1 "Change in Control" means a change in control of the Corporation occurring after the date hereof of a nature that would be required to be reported in response to Item 6(e) of Schedule 14A of Regulation 14A (or in response to any similar item on any similar schedule or form) promulgated under the Securities Exchange Act of 1934, as amended ("Act"), whether or not the

Corporation is then subject to such reporting requirement provided, however, that, without limitation, such a Change in Control shall be deemed to have occurred if after the date hereof (i) any "person" (as such term is used in Sections 13(d) and 14(d) of the Act) is or becomes "beneficial owner" (as defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Corporation representing 20% or more of the combined voting power of the then outstanding securities of the Corporation without the prior approval of at least two-thirds of the members of the Board in office immediately prior to such

person attaining such percentage interest; (ii) the Corporation is a party to a merger, consolidation, sale of assets or other reorganization, or a proxy contest, as a consequence of which members of the Board in office immediately prior to such transaction or event constitute less than a majority of the Board thereafter; or (iii) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board (including for this purpose any new director whose election or nomination for election by the Corporation's stockholders was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of such period) cease for any reason to constitute at least a majority of the Board.

1.2 "Corporate Status" means the status of a person who is or was a director, officer, employee, agent or fiduciary of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person is or was serving at the request of the Corporation.

1.3 "Disinterested Director" means a director of the Corporation who is not and was not a party to the Proceeding in respect of which indemnification is sought by Indemnitee.

1.4 "Expenses" means all reasonable attorneys' fees, retainers, court costs, transcript costs, fees of experts, witness fees, travel expenses, duplicating costs, printing and binding costs, telephone charges, postage, delivery service fees, and all other disbursements or expenses of the types customarily incurred in connection with prosecuting, defending, preparing to prosecute or defend, investigating, or being or preparing to be a witness in a Proceeding.

1.5 "Independent Counsel" means a law firm, or a member of a law firm, that is experienced in matters of corporation law and neither presently is, nor in the past five years has been, retained to represent: (i) the Corporation or Indemnitee in any other matter material to either such party, or (ii) any other party to the Proceeding giving rise to a claim for indemnification hereunder. Notwithstanding the foregoing, the term "Independent Counsel" shall not include any person who, under the applicable standards of professional conduct then prevailing, would have a conflict of interest in representing either the Corporation or Indemnitee in an action to determine Indemnitee's rights under this Agreement. Independent Counsel shall be selected by (a) the Disinterested Directors or (b) a committee of the Board consisting of two or more Disinterested Directors or if (a) and (b) above are not possible, then by a majority of the full Board.

1.6 "Proceeding" means any action, suit, arbitration, alternate dispute resolution mechanism, investigation, administrative hearing or any other proceeding, whether civil, criminal, administrative or investigative, except one initiated by an Indemnitee pursuant to Section 11 of this Agreement to enforce his rights under this Agreement.

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2. Services by Indemnitee.

Indemnitee agrees to serve as a director of the Corporation. Indemnitee may at any time and for any reason resign from such position (subject to any other contractual obligation or any obligation imposed by operation of law).

3. Indemnification - General.

The Corporation shall indemnify, and advance Expenses to, Indemnitee as provided in this Agreement to the fullest extent permitted by applicable law in effect on the date hereof and to such greater extent as applicable law may thereafter from time to time permit. The rights of Indemnitee provided under the preceding sentence shall include, but shall not be limited to, the rights set

forth in the other Sections of this Agreement.

4. Proceedings Other Than Proceedings by or in the Right of the Corporation.

Indemnitee shall be entitled to the rights of indemnification provided in this Section if, by reason of his Corporate Status, he or she is, or is threatened to be made, a party to any threatened, pending or completed Proceeding, other than a Proceeding by or in the right of the Corporation. Pursuant to this Section, Indemnitee shall be indemnified against Expenses, judgments, penalties, fines and amounts paid in settlement actually and reasonably incurred by him or on his behalf in connection with any such Proceeding or any claim, issue or matter therein, if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation, and, with respect to any criminal Proceeding, had no reasonable cause to believe his conduct was unlawful.

5. Proceedings by or in the Right of the Corporation.

Indemnitee shall be entitled to the rights of indemnification provided in this Section if, by reason of his Corporate Status, he or she is, or is threatened to be made, a party to any threatened, pending or completed Proceeding brought by or in the right of the Corporation to procure a judgment in its favor. Pursuant to this Section, Indemnitee shall be indemnified against Expenses actually and reasonably incurred by him or on his behalf in connection with any such Proceeding if he or she acted in good faith and in a manner he or she reasonably believed to be in or not opposed to the best interests of the Corporation. Notwithstanding the foregoing, no indemnification against such Expenses shall be made in respect of any claim, issue or matter in any such proceeding as to which Indemnitee shall have been adjudged to be liable to the Corporation if applicable law prohibits such indemnification unless the court in which such Proceeding shall have been brought or is pending, shall determine that indemnification against Expenses may nevertheless be made by the Corporation.

