

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

**FORM 10-Q**

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

For the quarterly period ended June 30, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 001-15799

**Ladenburg Thalmann Financial Services Inc.**

*(Exact name of registrant as specified in its charter)*

**Florida**

*(State or other jurisdiction of  
incorporation or organization)*

**65-0701248**

*(I.R.S. Employer  
Identification Number)*

**4400 Biscayne Boulevard, 12th Floor**

**Miami, Florida**

*(Address of principal executive offices)*

**33137**

*(Zip Code)*

**(305) 572-4100**

*(Registrant's telephone number, including area code)*

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

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

Large accelerated filer

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

Accelerated filer

Smaller reporting company

Emerging growth company

---

**If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.** \_\_\_\_\_

**Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).**

Yes \_\_\_ No X

**As of August 2, 2017 there were 196,351,902 shares of the registrant's common stock outstanding.**

---

**LADENBURG THALMANN FINANCIAL SERVICES INC.  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017**

**TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I. FINANCIAL INFORMATION</b>	
<u>Item 1. Financial Statements</u>	
<u>Condensed Consolidated Statements of Financial Condition as of June 30, 2017 (unaudited) and December 31, 2016</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016 (unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statement of Changes in Shareholders' Equity for the six months ended June 30, 2017 (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016 (unaudited)</u>	<u>4</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>5</u>
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	<u>31</u>
<u>Item 4. Controls and Procedures</u>	<u>31</u>
<b>PART II. OTHER INFORMATION</b>	
<u>Item 1. Legal Proceedings</u>	<u>32</u>
<u>Item 1A. Risk Factors</u>	<u>32</u>
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>33</u>
<u>Item 6. Exhibits</u>	<u>34</u>
<b><u>SIGNATURES</u></b>	<b><u>35</u></b>

---

**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

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

ASSETS	June 30, 2017 (Unaudited)	December 31, 2016
Cash and cash equivalents	\$ 88,852	\$ 98,930
Securities owned, at fair value	4,267	3,543
Receivables from clearing brokers	55,422	41,492
Receivables from other broker-dealers	2,346	853
Notes receivable from financial advisors, net	33,923	32,611
Other receivables, net	50,119	54,634
Fixed assets, net	22,118	21,253
Restricted assets	760	1,011
Intangible assets, net	114,051	124,938
Goodwill	124,031	124,031
Cash surrender value of life insurance	11,761	10,210
Other assets	30,638	32,497
Total assets	<u>\$ 538,288</u>	<u>\$ 546,003</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Securities sold, but not yet purchased, at fair value	\$ 351	\$ 382
Accrued compensation	20,743	26,299
Commissions and fees payable	61,696	60,594
Accounts payable and accrued liabilities	38,202	39,876
Deferred rent	1,999	1,764
Deferred income taxes	9,290	10,642
Deferred compensation liability	17,904	17,247
Accrued interest	410	281
Notes payable, net of \$647 and \$872 unamortized discount in 2017 and 2016, respectively.	30,573	26,417
Total liabilities	<u>181,168</u>	<u>183,502</u>
Commitments and contingencies (Note 7)		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$.0001 par value; authorized 50,000,000 shares in 2017 and 2016: 8% Series A cumulative redeemable preferred stock; authorized 23,844,916 shares in 2017 and 17,290,000 in 2016; shares issued and outstanding 16,243,175 in 2017 and 15,844,916 in 2016, (liquidation preference \$406,079 and \$396,123 in 2017 and 2016)	2	1
Common stock, \$.0001 par value; authorized 1,000,000,000 shares in 2017 and 2016; shares issued and outstanding, 196,616,897 in 2017 and 194,057,738 in 2016	20	19
Additional paid-in capital	516,901	519,879
Accumulated deficit	(159,822)	(157,425)
Total shareholders' equity of the Company	357,101	362,474
Noncontrolling interest	19	27
Total shareholders' equity	357,120	362,501
Total liabilities and shareholders' equity	<u>\$ 538,288</u>	<u>\$ 546,003</u>

See accompanying notes.

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

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Commissions	\$ 132,524	\$ 125,583	\$ 263,013	\$ 253,008
Advisory fees	134,396	111,951	261,142	222,876
Investment banking	12,887	6,519	19,376	11,021
Principal transactions	258	380	578	513
Interest and dividends	5,868	2,670	9,642	4,399
Service fees and other income	25,603	22,672	48,076	43,754
Total revenues	<u>311,536</u>	<u>269,775</u>	<u>601,827</u>	<u>535,571</u>
<b>Expenses:</b>				
Commissions and fees	226,089	198,798	444,823	398,539
Compensation and benefits	40,875	36,060	80,000	72,887
Non-cash compensation	1,378	1,341	2,807	2,696
Brokerage, communication and clearance fees	4,909	2,943	9,474	7,973
Rent and occupancy, net of sublease revenue	2,468	2,237	4,860	4,687
Professional services	3,870	3,259	7,934	6,414
Interest	521	1,172	998	2,379
Depreciation and amortization	7,294	7,241	14,726	14,116
Acquisition-related expenses	89	31	265	67
Amortization of retention and forgivable loans	1,671	1,544	3,262	2,978
Other	21,122	16,676	36,098	30,690
Total expenses	<u>310,286</u>	<u>271,302</u>	<u>605,247</u>	<u>543,426</u>
Income (loss) before item shown below	1,250	(1,527)	(3,420)	(7,855)
Change in fair value of contingent consideration	(63)	(49)	89	(106)
Income (loss) before income taxes	1,187	(1,576)	(3,331)	(7,961)
Income tax (benefit) expense	(138)	16,225	(977)	7,456
Net income (loss)	1,325	(17,801)	(2,354)	(15,417)
Net loss attributable to noncontrolling interest	(3)	(14)	(8)	(32)
Net income (loss) attributable to the Company	<u>\$ 1,328</u>	<u>\$ (17,787)</u>	<u>\$ (2,346)</u>	<u>\$ (15,385)</u>
Dividends declared on preferred stock	(7,953)	(7,389)	(15,877)	(14,734)
Net loss available to common shareholders	<u>\$ (6,625)</u>	<u>\$ (25,176)</u>	<u>\$ (18,223)</u>	<u>\$ (30,119)</u>
Net loss per common share available to common shareholders (basic)	<u>\$ (0.03)</u>	<u>\$ (0.14)</u>	<u>\$ (0.09)</u>	<u>\$ (0.17)</u>
Net loss per common share available to common shareholders (diluted)	<u>\$ (0.03)</u>	<u>\$ (0.14)</u>	<u>\$ (0.09)</u>	<u>\$ (0.17)</u>
Weighted average common shares used in computation of per share data:				
Basic	<u>192,304,828</u>	<u>180,674,937</u>	<u>192,287,816</u>	<u>181,019,191</u>
Diluted	<u>192,304,828</u>	<u>180,674,937</u>	<u>192,287,816</u>	<u>181,019,191</u>

See accompanying notes.

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

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount				
Balance - December 31, 2016	15,844,916	\$ 1	194,057,738	\$ 19	\$ 519,879	\$ (157,425)	\$ 27	\$362,501
Issuance of common stock under employee stock purchase plan	—	—	110,614	—	259	—	—	259
Exercise of stock options	—	—	1,740,997	1	3,719	—	—	3,720
Stock-based compensation granted to advisory board, consultants and independent financial advisors	—	—	—	—	23	—	—	23
Stock-based compensation to employees	—	—	—	—	2,784	—	—	2,784
Issuance of restricted stock	—	—	1,771,000	—	—	—	—	—
Repurchase and retirement of common stock, including 145,920 shares surrendered for tax withholdings and 19,658 shares tendered in payment of exercise price	—	—	(1,063,452)	—	(2,581)	—	—	(2,581)
Repurchase of stock option award for cash	—	—	—	—	(850)	—	—	(850)
Preferred stock issued, net of underwriting discount and expense of \$428	398,259	1	—	—	9,482	—	—	9,483
Preferred stock dividends declared and paid	—	—	—	—	(15,877)	—	—	(15,877)
Cumulative effect of adoption of ASU 2016-09 (Note 1)	—	—	—	—	63	(51)	—	12
Net loss	—	—	—	—	—	(2,346)	(8)	(2,354)
Balance - June 30, 2017	16,243,175	\$ 2	196,616,897	\$ 20	\$ 516,901	\$ (159,822)	\$ 19	\$357,120

See accompanying notes.