6. Indemnification for Expenses of Party Who is Wholly or Partly Successful.

Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a party to and is successful, on the merits or otherwise, in any Pro-

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ceeding, he or she shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith. If Indemnitee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Corporation shall indemnify Indemnitee against all Expenses actually and reasonably incurred by him or on his behalf in connection with each successfully resolved claim, issue or matter. For the purposes of this Section and without limiting the foregoing, the termination of any claim, issue or matter in any such Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

7. Indemnification for Expenses as a Witness.

Notwithstanding any other provision of this Agreement, to the extent that Indemnitee is, by reason of his Corporate Status, a witness in any Proceeding, he or she shall be indemnified against all Expenses actually and reasonably incurred by him or on his behalf in connection therewith.

8. Advancement of Expenses.

The Corporation shall advance all Expenses incurred by or on behalf of Indemnitee in connection with any Proceeding within twenty days after the receipt by the Corporation of a statement or statements from Indemnitee requesting such advance or advances from time to time, whether prior to or after final disposition of such Proceeding. Such statement or statements shall reasonably evidence the Expenses incurred by Indemnitee and shall include or be preceded or accompanied by an undertaking by or on behalf of Indemnitee to repay any Expenses advanced if it shall ultimately be determined that Indemnitee is not entitled to be indemnified against such Expenses.

9. Procedure for Determination of Entitlement to Indemnification.

9.1 To obtain indemnification under this Agreement in connection with any Proceeding, and for the duration thereof, Indemnitee shall submit to the Corporation a written request, including therein or therewith such documentation and information as is reasonably available to Indemnitee and is reasonably necessary to determine whether and to what extent Indemnitee is entitled to indemnification. The Secretary of the Corporation shall, promptly upon receipt of any such request for indemnification, advise the Board in writing that Indemnitee has requested indemnification.

9.2 Upon written request by Indemnitee for indemnification pursuant to Section 9.1 hereof, a determination, if required by applicable law, with respect to Indemnitee's entitlement thereto shall be made in such case: (i) if a Change in Control shall have occurred, by Independent Counsel (unless Indemnitee shall request that such determination be made by the Board or the stockholders, in which case in the manner provided for in clauses (ii) or (iii) of this Section 9.2) in a written opinion to the Board, a copy of which shall be delivered to Indemnitee; (ii) if a Change of Control shall not have occurred, (A) by the Board by a majority vote of a quorum consisting of Disinterested Directors, or (B) if a quorum of the Board consisting of Disinterested Directors is not obtainable, by a majority of a committee of the Board consisting of two or more Disinterested Directors, or (C) by Independent Counsel in a written opinion to the Board, a copy of which shall be

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delivered to Indemnitee, or (D) by the stockholders of the Corporation, by a majority vote of a quorum consisting of stockholders who are not parties to the proceeding, or if no such quorum is obtainable, by a majority vote of stockholders who are not parties to such proceeding; or (iii) as provided in Section 10.2 of this Agreement. If it is so determined that Indemnitee is entitled to indemnification, payment to Indemnitee shall be made within ten (10) days after such determination. Indemnitee shall cooperate with the person, persons or entity making such determination with respect to Indemnitee's entitlement to indemnification, including providing to such person, persons or entity upon reasonable advance request any documentation or information which is not privileged or otherwise protected from disclosure and which is reasonably available to Indemnitee and reasonably necessary to such determination. Any costs or expenses (including attorneys' fees and disbursements) incurred by Indemnitee in so cooperating with the person, persons or entity making such determination shall be borne by the Corporation (irrespective of the determination as to Indemnitee's entitlement to indemnification) and the Corporation hereby indemnifies and agrees to hold Indemnitee harmless therefrom.

9.3 If a Change of Control shall have occurred, Independent Counsel shall be selected by Indemnitee (unless Indemnitee shall request that such selection be made by the Board), and Indemnitee shall give written notice to the Corporation advising it of the identity of Independent Counsel so selected. In either event, Indemnitee or the Corporation, as the case may be, may, within seven days after such written notice of selection shall have been given, deliver to the Corporation or to Indemnitee, as the case may be, a written objection to such selection. Such objection may be asserted only on the ground that Independent Counsel so selected does not meet the requirements of "Independent



Counsel" as defined in Section 1 of this Agreement, and the objection shall set forth with particularity the factual basis of such assertion. If such written objection is made, Independent Counsel so selected may not serve as Independent Counsel unless and until a court has determined that such objection is without merit. If, within 20 days after submission by Indemnitee of a written request for indemnification pursuant to Section 9.1 hereof, no Independent Counsel shall have been selected and not objected to, either the Corporation or Indemnitee may petition a court of competent jurisdiction, for resolution of any objection which shall have been made by the Corporation or Indemnitee to the other's selection of Independent Counsel and/or for the appointment as Independent Counsel of a person selected by such court or by such other person as such court shall designate, and the person with respect to whom an objection is so resolved or the person so appointed shall act as Independent Counsel under Section 9.2 hereof. The Corporation shall pay any and all reasonable fees and expenses of Independent Counsel incurred by such Independent Counsel in connection with its actions pursuant to this Agreement, and the Corporation shall pay all reasonable fees and expenses incident to the procedures of this Section 9.3, regardless of the manner in which such Independent Counsel was selected or appointed. Upon the due commencement date of any judicial proceeding pursuant to Section 11.1(iii) of this Agreement, Independent Counsel shall be discharged and relieved of any further responsibility in such capacity (subject to the applicable standards of professional conduct then prevailing).