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

	Six Months Ended June 30,	
	2017	2016
Cash flows from operating activities:		
Net loss	\$ (2,354)	\$ (15,417)
Adjustments to reconcile net loss to net cash used in operating activities:		
Change in fair value of contingent consideration	(89)	106
Adjustment to deferred rent	235	(70)
Amortization of intangible assets	10,887	10,326
Amortization of debt discount	225	327
Amortization of debt issue cost	—	188
Amortization of retention and forgivable loans	3,262	2,978
Depreciation and other amortization	3,839	3,789
Deferred income taxes	(1,340)	6,460
Benefit attributable to reduction of goodwill	—	39
Non-cash interest expense on forgivable loan	190	205
Non-cash compensation expense	2,807	2,696
Loss on write-off of furniture, fixtures and leasehold improvements, net	2	1
(Increase) decrease in operating assets		
Securities owned, at fair value	(724)	316
Receivables from clearing brokers	(13,930)	12,581
Receivables from other broker-dealers	(1,493)	(130)
Other receivables, net	4,515	(4,310)
Notes receivable from financial advisors, net	(4,574)	(3,735)
Cash surrender value of life insurance	(1,551)	1,043
Other assets	1,859	898
Increase (decrease) in operating liabilities		
Securities sold, but not yet purchased, at fair value	(31)	390
Accrued compensation	(5,556)	(11,184)
Accrued interest	(61)	(17)
Commissions and fees payable	1,102	(4,472)
Deferred compensation liability	657	(579)
Accounts payable and accrued liabilities	(1,585)	(4,085)
<b>Net cash used in operating activities</b>	<b>(3,708)</b>	<b>(1,656)</b>
Cash flows from investing activities:		
Purchases of fixed assets	(4,706)	(3,700)
Decrease in restricted assets	251	—
<b>Net cash used in investing activities</b>	<b>(4,455)</b>	<b>(3,700)</b>
Cash flows from financing activities:		
Issuance of Series A preferred stock	9,483	8,777
Issuance of common stock	3,979	2,032
Series A preferred stock dividends paid	(15,877)	(14,734)
Repurchase of stock option award for cash	(850)	—
Repurchase and retirement of common stock	(2,581)	(8,904)
Borrowings on term loan	8,000	—
Bank loan and revolver repayments	(565)	(311)
Principal payments on notes payable	(3,504)	(3,442)
<b>Net cash used in financing activities</b>	<b>(1,915)</b>	<b>(16,582)</b>
Net decrease in cash and cash equivalents	(10,078)	(21,938)
Cash and cash equivalents, beginning of period	98,930	118,677
<b>Cash and cash equivalents, end of period</b>	<b>\$ 88,852</b>	<b>\$ 96,739</b>
Supplemental cash flow information:		

Interest paid	\$	644	\$	1,675
Taxes paid		440		476

See accompanying notes.

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

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

Ladenburg Thalmann Financial Services Inc. (the “Company” or “LTS”) is a holding company. Its principal operating subsidiaries are Securities America, Inc. (collectively with related companies, “Securities America”), Triad Advisors, Inc. (“Triad”), Investacorp, Inc. (collectively with related companies, “Investacorp”), KMS Financial Services, Inc. (“KMS”), Securities Service Network, Inc. (“SSN”), Ladenburg Thalmann & Co. Inc. (“Ladenburg”), Ladenburg Thalmann Asset Management Inc. (“LTAM”), Premier Trust, Inc. (“Premier Trust”), Highland Capital Brokerage, Inc. (“Highland”) and Ladenburg Thalmann Annuity Insurance Services LLC (“LTAIS”).

Securities America, Triad, Investacorp, KMS and SSN are registered broker-dealers and investment advisors that serve the independent financial advisor community. The independent financial advisors of these independent broker-dealers primarily serve retail clients. Such entities derive revenue from advisory fees and commissions, primarily from the sale of mutual funds, variable annuity products and other financial products and services.

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

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

Premier Trust, a Nevada trust company, provides wealth management services, including administration of personal trusts and retirement accounts, estate and financial planning and custody services.

Highland is an independent insurance broker that delivers life insurance, fixed and equity indexed annuities and long-term care solutions to investment and insurance providers. Highland provides specialized point-of-sale support along with advanced marketing and estate and business planning techniques, delivering customized insurance solutions to both institutional clients and independent producers. LTAIS provides marketing strategies, product expertise, and back-office processing for fixed and equity-indexed annuities.

Securities America's, Triad's, Investacorp's, KMS', SSN's and Ladenburg's customer transactions are cleared through clearing brokers on a fully-disclosed basis and such entities are subject to regulation by, among others, the Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Authority (“FINRA”) and the Municipal Securities Rulemaking Board. Each entity is a member of the Securities Investor Protection Corporation. Highland and LTAIS are subject to regulation by various regulatory bodies, including state attorneys general and insurance departments. Premier Trust is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division.

**Basis of Presentation**

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

The unaudited condensed consolidated financial statements do not include all information and notes required in annual audited financial statements in conformity with GAAP. The statement of financial condition at December 31, 2016 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statement presentation. Please refer to the notes to the audited consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2016 for additional disclosures and a description of accounting policies.

Certain amounts in the prior period financial statements were reclassified to conform with the current period financial statement presentation.

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

**Recent Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), which completes the joint effort by the FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for GAAP and the International Financial Reporting Standards. ASU 2014-09 will become effective for fiscal years and interim periods within those years, beginning after December 15, 2017, with early adoption permitted for fiscal years and interim periods within those years, beginning after December 15, 2016, the original effective date of the standard. The Company is currently assessing the impact that the adoption of ASU 2014-09 will have on its consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, Financial Instruments--Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which amends the guidance in U.S. GAAP on the classification and measurement of financial instruments. Changes to the current guidance primarily affect the accounting for equity investments, financial liabilities under the fair value option, and the presentation and disclosure requirements for financial instruments. In addition, the ASU clarifies guidance related to the valuation allowance assessment when recognizing deferred tax assets resulting from unrealized losses on available-for-sale debt securities. The new standard is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is evaluating the effect that this guidance will have on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which supersedes the existing guidance for lease accounting, Leases (Topic 840). ASU 2016-02 requires lessees to recognize leases on their balance sheets, and leaves lessor accounting largely unchanged. The amendments in this ASU are effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Early application is permitted for all entities. ASU 2016-02 requires a modified retrospective approach for all leases existing at, or entered into after, the date of initial application, with an option to elect to use certain transition relief. The Company is currently assessing the impact that the adoption of ASU 2016-02 will have on its consolidated financial statements.

In March 2016, the FASB amended the existing accounting standards for stock-based compensation, ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments impact several aspects of accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company adopted the amendments in the first quarter of 2017. Prior to adoption of ASU 2016-09, tax attributes related to stock option windfall deductions were not recorded until they resulted in a reduction of cash tax payable. As of December 31, 2016, the tax benefit related to the excluded windfall deductions for federal and state purposes were approximately \$4,458. Upon adoption of ASU 2016-09, the Company recognized the tax benefit related to the excluded windfall deductions as a deferred tax asset with a corresponding offset of \$4,446 to valuation allowance. In regards to the forfeiture policy election, the Company is not continuing to estimate the number of awards expected to be forfeited, rather the Company will elect to account for forfeitures as they occur. As of December 31, 2016, additional compensation cost related to the elimination of estimated forfeitures was \$63, net of estimated tax benefit of \$12, which is reflected in the statement of changes in shareholders' equity. No other terms of the adopted guidance resulted in an impact on the Company's consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments ("ASU 2016-15"). ASU 2016-15 is intended to reduce diversity in practice on how certain cash receipts and payments are presented and classified in the statement of cash flows. The standard provides guidance in a number of situations including, among others, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees.