10. Presumptions and Effects of Certain Proceedings.

10.1 In making a determination with respect to entitlement to indemnification hereunder, the person or persons or entity making such determination shall presume that Indemnitee is entitled to indemnification under this Agreement if Indemnitee has submitted a request for indemnification in accordance with Section 9.1 of this Agreement, and the Corporation shall have the burden of proof to overcome that presumption in connection with the making by any person, persons or entity of any determination contrary to that presumption.

10.2 If the person, persons or entity empowered or selected under Section 9 of this Agreement to determine whether Indemnitee is entitled to indemnification shall not have made a determination within 60 days after receipt by the Corporation of the request therefor, the requisite determination of entitlement to indemnification shall be deemed to have been made and Indemnitee shall be entitled to such indemnification, absent (i) a misstatement by Indemnitee of a material fact, or an omission of a material fact necessary to make Indemnitee's statement not materially misleading, in connection with the request for indemnification, or (ii) prohibition of such indemnification under applicable law provided, however, that such 60-day period may be extended for a reasonable time, not to exceed an additional 30 days, if the person, persons or entity making the determination with respect to entitlement to indemnification in good faith require(s) such additional time for the obtaining or evaluating of documentation and/or information relating thereto and provided, further, that the foregoing provisions of this Section 10.2 shall not apply (i) if the determination of entitlement to indemnification is to be made by the stockholders pursuant to Section 9.2 of this Agreement and if (A) within 15 days after receipt by the Corporation of the request for such determination the Board has resolved to submit such determination to the stockholders for their consideration at an annual meeting thereof to be held within 75 days after such receipt and such determination is made thereat, or (B) a special meeting of stockholders is called within 15 days after such receipt for the purpose of making such determination, such meeting is held for such purpose within 60 days after having been so called and such determination is made thereat, or (ii) if the determination of entitlement to indemnification is to be made by Independent Counsel pursuant to Section 9.2 of this Agreement.

10.3 The termination of any Proceeding or of any claim, issue or matter therein, by judgment, order, settlement or conviction, or upon a plea of nolo contendere or its equivalent, shall not (except as otherwise expressly provided in this Agreement) of itself adversely affect the right of Indemnatee to indemnification or create a presumption that Indemnatee did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the Corporation or, with respect to any criminal Proceeding, that Indemnatee had reasonable cause to believe that his or her conduct was unlawful.

11. Remedies of Indemnatee.

11.1 In the event that (i) a determination is made pursuant to Section 9 of this Agreement that Indemnatee is not entitled to indemnification under this Agreement, (ii) advancement of Expenses is not timely made pursuant to Section 8 of this Agreement, (iii) the determination of indemnification is to be made by Independent Counsel pursuant to Section 9.2 of this Agreement and

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such determination shall not have been made and delivered in a written opinion within 90 days after receipt by the Corporation of the request for indemnification, (iv) payment of indemnification is not made pursuant to Section 7 of this Agreement within ten days after receipt by the Corporation of a written request therefor, or (v) payment of indemnification is not made within ten days after a determination has been made that Indemnatee is entitled to indemnification or such determination is deemed to have been made pursuant to Section 9 or 10 of this Agreement, Indemnatee shall be entitled to an adjudication in an appropriate court of the State of Florida, or in any other court of competent jurisdiction, of his or her entitlement to such indemnification or advancement of Expenses. The Corporation shall not oppose Indemnatee's right to seek any such adjudication.

11.2 In the event that a determination shall have been made pursuant to Section 9 of this Agreement that Indemnatee is not entitled to indemnification, any judicial proceeding commenced pursuant to this Section shall be conducted in all respects as a de novo trial on the merits and Indemnatee shall not be prejudiced by reason of that adverse determination. The presumptions in Section 10.1 hereof shall apply to any such judicial proceeding to the extent legally permissible.

11.3 If a determination shall have been made or deemed to have been made pursuant to Section 9 or 10 of this Agreement that Indemnatee is entitled to indemnification, the Corporation shall be bound by such determination in any judicial proceeding commenced pursuant to this Section, absent (i) a misstatement by Indemnatee of a material fact, or an omission of a material fact necessary to make Indemnatee's statement not materially misleading, in connection with the request for indemnification, or (ii) prohibition of such indemnification under applicable law.

11.4 The Corporation shall be precluded from asserting in any judicial proceeding commenced pursuant to this Section that the procedures and presumptions of this Agreement are not valid, binding and enforceable and shall stipulate in any such court that the Corporation is bound by all the provisions of this Agreement.

11.5 In the event that Indemnatee, pursuant to this Section, seeks a judicial adjudication of his or her rights under, or to recover damages for breach of, this Agreement, Indemnatee shall be entitled to recover from the Corporation, and shall be indemnified by the Corporation against, any and all expenses (of the kinds described in the definition of Expenses) actually and reasonably incurred by him in such judicial adjudication, but only if he or she prevails therein. If it shall be determined in such judicial adjudication that Indemnatee is entitled to receive all of the indemnification or advancement of

expenses sought, the expenses incurred by Indemnitee in connection with such judicial adjudication shall be appropriately prorated.

12. Non-Exclusivity; Survival of Rights; Insurance; Subrogation.

12.1 The rights of indemnification and to receive advancement of Expenses as provided by this Agreement shall not be deemed exclusive of any other rights to which Indemnitee may at any time be entitled under applicable law, the certificate of incorporation or by-laws of the Corporation, any agreement, a vote of stockholders or a resolution of directors, or otherwise. No amendment, alteration or repeal of this Agreement or any provision hereof shall be effective as to any Indemnitee

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with respect to any action taken or omitted by such Indemnitee in his Corporate Status prior to such amendment, alteration or repeal.

12.2 To the extent that the Corporation maintains an insurance policy or policies providing liability insurance for directors, officers, employees, agents or fiduciaries of the Corporation or of any other corporation, partnership, joint venture, trust, employee benefit plan or other enterprise which such person serves at the request of the Corporation, Indemnitee shall be covered by such policy or policies in accordance with its or their terms to the maximum extent of the coverage available for any such director, officer, employee, agent or fiduciary under such policy or policies.

12.3 In the event of any payment under this Agreement, the Corporation shall be subrogated to the extent of such payment to all of the rights of recovery of Indemnitee, who shall execute all papers required and take all action necessary to secure such rights, including execution of such documents as are necessary to enable the Corporation to bring suit to enforce such rights.

12.4 The Corporation shall not be liable under this Agreement to make any payment of amounts otherwise indemnifiable hereunder if and to the extent that Indemnitee has otherwise actually received such payment under any insurance policy, contract, agreement or otherwise.

13. Duration of Agreement.

This Agreement shall continue until and terminate upon the later of: (a) ten years after the date that Indemnitee shall have ceased to have any Corporate Status with the Corporation, (b) final termination of all pending Proceedings in respect of which Indemnitee is granted rights of indemnification or advancement of Expenses hereunder and or any proceeding commenced by Indemnitee pursuant to Section 11 of this Agreement; and (c) expiration of the statute of limitations for any claims that could be asserted for which Indemnitee would be indemnified hereunder. This Agreement shall be binding upon the Corporation and its successors and assigns and shall inure to the benefit of Indemnitee and his heirs, executors and administrators.

14. Severability.

If any provision or provisions of this Agreement shall be held to be invalid, illegal or unenforceable for any reason whatsoever: (a) the validity, legality and enforceability of the remaining provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable) shall not in any way be affected or impaired thereby; and (b) to the fullest extent possible, the provisions of this Agreement (including, without limitation, each portion of any Section of this Agreement containing any such provision held to be invalid, illegal or unenforceable, that is not itself invalid, illegal or unenforceable)

shall be construed so as to give effect to the intent manifested by the provision held invalid, illegal or unenforceable.

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15. Exception to Right of Indemnification or Advancement of Expenses.

Except as provided in Section 11.5 or with the consent of the Board of Directors, Indemnitee shall not be entitled to indemnification or advancement of Expenses under this Agreement with respect to any Proceeding, or any claim therein, brought or made by him against the Corporation.

16. Identical Counterparts.

This Agreement may be executed in one or more counterparts, each of which shall for all purposes be deemed to be an original but all of which together shall constitute one and the same Agreement.

17. Headings.

The headings of the paragraphs of this Agreement are inserted for convenience only and shall not be deemed to constitute part of this Agreement or to affect the construction thereof.

18. Modification and Waiver.

No supplement, modification or amendment of this Agreement shall be binding unless executed in writing by both of the parties hereto. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions hereof (whether or not similar) nor shall such waiver constitute a continuing waiver.

19. Notice by Indemnitee.

Indemnitee agrees promptly to notify the Corporation in writing upon being served with any summons, citation, subpoena, complaint, indictment, information or other document relating any Proceeding or matter which may be subject to indemnification or advancement of Expenses covered hereunder.