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

ASU 2016-15 also provides guidance for classifying cash receipts and payments that have aspects of more than one class of cash flows. ASU 2016-15 is effective for the Company's fiscal year beginning January 1, 2018. Early adoption is permitted. The standard requires application using a retrospective transition method. The Company is currently assessing the impact the adoption of ASU 2016-15 will have on its consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, Statement of Cash Flows (Topic 230) ("ASU 2016-18"). ASU 2016-18 provides guidance on the classification of restricted cash to be included with cash and cash equivalents when reconciling the beginning of period and end of period total amounts on the statement of cash flows. This pronouncement is effective for reporting periods beginning after December 15, 2017 using a retrospective adoption method and early adoption is permitted. The Company is currently assessing the impact the adoption of ASU 2016-18 will have on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business ("ASU 2017-01"). ASU 2017-01 provides that when substantially all the fair value of the assets acquired is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. ASU 2017-01 became effective for transactions beginning in the first quarter of 2017 and is being applied prospectively. The adoption of ASU 2017-01 did not have any impact on the Company's consolidated financial statements.

In January 2017, the FASB issued ASU 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, an amendment to simplify the subsequent quantitative measurement of goodwill by eliminating step two from the goodwill impairment test. As amended, an entity will recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. An entity still has the option to perform the qualitative test for a reporting unit to determine if the quantitative impairment test is necessary. This amendment is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019 and applies prospectively. Early adoption is permitted, including in an interim period, for impairment tests performed after January 1, 2017. The Company is currently assessing the impact the adoption of ASU 2017-04 will have on its consolidated financial statements.

## **2. Fair Value of Assets and Liabilities**

Authoritative accounting guidance defines fair value, establishes a framework for measuring fair value, and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transaction to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, the most advantageous market. Valuation techniques that are consistent with the market or income approach are used to measure fair value.

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

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

Level 2 — Inputs other than quoted market prices that are observable, either directly or indirectly, and reasonably available. Observable inputs reflect the assumptions market participants would use in pricing the asset or liability and are developed based on market data obtained from sources independent of the Company.

Level 3 — Unobservable inputs which reflect the assumptions that the Company develops based on available information about what market participants would use in valuing the asset or liability.

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

The following tables present the carrying values and estimated fair values at June 30, 2017 and December 31, 2016 of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and information is provided on their classification within the fair value hierarchy. Such instruments are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk.

June 30, 2017				
<u>Assets</u>	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total Estimated Fair Value</u>
Cash and cash equivalents	\$ 88,852	\$ 88,852	\$ —	\$ 88,852
Receivables from clearing brokers	55,422	—	55,422	55,422
Receivables from other broker-dealers	2,346	—	2,346	2,346
Notes receivables, net <sup>(1)</sup>	33,923	—	33,923	33,923
Other receivables, net	50,119	—	50,119	50,119
	<b>\$ 230,662</b>	<b>\$ 88,852</b>	<b>\$ 141,810</b>	<b>\$ 230,662</b>
<b><u>Liabilities</u></b>				
Accrued compensation	\$ 20,743	\$ —	\$ 20,743	\$ 20,743
Commissions and fees payable	61,696	—	61,696	61,696
Accounts payable and accrued liabilities <sup>(2)</sup>	35,425	—	35,425	35,425
Accrued interest	410	—	410	410
Notes payable, net <sup>(3)</sup>	30,573	—	28,755	28,755
	<b>\$ 148,847</b>	<b>\$ —</b>	<b>\$ 147,029</b>	<b>\$ 147,029</b>

(1) Carrying value approximates fair value, which is determined based on a valuation technique to convert future cash payments or forgiveness transactions to a single discounted preset value amount.

(2) Excludes contingent consideration liabilities of \$2,777.

(3) Estimated fair value based on then current rates at which similar amounts of debt could be borrowed.

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

December 31, 2016				
<u>Assets</u>	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Total Estimated Fair Value</u>
Cash and cash equivalents	\$ 98,930	\$ 98,930	\$ —	\$ 98,930
Receivables from clearing brokers	41,492	—	41,492	41,492
Receivables from other broker-dealers	853	—	853	853
Notes receivables, net <sup>(1)</sup>	32,611	—	32,611	32,611
Other receivables, net	54,634	—	54,634	54,634
	<b>\$ 228,520</b>	<b>\$ 98,930</b>	<b>\$ 129,590</b>	<b>\$ 228,520</b>
<b>Liabilities</b>				
Accrued compensation	\$ 26,299	\$ —	\$ 26,299	\$ 26,299
Commissions and fees payable	60,594	—	60,594	60,594
Accounts payable and accrued liabilities <sup>(2)</sup>	32,732	—	32,732	32,732
Accrued interest	281	—	281	281
Notes payable, net <sup>(3)</sup>	26,417	—	24,494	24,494
	<b>\$ 146,323</b>	<b>\$ —</b>	<b>\$ 144,400</b>	<b>\$ 144,400</b>

(1) Carrying value approximates fair value, which is determined based on a valuation technique to convert future cash payments or forgiveness transactions to a single discounted preset value amount.

(2) Excludes contingent consideration liabilities of \$7,144.

(3) Estimated fair value based on then current rates at which similar amounts of debt could be borrowed.

The following tables presents the financial assets and liabilities measured at fair value on a recurring basis at June 30, 2017 and December 31, 2016:

June 30, 2017					
<u>Assets</u>	<u>Carrying Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total Estimated Fair Value</u>
Certificates of deposit	\$ 513	\$ 513	\$ —	\$ —	\$ 513
Debt securities	2,454	—	2,454	—	2,454
U.S. Treasury notes	100	—	100	—	100
Common stock and warrants	1,200	335	865	—	1,200
Total	<b>\$ 4,267</b>	<b>\$ 848</b>	<b>\$ 3,419</b>	<b>\$ —</b>	<b>\$ 4,267</b>
<b>Liabilities</b>					
Contingent consideration payable	\$ 2,777	\$ —	\$ —	\$ 2,777	\$ 2,777
Debt securities	(117)	—	(117)	—	(117)
U.S. Treasury notes	(151)	—	(151)	—	(151)
Common stock and warrants	(83)	(83)	—	—	(83)
Total	<b>\$ 2,426</b>	<b>\$ (83)</b>	<b>\$ (268)</b>	<b>\$ 2,777</b>	<b>\$ 2,426</b>

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

	December 31, 2016				
	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
<b>Assets</b>					
Certificates of deposit	\$ 443	\$ 443	\$ —	\$ —	\$ 443
Debt securities	1,850	—	1,850	—	1,850
U.S. Treasury notes	101	—	101	—	101
Common stock and warrants	1,149	494	655	—	1,149
<b>Total</b>	<b>\$ 3,543</b>	<b>\$ 937</b>	<b>\$ 2,606</b>	<b>\$ —</b>	<b>\$ 3,543</b>
<b>Liabilities</b>					
Contingent consideration payable	\$ 7,144	\$ —	\$ —	\$ 7,144	\$ 7,144
Debt securities	25	—	25	—	25
U.S. Treasury notes	96	—	96	—	96
Common stock and warrants	261	261	—	—	261
<b>Total</b>	<b>\$ 7,526</b>	<b>\$ 261</b>	<b>\$ 121</b>	<b>\$ 7,144</b>	<b>\$ 7,526</b>

As of June 30, 2017 and December 31, 2016, approximately \$3,428 and \$3,161, respectively, of securities owned were deposited with clearing brokers and may be sold or hypothecated by the clearing brokers pursuant to clearing agreements with such clearing brokers. Securities sold, but not yet purchased, represents obligations of the Company's subsidiaries to purchase the specified financial instrument at the then current market price. Accordingly, these transactions result in off-balance-sheet risk as the Company's subsidiaries' ultimate obligation to repurchase such securities may exceed the amount recognized in the consolidated statements of financial condition.

Debt securities and U.S. Treasury notes are valued based on recently executed transactions, market price quotations, and pricing models that factor in, as applicable, interest rates and bond default risk spreads.

Warrants are carried at a discount to fair value as determined by using the Black-Scholes option pricing model due to illiquidity. This model takes into account the underlying securities' current market values, the underlying securities' market volatility, the terms of the warrants, exercise prices and risk-free return rate. As of June 30, 2017 and December 31, 2016, the fair values of the warrants were \$692 and \$252, respectively, and are included in common stock and warrants (Level 2) above.

From time to time, Ladenburg receives common stock as compensation for investment banking services. These securities are restricted under applicable securities laws and may be freely traded only upon the effectiveness of a registration statement covering them or upon the satisfaction of the requirements of Rule 144 of the Securities Act of 1933, as amended, including the requisite holding period. Restricted common stock is classified as Level 2 securities.