20. Notices.

All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given if (i) delivered by hand and receipted for by the party to whom such notice or other communication shall have been directed, or (ii) mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

If to Indemnitee, to:

Mark D. Klein  
3 Olmstead Road  
Scarsdale, New York 10583

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If to the Corporation, to:

Ladenburg Thalmann Financial Services Inc.  
590 Madison Avenue, 34th Floor  
New York, New York 10022  
Attention: Corporate Secretary

or to such other address or such other person as Indemnitee or the Corporation shall designate in writing in accordance with this Section, except that notices

regarding changes in notices shall be effective only upon receipt.

21. Governing Law.

The parties agree that this Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Florida.

22. Miscellaneous.

Use of the masculine pronoun shall be deemed to include usage of the feminine pronoun where appropriate.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on the day and year first above written.

LADENBURG THALMANN FINANCIAL SERVICES INC.

By: /s/ Salvatore Giardina

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Salvatore Giardina, Vice President and CFO

INDEMNITEE

/s/ Mark D. Klein

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MARK D. KLEIN

## SUBSCRIPTION AGREEMENT AND INVESTOR INFORMATION STATEMENT

Ladenburg Thalmann Financial Services Inc. (the "Company") and Mark D. Klein (the "Investor") hereby agree as follows:

1. SUBSCRIPTION FOR SECURITIES. Investor hereby subscribes for and agrees to purchase 2,222,222 shares of Common Stock ("Share(s)") at \$0.45 per share upon the terms and conditions described in this Agreement.

2. INVESTOR DELIVERIES. On the Closing Date (as hereafter defined), the Investor shall wire to the Company the sum of \$999,999.90, representing full payment for the Shares. Certificates representing the Shares will be delivered to the Investor as soon thereafter as practicable. "Closing Date" shall mean the date on which the Company's previously announced debt conversion and private placement closes which is currently scheduled to occur on March 11, 2005.

3. INVESTOR REPRESENTATIONS AND WARRANTIES. Investor acknowledges, represents and warrants to the Company as follows:

(a) Information about the Company. Investor has read the Company's recent filings under the Securities Exchange Act of 1934 ("Exchange Act"). Investor has been given access to full and complete information regarding the Company and has utilized such access to his satisfaction for the purpose of verifying the information included in those filings. Investor has either met with or been given reasonable opportunity to meet with officers of the Company for the purpose of asking reasonable questions of such officers concerning the terms and conditions of the offering of the Shares and the business and operations of the Company and all such questions have been answered to Investor's full satisfaction. Investor has been given an opportunity to obtain any additional relevant information to the extent reasonably available to the Company. Investor has received all information and materials regarding the Company that he has reasonably requested.

(b) Speculative Investment. Investor is aware that the Shares are a speculative investment that involve a high degree of risk including, but not limited to, the risk of losses from operations of the Company and the total loss of his investment. Investor acknowledges and is aware that there is no assurance as to the future performance of the Company. Investor has such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of an investment in the Shares and has obtained, in his judgment, sufficient information from the Company to evaluate the merits and risks of an investment in the Company. Investor has not utilized any person as his purchaser representative (as defined in Regulation D) in connection with evaluating such merits and risks and has relied solely upon his own investigation in making a decision to invest in the Company. Investor believes that the investment in the Shares is suitable for him based upon his investment objectives and financial needs, and Investor has adequate means for providing for his current financial needs and contingencies and has no need for liquidity with respect to his investment in the Company.

(c) Restrictions on Transfer. Investor understands that (i) the Shares have not been registered under the Securities Act of 1933 ("Securities Act") or the securities laws of certain states in reliance on specific exemptions from registration, (ii) no securities administrator of any state or the federal government has recommended or endorsed this offering of Shares or made any finding or determination relating to the fairness of an investment in the Company, and (iii) the Company is relying on his representations and agreements for the purpose of determining whether this transaction meets the

requirements of the exemptions afforded by the Securities Act and certain state securities laws. Investor understands and agrees that the Shares

cannot be resold, pledged, assigned or otherwise disposed of unless they are subsequently registered under the Securities Act and under applicable securities laws of certain states, or an exemption from such registration is available. Investor acknowledges that, notwithstanding the Company's commitment described below in Section 4, there can be no assurance that the Company will be able to keep the Registration Statement (defined below) effective until he sells the Shares registered thereon.

(d) No Market for Shares. Investor is purchasing the Shares for his own account for investment and not with a view to, or for sale in connection with, any subsequent distribution of the Shares, nor with any present intention of selling or otherwise disposing of all or any part of the Shares. Investor understands that, although there is a public market for the Shares, there is no assurance that such market will continue.

#### 4. REGISTRATION RIGHTS.

(a) (i) The Company shall file a registration statement (the "Registration Statement") on Form S-8, S-3 or other suitable form to register the Shares (collectively the "Registrable Securities") for resale pursuant to the Securities Act no later than April 30, 2005. The Company shall use commercially reasonable efforts to cause the Registration Statement to be declared effective by the SEC as promptly as practicable.

(ii) In connection the foregoing, the Company will, as expeditiously as possible, use its best efforts to: (A) furnish to Investor copies of reasonably complete drafts of all such documents proposed to be filed (including exhibits), and the Investor shall have the opportunity to object to any information pertaining solely to him that is contained therein and the Company will make the corrections reasonably requested by the Investor with respect to such information prior to filing any such Registration Statement or amendment; (B) prepare and file with the SEC such amendments and supplements to such Registration Statement and any prospectus used in connection therewith as may be necessary to maintain the effectiveness of such Registration Statement and to comply with the provisions of the Securities Act with respect to the disposition of all Registrable Securities covered by such Registration Statement; (C) promptly notify Investor: (1) when such Registration Statement or any prospectus used in connection therewith, or any amendment or supplement thereto, has been filed and, with respect to such Registration Statement or any post-effective amendment thereto, when the same has become effective; (2) of any written comments from the SEC with respect to the Registration Statement and of any written request by the SEC for amendments or supplements to such Registration Statement or prospectus; and (3) of the notification to the Company by the SEC of its initiation of any proceeding with respect to the Registration Statement or of the issuance by the SEC of any stop order suspending the effectiveness of such Registration Statement; (D) furnish Investor such number of copies of the prospectus contained in such Registration Statement (including each preliminary prospectus and any summary prospectus) and any other prospectus filed under Rule 424 promulgated under the Securities Act relating to the Registrable Securities, and such other documents as Investor may reasonably request to facilitate the disposition of his Registrable Securities; (E) notify Investor at any time when a prospectus relating thereto is required to be delivered under the Securities Act, of the happening of any event as a result of which any prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, and at the request of Investor promptly prepare and furnish Investor a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the

purchasers of such securities, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; and (F) make available for inspection by the Investor and any attorney, accountant or other agent retained by the Investor (collectively, the "Inspectors"), all financial and other records, pertinent corporate documents and properties of the Company as shall be

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reasonably necessary to enable them to exercise their due diligence responsibility, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such Inspector in connection with such Registration Statement, and permit the Inspectors to participate in the preparation of such Registration Statement and any prospectus contained therein and any amendment or supplement thereto.

(b) The Company shall bear all fees and expenses attendant to registering the Registrable Securities, but the Investor shall pay any and all sales commissions and the expenses of any legal counsel selected by them to represent them in connection with the sale of the Registrable Securities. The Company shall use its best efforts to cause any registration statement filed pursuant to this section to remain effective until all the Registrable Securities registered thereunder are sold or until the delivery to the Investor of an opinion of counsel to the Company to the effect set forth in Section 4(h).

(c) (i) The Company will indemnify the Investor and each underwriter, if any, and each person who controls any of them within the meaning of the Securities Act or the Exchange Act against all claims, losses, damages and liabilities (or actions or proceedings, commenced or threatened, in respect thereof), joint or several, arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any registration, qualification or compliance pursuant to this Section 4 or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any rule or regulation thereunder applicable to the Company in connection with any such registration, qualification or compliance, and will reimburse the Investor, each such underwriter and each person who controls any such underwriter within the meaning of the Securities Act or the Exchange Act for any legal and any other expenses reasonably incurred in connection with investigating and defending any such claim, loss, damage, liability or action or proceeding; provided that the Company will not be liable to Investor in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by or on behalf of the Investor specifically stating that it is intended for inclusion in any Registration Statement under which Registrable Securities are registered. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of Investor or any underwriter or controlling person, and shall survive the transfer of such securities by Investor.

(ii) Investor shall indemnify the Company, each of its directors and officers and each underwriter, if any, of the Company's securities covered by such registration statement, each person who controls the Company or such underwriter within the meaning of the Securities Act and the Exchange Act and the rules and regulations thereunder, each other securityholder participating in such distribution and each of their officers and directors and each person controlling such other securityholder, against all claims, losses, damages and liabilities (or actions or proceedings, commenced or threatened, in respect thereof) arising out of or based on any untrue statement (or alleged



untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and will reimburse the Company and such other security holders, directors, officers, persons, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating or defending any such claim, loss, damage, liability or action or proceeding, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such document in reliance upon and in conformity with written information furnished to the Company by or on behalf of Investor specifically stating that it is intended for inclusion in such document; provided, however, that the obligations of Investor hereunder shall be limited to an amount equal to the proceeds received by Investor of securities sold as contemplated herein. Such indemnity shall remain in full force and effect regardless of any investigation made by or on behalf of the Company or any such director, officer or controlling person, and shall survive the transfer of such securities by Investor.