Set forth below are changes in the carrying value of contingent consideration related to acquisitions, which is included in accounts payable and accrued liabilities:

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

Fair value of contingent consideration as of December 31, 2015	\$	2,813
Payments		(827)
Change in fair value of contingent consideration		216
Fair value of contingent consideration in connection with 2016 acquisitions		4,942
Fair value of contingent consideration as of December 31, 2016	\$	7,144
Payments		(1,505)
Change in fair value of contingent consideration		(152)
Fair value of contingent consideration as of March 31, 2017	\$	5,487
Payments		(2,773)
Change in fair value of contingent consideration		63
Fair value of contingent consideration as of June 30, 2017	\$	2,777

**3. Intangible Assets**

At June 30, 2017 and December 31, 2016, intangible assets subject to amortization consisted of the following:

	Weighted-Average Estimated Useful Life (years)	June 30, 2017		December 31, 2016	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology	7.9	\$ 25,563	\$ 17,387	\$ 25,563	\$ 15,754
Relationships with financial advisors	14.7	117,995	45,255	117,995	40,505
Vendor relationships	7	3,613	3,613	3,613	3,613
Covenants not-to-compete	3.9	6,421	5,343	6,421	4,638
Customer accounts	8.3	2,029	2,023	2,029	1,971
Trade names	7.7	16,910	11,131	16,910	10,017
Renewal revenue	7.9	41,381	15,109	41,381	12,481
Relationship with investment banking clients	4	2,586	2,586	2,586	2,586
Leases	6	861	861	861	861
Referral agreement	6.6	124	124	124	119
Other	6	67	67	67	67
Total		\$ 217,550	\$ 103,499	\$ 217,550	\$ 92,612

Aggregate amortization expense for the six months ended June 30, 2017 and 2016 amounted to \$10,887 and \$10,326, respectively. The weighted-average amortization period for total amortizable intangibles at June 30, 2017 is 8.97 years. As of June 30, 2017, the remaining estimated amortization expense for each of the five succeeding years and thereafter is as follows:

Remainder of 2017	\$ 10,440
2018	20,462
2019	16,987
2020	15,400
2021	10,687
2022 - 2039	40,075
	\$ 114,051

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

#### **4. Net Capital Requirements**

The Company's broker-dealer subsidiaries are subject to the SEC's Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital. Each of Securities America, Triad, Investacorp, KMS and Ladenburg has elected to compute its net capital under the alternative method allowed by this rule, and, at June 30, 2017, each had a \$250 minimum net capital requirement. At June 30, 2017, Securities America had regulatory net capital of \$11,052, Triad had regulatory net capital of \$7,039, Investacorp had regulatory net capital of \$7,242, KMS had regulatory net capital of \$6,282 and Ladenburg had regulatory net capital of \$23,425.

SSN has elected to compute its net capital under the basic method allowed by the Net Capital Rule and at June 30, 2017, it had net capital of \$5,843, which was \$4,997 in excess of its required net capital of \$846, and had a net capital ratio of 2.17 to 1.

Securities America, Triad, Investacorp, KMS, SSN and Ladenburg claim exemptions from the provisions of the SEC's Rule 15c3-3 pursuant to paragraph (k)(2)(ii) as they clear their customer transactions through correspondent brokers on a fully disclosed basis.

Premier Trust, chartered by the state of Nevada, is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division. Under Nevada law, Premier Trust must maintain minimum stockholders' equity of at least \$1,000, including at least \$250 in cash. At June 30, 2017, Premier Trust had stockholders' equity of \$1,934, including at least \$250 in cash.

#### **5. Income Taxes**

The Company's interim income tax provision or benefit consists of U.S. federal and state income taxes based on the estimated annual effective rate that the Company expects for the full year together with the tax effect of discrete items. Each quarter the Company updates its estimate of the annual effective tax rate and records cumulative adjustments as necessary. As of June 30, 2017, the estimated annual effective tax rate for 2017 (exclusive of discrete items) is approximately 33% of projected pre-tax income. Our estimated annual tax expense consists of a deferred tax provision related to tax amortization of indefinite-lived intangibles including goodwill and a provision for state and local income taxes.

For the three and six months ended June 30, 2017, the Company recorded an income tax benefit of \$138 on pre-tax income of \$1,187 and an income tax benefit of \$977 on a pre-tax loss of \$3,331, respectively. Based on objective evidence including being in cumulative losses in recent years, the Company continues to maintain a valuation allowance against its net deferred tax assets as of June 30, 2017.

For the three and six months ended June 30, 2016, the Company recorded an income tax provision of \$16,225 on a pre-tax loss of \$1,576 and an income tax provision of \$7,456 on a pre-tax loss of \$7,961, respectively. The income tax provisions for both periods include a discrete expense of \$6,009 related to an increase in the Company's valuation allowance related to deferred tax assets existing as of December 31, 2015 and a discrete deferred tax benefit of \$921 related to an overaccrual of deferred taxes applicable to goodwill in prior years. In addition, the income tax provision for the three months ended June 30, 2016, includes approximately \$10,667 for a cumulative adjustment related to the income tax benefit recorded in the quarter ended March 31, 2016 due to a change in the estimated annual effective rate resulting from an anticipated valuation allowance to be required at year end for deferred tax assets arising in the current year.

In assessing the realizability of deferred tax assets, we evaluate whether it is more likely than not that some portion or all of the deferred tax assets will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible and/or net operating losses can be utilized. We assess all positive and negative evidence when determining the amount of the net deferred tax assets that are more likely than not to be realized. This evidence includes, but is not limited to, prior earnings history, scheduled reversal of taxable temporary differences, tax planning strategies and projected future taxable income. Significant weight is given to positive and negative evidence that is objectively verifiable.

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

Based on these factors, we established a full valuation allowance against our deferred tax assets effective as of June 30, 2016. In recording the valuation allowance, deferred tax liabilities associated with indefinite lived intangible assets, such as tax deductible goodwill, generally cannot be used as a source of income to realize deferred tax assets with a finite loss carryforward period, as such liabilities would only reverse on impairment or sale of the related asset which events are not anticipated. The Company does not amortize goodwill for financial reporting purposes but has amortized goodwill with tax basis for tax purposes.

**6. Notes Payable**

Notes payable consisted of the following:

	June 30, 2017	December 31, 2016
Notes payable to clearing firm under forgivable loans	\$ 4,285	\$ 4,285
Note payable under subsidiary's term loan with bank	7,815	153
Note payable under subsidiary's revolver with bank	392	620
Notes payable by subsidiary to certain former shareholders of Highland	6,738	6,738
Notes payable to KMS' former shareholders, net of \$159 and \$221 of unamortized discount in 2017 and 2016, respectively	2,910	3,852
Notes payable to SSN's former shareholders, net of \$488 and \$651 of unamortized discount in 2017 and 2016, respectively	8,433	10,769
<b>Total</b>	<b>\$ 30,573</b>	<b>\$ 26,417</b>

The Company estimates that the fair value of notes payable was \$28,755 at June 30, 2017 and \$24,494 at December 31, 2016 based on then current interest rates at which similar amounts of debt could then be borrowed (Level 2 inputs). As of June 30, 2017, the Company was in compliance with all covenants in its debt agreements.

At June 30, 2017, the Company had \$40,000 available under its \$40,000 revolving credit agreement with an affiliate of its principal shareholder. On March 9, 2016, the Company entered into an amendment to the revolving credit agreement to extend the maturity date thereunder for a period of five years to August 25, 2021.

On April 21, 2017, Securities America Financial Corporation ("SAFC") entered into an amended and restated loan agreement with a financial institution. The loan agreement modified the interest rate for new loans under SAFC's revolving credit facility to prime plus 2.25%. As of June 30, 2017, SAFC had \$1,000 of availability under the revolving credit facility. This loan agreement also provides for an additional term loan in the aggregate principal amount of \$8,000 subject to certain conditions. This second term loan bears interest at 5.75%, with a maturity date of May 1, 2020. The loans are collateralized by the assets of SAFC and Securities America Advisors, Inc.

**7. Commitments and Contingencies**

**Litigation and Regulatory Matters**

In December 2014 and January 2015, two purported class action suits were filed in the U.S. District Court for the Southern District of New York against American Realty Capital Partners, Inc. ("ARCP"), certain affiliated entities and individuals, ARCP's auditing firm, and the underwriters of ARCP's May 2014 \$1,656,000 common stock offering ("May 2014 Offering") and three prior note offerings. The complaints have been consolidated. Ladenburg was named as a defendant as one of 17 underwriters of the May 2014 Offering and as one of eight underwriters of ARCP's July 2013 offering of \$300,000 in convertible notes. The complaint alleges, among other things, that the offering materials were misleading based on financial reporting of expenses, improperly-calculated AFFO (adjusted funds from operations), and false and misleading Sarbanes-Oxley certifications, including statements as to ARCP's internal controls, and that the underwriters are liable for violations of federal securities laws. The plaintiffs seek an unspecified amount of compensatory damages, as well as other relief. In June 2016, the court denied the underwriters' motions to dismiss the complaint. Ladenburg intends to vigorously defend against these claims.

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

In November 2015, two purported class action complaints were filed in state court in Tennessee against officers and directors of Miller Energy Resources, Inc. ("Miller"), as well as Miller's auditors and nine firms that underwrote six securities offerings in 2013 and 2014, and raised approximately \$151,000. Ladenburg was one of the underwriters of two of the offerings. The complaints allege, among other things, that the offering materials were misleading based on the purportedly overstated valuation of certain assets, and that the underwriters are liable for violations of federal securities laws. The plaintiffs seek an unspecified amount of compensatory damages, as well as other relief. In December 2015 the defendants removed the complaints to the U.S. District Court for the Eastern District of Tennessee; in November 2016, the cases were consolidated. Defendants' motions to dismiss are pending. Ladenburg intends to vigorously defend against these claims.

In January 2016, an amended complaint for a purported class action was filed in the U.S. District Court for the Southern District of Texas against Plains All American Pipeline, L.P., related entities and their officers and directors. The amended complaint added as defendants Ladenburg and other underwriters of securities offerings in 2013 and 2014 that in the aggregate raised approximately \$2,900,000. Ladenburg was one of the underwriters of the October 2013 initial public offering. The complaints allege, among other things, that the offering materials were misleading based on representations concerning the maintenance and integrity of the issuer's pipelines, and that the underwriters are liable for violations of federal securities laws. The plaintiffs seek an unspecified amount of compensatory damages, as well as other relief. In March 2017 the court granted the defendants' motions to dismiss without prejudice, and granted the plaintiffs leave to file an amended complaint. In May 2017, the plaintiffs filed a second amended complaint. In July 2017, the defendants filed motions to dismiss, which are pending. Ladenburg intends to vigorously defend against these claims.

In September 2015, Securities America was named as a defendant in lawsuits brought by the bankruptcy trustee of a broker-dealer (U.S. Bankruptcy Court for the District of Minnesota) and a putative class action by the shareholders of that broker-dealer (U.S. District Court for the District of Minnesota). The lawsuits allege that certain of the debtor broker-dealer's assets were transferred to Securities America in June 2015 for inadequate consideration. In October 2016, a settlement was reached with the bankruptcy trustee resolving those claims; the amount paid in connection with the settlement was not material. The remaining complaint was dismissed without prejudice in May 2017.

Commencing in October 2013, certain states have requested that Securities America provide information concerning the suitability of purchases of non-traded REIT securities by their residents. Securities America has complied with the requests. Securities America has received additional correspondence from three such states concerning sales of non-traded REIT securities to its residents. The Company does not believe that any action is warranted in connection with such state notices and believes that no material outcome would result if an action were commenced.

During the period from May to July 2017, five arbitration claims were filed against Ladenburg by former customers concerning purported unauthorized trading, excessive trading and mishandling of their accounts by a former Ladenburg registered representative. The total amount of compensatory damages asserted in these five claims is in excess of \$5,500. In July 2017, a settlement was reached resolving one of its claims; the amount paid in connection with the settlement was not material. Ladenburg intends to vigorously defend against the remaining claims.

In July 2017, the SEC approved a settlement with KMS concerning disclosure of revenues received from KMS's clearing broker relating to sales of no-transaction-fee mutual funds in advisory client accounts and a 2014 reduction in execution and clearing costs that should have been passed on to its clients. Without admitting or denying the findings, KMS consented to cease and desist from violating sections 206 and 207 of the Investment Advisors Act of 1940, and to pay disgorgement of \$383 plus prejudgment interest and a \$100 penalty.

SEC examination staff reports provided to Triad and Securities America Advisors, Inc. in May and August 2016, respectively, asserted that the firms had acted inconsistently with their fiduciary duties in recommending and selecting mutual fund share classes that paid 12b-1 fees where lower cost share classes also were available in those same funds. The staff also asserted that the firms' disclosures of potential conflicts of interest and compensation related to the mutual fund share classes that paid 12b-1 fees were insufficient. Triad has revised its disclosures and has completed restitution to its affected clients. Securities America Advisors, Inc. continues to review the circumstances, including, without limitation, the amounts of such payments and the contents of disclosures to clients, is determining appropriate remedial actions, including restitution to clients, and is in communication with the SEC staff as it seeks to resolve the matter.

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

In November 2016, a consolidated class action complaint was filed in U.S. District Court for the Western District of Washington against CTI Biopharma Corp., its directors and officers, as well as the underwriters of two securities offerings in 2015 that raised approximately \$105,000. Ladenburg was one of the underwriters of the offerings. The complaint alleges, among other things, that the offering materials were misleading in their descriptions of safety results of Phase 3 clinical drug trials for the issuer's lead drug candidate for myelofibrosis, and that the underwriters are liable for violations of federal securities laws. The plaintiffs seek an unspecified amount of compensatory damages, as well as other relief. Motions to dismiss are pending. In August 2017, the parties entered into memorandum of understanding to settle the class action complaint. The memorandum of understanding provides for no contribution from Ladenburg or the other underwriter defendants. Any final settlement agreement is subject to court approval and other customary terms and conditions. In the event that the lawsuit proceeds, Ladenburg intends to vigorously defend against these claims.

In the ordinary course of business, in addition to the above disclosed matters, the Company's subsidiaries are defendants in other litigation, arbitration and regulatory proceedings and may be subject to unasserted claims primarily in connection with their activities as securities broker-dealers or as a result of services provided in connection with securities offerings. Such litigation and claims may involve substantial or indeterminate amounts and are in varying stages of legal proceedings. When the Company believes that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated (after giving effect to any expected insurance recovery), the Company accrues such amount. Upon final resolution, amounts payable may differ materially from amounts accrued.

The Company had accrued liabilities in the amount of approximately \$7,714 at June 30, 2017 for certain pending matters which are included in accounts payable and accrued liabilities. During the three and six months ended June 30, 2017, the Company charged \$4,543 and \$4,667, respectively, to operations with respect to such matters. For other pending matters, the Company was unable to estimate a range of possible loss; however, in the opinion of management, after consultation with counsel, the ultimate resolution of these matters is not expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

#### **Operating Leases**

At June 30, 2017, we were obligated under several non-cancelable lease agreements for office space, which provide for future minimum lease payments aggregating approximately \$48,835, through January 2030.

Our Ladenburg subsidiary is obligated under an office lease agreement effective February 1, 2017 at 277 Park Avenue, New York, providing for payments of \$3,569 through January 20, 2021, which is included in the amount above.

In connection with a new office lease dated March 28, 2016, a subsidiary has an option to lease office space, which has not yet been constructed, for 12 years and, if exercised, would require the payment of an estimated average annual rent of \$1,811, subject to certain adjustments. Because the subsidiary has not yet exercised the option to lease the newly-built space, beginning on June 1, 2017, it became required to pay certain holding and operating costs and imputed interest charges in the amount of approximately \$25 per month through the earlier of the date the option is exercised and December 31, 2017. If such option is not exercised by December 31, 2017, the subsidiary would be required to pay certain financial penalties.