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(iii) Each party desiring indemnification or contribution under this Section 4(c) hereof (the "Securities Indemnified Party") shall give notice to the party required to provide indemnification or contribution (the "Securities Indemnifying Party") promptly after such Securities Indemnified Party has actual knowledge of any claim as to which indemnity or contribution may be sought, and shall permit the Securities Indemnifying Party to assume, at its sole cost and expense, the defense of any such claim or any litigation resulting therefrom, provided that counsel for the Securities Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Securities Indemnified Party (whose approval shall not be unreasonably withheld). The Securities Indemnified Party may participate in such defense at the Securities Indemnified Party's expense unless (A) the employment of counsel by the Securities Indemnified Party has been authorized in writing by the Securities Indemnifying Party, (B) the Securities Indemnified Party has been advised by such counsel employed by it that there are legal defenses available to it involving potential conflict with those of the Securities Indemnifying Party (in which case the Securities Indemnifying Party will not have the right to direct the defense of such action on behalf of the Securities Indemnified Party), or (C) the Securities Indemnifying Party has not in fact employed counsel to assume the defense of such action within a reasonable time after receiving notice of the commencement of the action, in each of which cases the reasonable fees and expenses of counsel for the Securities Indemnified Party shall be at the expense of the Securities Indemnifying Party. The failure of any Securities Indemnified Party to give notice as provided herein shall not relieve the Securities Indemnifying Party of its obligations under this Section 4. No Securities Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Securities Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Securities Indemnified Party of a release from all liability in respect to such claim or litigation. No Securities Indemnified Party shall settle any claim or demand without the prior written consent of the Securities Indemnifying Party (which consent will not be unreasonably withheld). Each Securities Indemnified Party shall furnish such information regarding itself or the claim in question as the Securities Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with defense of such claim and litigation resulting therefrom.

(iv) The provisions of this Section 4(c) shall be in addition to any other rights to indemnification or contribution which an Indemnified Party may have pursuant to law, equity, contract or otherwise.

(d) In order to provide for just and equitable contribution under

the Securities Act in any case in which (A) any person entitled to indemnification under Section (c) makes a claim for indemnification pursuant hereto but such indemnification is not enforced in such case notwithstanding the fact that this section provides for indemnification in such case, or (B) contribution under the Securities Act, the Exchange Act or otherwise is required on the part of any such person in circumstances for which indemnification is provided under this section, then, and in each such case, the Company and the Investor shall contribute to the aggregate losses, liabilities, claims, damages and expenses of the nature contemplated by said indemnity agreement (including legal and other expenses reasonably incurred in connection with investigation or defense) incurred by the Company and the Investor, as incurred, in proportion to their relative fault and the relative knowledge and access to information of the Securities Indemnifying Party, on the one hand, and the Securities Indemnified Party, on the other hand, concerning the matters resulting in such losses, liabilities, claims, damages and expenses, the opportunity to correct and prevent any untrue statement or omission, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission of a material fact relates to information supplied by the Securities Indemnifying Party, on the one hand, or the Securities Indemnified Party, on the other hand, and any other equitable considerations appropriate under the circumstances; provided that no person guilty of a fraudulent misrepresentation (within the meaning of Section 11(f) of the 1933 Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this section, each person, if any, who controls the Company within the meaning of Section 15 of the Securities Act shall have the same rights to contribution as the Company.

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(e) The Investor shall furnish to the Company such information regarding himself and the distribution proposed by him as the Company may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Section 4.

(f) The Company shall comply with all of the reporting requirements of the Exchange Act and with all other public information reporting requirements of the Commission, which are conditions to the availability of Rule 144 for the sale of the Shares. The Company shall cooperate with the Investor in supplying such information as may be necessary for such investor to complete and file any information reporting forms presently or hereafter required by the Commission as a condition to the availability of Rule 144.

(g) The Company represents and warrants to the Investor that the granting of the registration rights to the Investor hereby does not and will not violate any agreement between the Company and any other security holders with respect to registration rights granted by the Company.

(h) The rights granted under this Section 4 shall terminate upon delivery to the Investor of an opinion of counsel to the Company reasonably satisfactory to the Investor to the effect that such rights are no longer necessary for the public sale of the Registrable Securities without restriction as to the number of securities that may be sold at any one time or the manner of sale.

(i) The rights granted under this Section 4 shall not be transferable; provided, however, that if Investor transfers any of the Shares to members of his immediate family or trusts and limited partnerships established for their benefit (collectively, "Immediate Family Members") for estate planning purposes, such transferees shall be entitled to the benefit of this Section as fully as if they were the Investor.

5. LOCK-UP AND INSIDER TRADING POLICY. The Investor agrees that he will

not sell, assign or transfer any of the Shares until November 15, 2005, except to an Immediate Family Member who shall agree to continue to be bound by this restriction. Investor understands that he will be required to abide by all of the Company's policies in effect, including the Company's Insider Trading Policy, with respect to the ownership and trading of the Company's securities.

6. INDEMNIFICATION. Investor hereby agrees to indemnify and hold harmless the Company, its respective officers, directors, stockholders, employees, agents and attorneys against any and all losses, claims, demands, liabilities, and expenses (including reasonable legal or other expenses incurred by each such person in connection with defending or investigating any such claims or liabilities, whether or not resulting in any liability to such person or whether incurred by the indemnified party in any action or proceeding between the indemnitor and indemnified party or between the indemnified party and any third party) to which any such indemnified party may become subject, insofar as such losses, claims, demands, liabilities and expenses (a) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact made by Investor and contained herein or (b) arise out of or are based upon any breach by Investor of any representation, warranty or agreement made by him contained herein.