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

Securities America, Triad, Investacorp, KMS, SSN and Ladenburg do not carry accounts for customers or perform custodial functions related to customers' securities. They introduce all of their customer transactions, which are not reflected in these financial statements, to clearing brokers, which maintain cash and the customers' accounts and clear such transactions. Also, the clearing brokers provide the clearing and depository operations for proprietary securities transactions. These activities create exposure to off-balance-sheet risk in the event that customers do not fulfill their obligations to the clearing brokers, as each of Securities America, Triad, Investacorp, KMS, SSN and Ladenburg has agreed to indemnify such clearing brokers for any resulting losses. Each of such entities continually assesses risk associated with each customer who is on margin credit and records an estimated loss when management believes collection from the customer is unlikely.

The clearing operations for the Securities America, Triad, Investacorp, KMS, SSN and Ladenburg securities transactions are provided by three clearing brokers. At June 30, 2017, the amount due from these clearing brokers was \$55,422, which represents a substantial concentration of credit risk should these clearing brokers be unable to fulfill their obligations.

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

In the normal course of business, Securities America, Triad, Investacorp, KMS, SSN and Ladenburg may enter into transactions in financial instruments with off-balance sheet risk. As of June 30, 2017, Securities America, Triad and Ladenburg sold securities that they do not own and will therefore be obligated to purchase such securities at a future date. These obligations have been recorded in the statements of financial condition at the fair values of the related securities, and such entities will incur a loss if, at the time of purchase, the fair value of the securities has increased since the applicable date of sale.

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

**9. Shareholders' Equity**

**Repurchase Program**

In March 2007, the Company's board of directors authorized the repurchase of up to 2,500,000 shares of the Company's common stock from time to time on the open market or in privately negotiated transactions, depending on market conditions. In each of October 2011, November 2014 and November 2016, the board approved an amendment to the repurchase program to permit the repurchase of an additional 5,000,000 shares, 10,000,000 shares and 10,000,000 shares, respectively. Since inception through June 30, 2017, 18,397,874 shares of common stock have been repurchased for \$46,887 under the program and have been retired, including the repurchase of 782,874 shares for \$1,916 and 897,874 shares for \$2,196 during the three and six months ended June 30, 2017, respectively. As of June 30, 2017, 9,102,126 shares remained available for purchase under the program.

**Stock Compensation Plans**

As of June 30, 2017, there was \$2,790 of unrecognized compensation cost for stock-based compensation related to options. This cost is expected to be recognized over the vesting periods of the options, which on a weighted-average basis are approximately 1.53 years for all grants.

On May 12, 2017, the Company reached an agreement with an option holder to voluntarily cancel and terminate an option to purchase 3,000,000 shares of the company's common stock at the per share exercise price of \$1.91 in exchange for the Company paying the option holder \$850,000.

Options were exercised to purchase 1,569,901 and 1,740,997 shares of the Company's common stock during the three and six months ended June 30, 2017, respectively, for which the intrinsic value on dates of exercise was \$453 and \$559.

Restricted stock granted during the six months ended June 30, 2017 was as follows:

Grant Date		Final Vesting Date	Shares	Fair Value <sup>(1)</sup>
January 13, 2017	(2)	January 13, 2021	1,190,000	\$ 2,844
January 20, 2017	(2)	January 20, 2021	301,000	\$ 674
April 3, 2017	(3)	January 13, 2021	10,000	\$ 25,000
May 24, 2017	(2)	May 24, 2021	240,000	\$ 535,200
June 7, 2017	(2)	June 7, 2021	30,000	\$ 67,800
			1,771,000	\$ 631,518

- (1) Fair value is calculated using the closing price on the grant date.
- (2) Vests in four equal annual installments beginning on the first anniversary of the grant date.
- (3) Vests in four equal installments beginning on January 13, 2018.

During the three and six months ended June 30, 2017, no shares of restricted stock were forfeited.

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

As of June 30, 2017, there was \$7,308 of unrecognized compensation cost for stock-based compensation related to restricted stock grants, of which \$3,658 related to the 2017 grants described above. This cost is expected to be recognized over the vesting periods of the restricted stock, which on a weighted-average basis are approximately 2.70 years for all grants and approximately 3.33 years for the 2017 grants.

Stock-based compensation, including options and restricted stock, attributed to employees was \$1,366 and \$2,784 for the three and six months ended June 30, 2017.

Stock-based compensation for consultants and independent financial advisors was \$12 and \$23 for the three and six months ended June 30, 2017. In the three and six months ended June 30, 2017, 25,351 and 165,578 shares, respectively, were surrendered to cover payment of exercise prices and taxes.

**Capital Stock**

On May 18, 2016, the Company's shareholders approved an amendment to the Company's Articles of Incorporation to increase the number of shares of preferred stock authorized from 25,000,000 to 50,000,000 and to increase the number of shares of common stock authorized from 800,000,000 to 1,000,000,000.

During the three and six months ended June 30, 2017, the Company sold 398,259 shares of Series A Preferred Stock, pursuant to the Company's "at the market" offering programs, which provided total gross proceeds to the Company of \$9,911, before deducting the commission paid to unaffiliated sales agents and offering expenses aggregating \$401 and \$428, respectively. During July 2017, the Company sold an additional 12,310 shares of Series A Preferred Stock, which provided total gross proceeds of \$305 before deducting selling expenses of \$6.

On May 22, 2017, the Company designated an additional 6,554,916 Series A Preferred Stock.

For the three and six months ended June 30, 2017, the Company paid dividends of \$7,953 and \$15,877, respectively, on its outstanding Series A Preferred Stock based on a monthly dividend of approximately \$0.1667 per share.

**10. Per Share Data**

Basic net loss per common share is computed by dividing net loss attributable to the Company, decreased in the case of income and increased in the case of loss by dividends declared on preferred stock, by the weighted-average number of common shares outstanding.

The dilutive effect of incremental common shares potentially issuable under outstanding options and warrants and unvested restricted stock is included in diluted earnings per share utilizing the treasury stock method. A reconciliation of basic and diluted common shares used in the computation of per share data follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Basic weighted-average shares	192,304,828	180,674,937	192,287,816	181,019,191
Effect of dilutive securities:				
Options to purchase common stock	—	—	—	—
Warrants to purchase common stock	—	—	—	—
Dilutive potential common shares	—	—	—	—
Weighted average common shares outstanding and dilutive potential common shares	<u>192,304,828</u>	<u>180,674,937</u>	<u>192,287,816</u>	<u>181,019,191</u>

For the three and six months ended June 30, 2017, options and warrants to purchase 33,923,501 shares of common stock and 3,377,094 unvested restricted shares of common stock were not included in the computation of diluted loss per share as the effect would have been anti-dilutive.

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

For the three and six months ended June 30, 2016, options and warrants to purchase 54,003,799 shares of common stock and 2,245,167 unvested restricted shares of common stock were not included in the diluted computation as the effect would have been anti-dilutive.

**11. Noncontrolling Interest**

Arbor Point Advisors, LLC (“APA”), a registered investment advisor, which began operations in 2013, provides investment advisory services through APA’s licensed investment advisor representatives. Securities America holds an 80% interest in APA and an unaffiliated entity owns a 20% interest.

Because Securities America is the controlling managing member of APA, the results of operations of APA are included in the Company’s consolidated financial statements, and amounts attributable to the 20% unaffiliated investor are recorded as a noncontrolling interest.

**12. Segment Information**

The Company has three operating segments. The independent advisory and brokerage services segment includes the broker-dealer and investment advisory services provided by the Company’s independent broker-dealer subsidiaries to their independent contractor financial advisors and the wealth management services provided by Premier Trust. The Ladenburg segment includes the investment banking, sales and trading and asset management services and investment activities conducted by Ladenburg and LTAM. The insurance brokerage segment includes the wholesale insurance brokerage activities provided by Highland, which delivers life insurance, fixed and equity indexed annuities and long-term care solutions to investment and insurance providers, and LTAIS, which provides marketing strategies, product expertise, and back-office processing for fixed and equity-indexed annuities.

Earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted for acquisition-related expense, amortization of retention and forgivable loans, change in fair value of contingent consideration related to acquisitions, non-cash compensation expense, financial advisor recruiting expense and other expense, which includes loss on write-off of receivable from subtenant, excise and franchise tax expense, severance costs and compensation expense that may be paid in stock, is the primary profit measure the Company’s management uses in evaluating financial performance for its reportable segments. EBITDA, as adjusted, is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC under the Securities Act of 1933, as amended. The Company considers EBITDA, as adjusted, important in evaluating its financial performance on a consistent basis across various periods. Due to the significance of non-cash and non-recurring items, EBITDA, as adjusted, enables the Company’s Board of Directors and management to monitor and evaluate the business on a consistent basis. The Company uses EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. The Company believes that EBITDA, as adjusted, eliminates items that are not indicative of its core operating performance, such as amortization of retention and forgivable loans and financial advisor recruiting expenses, or do not involve a cash outlay, such as stock-related compensation, which is expected to remain a key element in our long-term incentive compensation program. EBITDA, as adjusted, should be considered in addition to, rather than as a substitute for, income (loss) before income taxes, net income (loss) and cash flows provided by (used in) operating activities.

Segment information for the three and six months ended June 30, 2017 and 2016 was as follows:

<b>Three Months Ended June 30, 2017</b>	<b>Independent Advisory and Brokerage Services</b>	<b>Ladenburg</b>	<b>Insurance Brokerage</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 280,855	\$ 18,011	\$ 12,339	\$ 331	\$ 311,536
Income (loss) before income taxes	5,404	1,829	(1,604)	(4,442) <sup>(1)</sup>	1,187
EBITDA, as adjusted <sup>(3)</sup>	13,722	2,219	517	(3,301)	13,157
Identifiable assets <sup>(2)</sup>	421,277	43,733	46,077	27,201	538,288
Depreciation and amortization	5,350	124	1,806	14	7,294
Interest	277	—	171	73	521
Capital expenditures	2,064	143	101	5	2,313
Non-cash compensation	241	157	60	920	1,378
<b>Three Months Ended June 30, 2016</b>					
Revenues	\$ 243,640	\$ 12,511	\$ 13,418	\$ 206	\$ 269,775
Income (loss) before income taxes	3,431	(970)	(618)	(3,419) <sup>(1)</sup>	(1,576)
EBITDA, as adjusted <sup>(3)</sup>	11,675	(460)	1,488	(2,192)	10,511
Identifiable assets <sup>(2)</sup>	407,989	34,721	55,976	33,385	532,071
Depreciation and amortization	5,239	186	1,799	17	7,241
Interest	808	—	170	194	1,172
Capital expenditures	1,648	120	93	—	1,861
Non-cash compensation	252	135	61	893	1,341
<b>Independent</b>					

<b>Six Months Ended June 30, 2017</b>	<b>Advisory and Brokerage Services</b>	<b>Ladenburg</b>	<b>Insurance Brokerage</b>	<b>Corporate</b>	<b>Total</b>
Revenues	\$ 546,696	\$ 29,876	\$ 24,640	\$ 615	\$ 601,827
Income (loss) before income taxes	8,998	1,309	(4,119)	(9,519) <sup>(1)</sup>	(3,331)
EBITDA, as adjusted <sup>(3)</sup>	25,457	2,332	74	(7,216)	20,647
Identifiable assets <sup>(2)</sup>	421,277	43,733	46,077	27,201	538,288
Depreciation and amortization	10,800	287	3,610	29	14,726
Interest	513	—	339	146	998
Capital expenditures	4,252	276	134	44	4,706
Non-cash compensation	509	315	122	1,861	2,807
<b>Six Months Ended June 30, 2016</b>					
Revenues	\$ 487,384	\$ 23,033	\$ 24,742	\$ 412	\$ 535,571
Income (loss) before income taxes	6,684	(4,112)	(3,352)	(7,181) <sup>(1)</sup>	(7,961)
EBITDA, as adjusted <sup>(3)</sup>	22,719	(3,258)	832	(4,709)	15,584
Identifiable assets <sup>(2)</sup>	407,989	34,721	55,976	33,385	532,071
Depreciation and amortization	10,165	361	3,556	34	14,116
Interest	1,651	—	340	388	2,379
Capital expenditures	3,394	120	186	—	3,700
Non-cash compensation	503	271	122	1,800	2,696

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

(2) Identifiable assets are presented as of the end of the period.

(3) The following table reconciles income (loss) before income taxes for the three and six months ended June 30, 2017 and 2016 to EBITDA, as adjusted.

	<b>Three Months Ended June 30</b>		<b>Six Months Ended June 30</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
<b>Income (loss) before income taxes</b>	\$ 1,187	\$ (1,576)	\$ (3,331)	\$ (7,961)
Adjustments:				
Interest income	(98)	(161)	(200)	(295)
Change in fair value of contingent consideration	63	49	(89)	106
Interest expense	521	1,172	998	2,379
Depreciation and amortization	7,294	7,241	14,726	14,116
Non-cash compensation expense	1,378	1,341	2,807	2,696
Amortization of retention and forgivable loans	1,671	1,544	3,262	2,978
Financial advisor recruiting expense	564	356	1,432	677
Acquisition-related expense	89	31	265	67
Loss attributable to noncontrolling interest	3	14	8	32
Other <sup>(1)</sup>	485	500	769	789
<b>EBITDA, as adjusted</b>	<b>\$ 13,157</b>	<b>\$ 10,511</b>	<b>\$ 20,647</b>	<b>\$ 15,584</b>
<b>EBITDA, as adjusted</b>				
Independent Advisory and Brokerage Services	\$ 13,722	\$ 11,675	\$ 25,457	\$ 22,719
Ladenburg	2,219	(460)	2,332	(3,258)
Insurance Brokerage	517	1,488	74	832
Corporate	(3,301)	(2,192)	(7,216)	(4,709)
Total segments	<b>\$ 13,157</b>	<b>\$ 10,511</b>	<b>\$ 20,647</b>	<b>\$ 15,584</b>

(1) Includes severance of \$194 for the three and six months ended June 30, 2017, excise and franchise tax expense of \$145 and \$286 for the three and six months ended June 30, 2017 and compensation expense that may be paid in stock of \$160 and \$303 for the three and six months ended June 30, 2017, respectively. Includes severance of \$233 for the three and six months ended June 30, 2016, excise and franchise tax expense of \$99 and \$234 for the three and six months ended June 30, 2016 and compensation expense that may be paid in stock of \$168 and \$323 for the three and six months ended June 30, 2016.

### 13. Subsequent Events

On August 8, 2017, the Company's board of directors declared a cash dividend of \$0.01 per share on the Company's outstanding common stock to be paid on September 28, 2017 to all shareholders of record on September 15, 2017.

## Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF

## OPERATIONS

**(dollars in thousands, except share and per share data)**

### **Overview**

We are a diversified financial services company engaged in independent advisory and brokerage services, investment banking, equity research, institutional sales and trading, asset management services, wholesale life insurance and annuity brokerage and trust services through our principal subsidiaries, Securities America, Inc. (collectively with related companies, "Securities America"), Triad Advisors, Inc. ("Triad"), Securities Service Network, Inc. ("SSN"), Investacorp, Inc. (collectively with related companies, "Investacorp"), KMS Financial Services, Inc. ("KMS"), Ladenburg Thalmann & Co. Inc. ("Ladenburg"), Ladenburg Thalmann Asset Management Inc. ("LTAM"), Premier Trust, Inc. ("Premier Trust"), Highland Capital Brokerage, Inc. ("Highland") and Ladenburg Thalmann Annuity Insurance Services LLC ("LTAIS"). We are committed to establishing a significant presence in the financial services industry by meeting the varying investment needs of our clients.

Through our acquisitions of Securities America, Triad, SSN, Investacorp and KMS, we have established a leadership position in the independent broker-dealer industry. During the past decade, this has been one of the fastest growing segments of the financial services industry. With approximately 4,000 financial advisors located in 50 states, we have become one of the largest independent broker-dealer networks. We believe that we have the opportunity through acquisitions, recruiting and internal growth to continue expanding our market share in this segment over the next several years.

Since 2007, our plan has been to marry the more stable and recurring revenue and cash flows of the independent broker-dealer business with Ladenburg's traditional investment banking, capital markets, institutional sales and trading and related businesses.

We have three operating segments: (i) the independent advisory and brokerage services segment, (ii) the Ladenburg segment and (iii) the insurance brokerage segment.

The independent advisory and brokerage services segment includes the broker-dealer and investment advisory services provided by our independent broker-dealer subsidiaries to their independent contractor financial advisors and wealth management services provided by Premier Trust. The Ladenburg segment includes the investment banking, sales and trading and asset management services and investment activities conducted by Ladenburg and LTAM. The insurance brokerage segment includes the wholesale insurance brokerage activities conducted by Highland, which delivers life insurance, fixed and equity indexed annuities, as well as long-term care solutions to investment and insurance providers, and LTAIS, which provides marketing strategies, product expertise, and back-office processing for fixed and equity-indexed annuities.