7. GOVERNING LAW AND JURISDICTION. This Subscription Agreement will be deemed to have been made and delivered in New York City and will be governed as to validity, interpretation, construction, effect and in all other respects by the internal laws of the State of New York. Each of the Company and the Investor hereby (i) agrees that any legal suit, action or proceeding arising out of or relating to this Subscription Agreement will be instituted exclusively in New York State Supreme Court, County of New York, or in the United States District Court for the Southern District of New York, (ii) waives any objection to the venue of any such suit, action or proceeding and the right to assert that such forum is not a convenient forum for such suit, action or proceeding, (iii) irrevocably consents to the jurisdiction of the New York State Supreme Court, County of New York, and the United States District Court for the Southern District of New York in any such

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suit, action or proceeding, (iv) agrees to accept and acknowledge service of any and all process that may be served in any such suit, action or proceeding in New York State Supreme Court, County of New York or in the United States District Court for the Southern District of New York and (v) agrees that service of process upon it mailed by certified mail to its address set forth on my signature page will be deemed in every respect effective service of process upon it in any suit, action or proceeding.

8. COUNTERPARTS. This Subscription Agreement may be executed in one or more counterparts, each of which will be deemed an original but all of which together will constitute one and the same instrument. The execution of this Subscription Agreement may be by actual or facsimile signature.

9. BENEFIT. Except as otherwise set forth herein, this Subscription Agreement is binding upon and inures to the benefit of the parties hereto and their respective heirs, executors, personal representatives, successors and assigns.

10. NOTICES. All notices, offers, acceptance and any other acts under this Subscription Agreement (except payment) must be in writing, and is sufficiently given if delivered to the addressees in person, by overnight courier service, or, if mailed, postage prepaid, by certified mail (return receipt requested), and will be effective three days after being placed in the mail if mailed, or upon receipt or refusal of receipt, if delivered personally or by courier or confirmed telecopy, in each case addressed to a party. All communications to me should be sent to Investor's residence address on the signature page hereto. All communications to the Company should be sent to:

Ladenburg Thalmann Financial Services Inc.  
590 Madison Avenue, 34th Floor  
New York, New York 10022  
Attn: Sal Giardina, Chief Financial Officer

11. ENTIRE AGREEMENT. This Subscription Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior oral and written agreements between the parties hereto with respect to the subject matter hereof. In the event any parts of this Subscription Agreement are found to be void, the remaining provisions of this Subscription Agreement are nevertheless binding with the same effect as though the void parts were deleted. This Subscription Agreement may not be changed, waived, discharged, or terminated orally, but rather, only by a statement in writing signed by the party or parties against which enforcement or the change, waiver, discharge or termination is sought.

12. SECTION HEADINGS. Section headings herein have been inserted for reference only and will not be deemed to limit or otherwise affect, in any matter, or be deemed to interpret in whole or in part, any of the terms or provisions of this Subscription Agreement.

13. SURVIVAL OF REPRESENTATIONS, WARRANTIES AND AGREEMENTS. The representations, warranties and agreements contained herein will survive the delivery of, and the payment for, the Shares.

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SIGNATURE PAGE FOR INDIVIDUAL INVESTORS - COMPLETE ALL INFORMATION

Name: Mark D. Klein

Residence Address: 3 Olmstead Road, Scarsdale, New York 10583

Telephone: (H) \_\_\_\_\_ (W) \_\_\_\_\_ (Cell) \_\_\_\_\_

Social Securities Number: \_\_\_\_\_

Amount of Investment:

Number of Shares: 2,222,222

Corresponding dollar amount (\$0.45 multiplied by number of Shares): \$999,999.90

Accredited Investor Status For Individuals.

(i) I am an accredited investor within the meaning of Section 2(15) of the Securities Act and Rule 501 promulgated thereunder because (check any boxes that apply):

My individual annual income during each of the two most recent years exceeded \$200,000 and I expect my annual income during the current year will exceed \$200,000.

If I am married, my joint annual income with my spouse during each of the two most recent years exceeded \$300,000 and I expect my joint annual income with my spouse during the current year will exceed \$300,000.

My individual or joint (together with my spouse) net worth (including my home, home furnishings and automobiles) exceeds \$1,000,000.

I hereby confirm the information set forth above is true and correct in all respects as of the date hereof and will be on the date of the purchase of Shares.

The foregoing subscription is accepted and the Company hereby agrees to be bound by its terms.

LADENBURG THALMANN FINANCIAL SERVICES INC.

By: /s/ Salvatore Giardina  
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Signature: /s/ Mark D. Klein  
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Name: Sal Giardina

Print Name: Mark D. Klein

Title: Vice President and Chief Financial Officer

Date: As of March 4, 2005

Date: As of March 4, 2005