Each of Securities America, Triad, SSN, Investacorp, KMS and Ladenburg is subject to regulation by, among others, the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), and the Municipal Securities Rulemaking Board and is a member of the Securities Investor Protection Corporation. Highland and LTAIS are subject to regulation by various regulatory bodies, including state attorneys general and insurance departments. Premier Trust is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division.

#### *Recent Developments*

##### *Preferred Stock Offerings*

During the six months ended June 30, 2017, we entered into a new equity distribution agreement and sold 398,259 shares of our Series A Preferred Stock pursuant to an "at the market" offering, which provided net proceeds of \$9,483. During July 2017, we sold an additional 12,310 shares of Series A Preferred Stock, pursuant to the "at the market" offering, which provided net proceeds of \$299.

##### *Common Stock Repurchases*

During the six months ended June 30, 2017, we repurchased and retired an aggregate of 1,063,452 shares of our common stock for \$2,581, including 897,874 shares repurchased under our stock repurchase program, representing an average price per share of \$2.43.

##### *Common Stock Dividend*

On August 8, 2017, our board of directors declared a cash dividend of \$0.01 per share on outstanding shares of our common stock, to be paid on September 28, 2017 to all shareholders of record on September 15, 2017.

#### *Acquisition Strategy*

We continue to explore opportunities to grow our businesses, including through possible acquisitions of other financial services firms, both domestically and internationally. These acquisitions may involve payments of material amounts of cash, the incurrence of material amounts of debt, which would increase our leverage, or the issuance of significant amounts of our equity securities, which may be dilutive to our existing shareholders. We cannot assure you that we will be able to complete any such possible acquisitions on acceptable terms or at all or, if we do, that any

acquired business will be profitable. We also may not be able to integrate successfully acquired businesses into our existing business and operations.

During the three years ended June 30, 2017, we issued 3,981,684 shares of common stock in connection with acquisitions and incurred \$60,600 of indebtedness related to acquisitions, \$18,728 of which was outstanding as of June 30, 2017.

### **Critical Accounting Policies**

There have been no material changes from the critical accounting policies set forth in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” of our annual report on Form 10-K for the year ended December 31, 2016. Please refer to that section for disclosures regarding the critical accounting policies related to our business.

### **Results of Operations**

The following discussion provides an assessment of our results of operations, capital resources and liquidity and should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included elsewhere in this report. The unaudited condensed consolidated financial statements include our accounts and the accounts of our subsidiaries.

The following table includes a reconciliation of net income (loss) attributable to the Company as reported to EBITDA, as adjusted for the periods ending June 30, 2017 and 2016:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Total revenues	\$ 311,536	\$ 269,775	\$ 601,827	\$ 535,571
Total expenses	310,286	271,302	605,247	543,426
Income (loss) before income taxes	1,187	(1,576)	(3,331)	(7,961)
Net income (loss) attributable to the Company	1,328	(17,787)	(2,346)	(15,385)
Reconciliation of net income (loss) attributable to the Company to EBITDA, as adjusted:				
Net income (loss) attributable to the Company	\$ 1,328	\$ (17,787)	\$ (2,346)	\$ (15,385)
Less:				
Interest income	(98)	(161)	(200)	(295)
Change in fair value of contingent consideration	63	49	(89)	106
Add:				
Interest expense	521	1,172	998	2,379
Income tax (benefit) expense	(138)	16,225	(977)	7,456
Depreciation and amortization	7,294	7,241	14,726	14,116
Non-cash compensation expense	1,378	1,341	2,807	2,696
Amortization of retention and forgivable loans	1,671	1,544	3,262	2,978
Financial advisor recruiting expense	564	356	1,432	677
Acquisition-related expense	89	31	265	67
Other (1)	485	500	769	789
EBITDA, as adjusted	<u>\$ 13,157</u>	<u>\$ 10,511</u>	<u>\$ 20,647</u>	<u>\$ 15,584</u>

<sup>(1)</sup> Includes severance of \$194 for the three and six months ended June 30, 2017, excise and franchise tax expense of \$145 and \$286 for the three and six months ended June 30, 2017 and compensation expense that may be paid in stock of \$160 and \$303 for the three and six months ended June 30, 2017, respectively.

Includes severance of \$233 for the three and six months ended June 30, 2016, excise and franchise tax expense of \$99 and \$234 for the three and six months ended June 30, 2016 and compensation expense that may be paid in stock of \$168 and \$323 for the three and six months ended June 30, 2016.

Earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted for acquisition-related expense, amortization of retention and forgivable loans, change in fair value of contingent consideration related to acquisitions, non-cash compensation expense, financial advisor recruiting expense and other expense, which includes loss on write-off of receivable from subtenant, excise and franchise tax expense, severance costs and compensation expense that may be paid in stock, is a key metric we use in evaluating our financial performance. EBITDA, as adjusted, is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC under the Securities Act of 1933, as amended. We consider EBITDA, as adjusted, important in evaluating our financial performance on a consistent basis across various periods. Due to the significance of non-cash and non-recurring items, EBITDA, as adjusted, enables our Board of Directors and management to monitor and evaluate the business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions.

We believe that EBITDA, as adjusted, eliminates items that are not indicative of our core operating performance, such as amortization of retention and forgivable loans and financial advisor recruiting expenses, or do not involve a cash outlay, such as stock-related compensation. EBITDA, as adjusted, should be considered in addition to, rather than as a substitute for, income (loss) before income taxes, net income (loss) and cash flows provided by (used in) operating activities.

Second quarter 2017 EBITDA, as adjusted, was \$13,157, an increase of \$2,646 (25%), from EBITDA, as adjusted, of \$10,511 for the second quarter of 2016. EBITDA, as adjusted from our Ladenburg segment increased by \$2,679 (582%) on increased revenue of \$5,500 (44%) and decreased expenses of \$2,701 (20%) as compared to the prior-year period. Our independent advisory and brokerage services segment also experienced an increase in EBITDA, as adjusted, of \$2,047 (18%) on increased revenue of \$37,215 (15%).

#### *Segment Description*

We have three operating segments: (i) the independent advisory and brokerage services segment, (ii) the Ladenburg segment and (iii) the insurance brokerage segment. The independent advisory and brokerage services segment includes the broker-dealer and investment advisory services provided by our independent broker-dealer subsidiaries to their independent contractor financial advisors and the wealth management services provided by Premier Trust. The Ladenburg segment includes the investment banking, sales and trading and asset management services and investment activities conducted by Ladenburg and LTAM. The insurance brokerage segment includes the wholesale insurance brokerage activities provided by Highland, which delivers life insurance, fixed and equity indexed annuities and long-term care solutions to investment and insurance providers, and LTAIS, which provides marketing strategies, product expertise, and back-office processing for fixed and equity-indexed annuities.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
<b>Revenues:</b>				
Independent advisory and brokerage services	\$ 280,855	\$ 243,640	\$ 546,696	\$ 487,384
Ladenburg	18,011	12,511	29,876	23,033
Insurance Brokerage	12,339	13,418	24,640	24,742
Corporate	331	206	615	412
Total revenues	<u>\$ 311,536</u>	<u>\$ 269,775</u>	<u>\$ 601,827</u>	<u>\$ 535,571</u>
<b>Income (loss) before income taxes:</b>				
Independent advisory and brokerage services	\$ 5,404	\$ 3,431	\$ 8,998	\$ 6,684
Ladenburg	1,829	(970)	1,309	(4,112)
Insurance Brokerage	(1,604)	(618)	(4,119)	(3,352)
Corporate <sup>(1)</sup>	(4,442)	(3,419)	(9,519)	(7,181)
Total income (loss) before income taxes	<u>\$ 1,187</u>	<u>\$ (1,576)</u>	<u>\$ (3,331)</u>	<u>\$ (7,961)</u>
<b>EBITDA, as adjusted:</b>				
Independent advisory and brokerage services	\$ 13,722	\$ 11,675	\$ 25,457	\$ 22,719
Ladenburg	2,219	(460)	2,332	(3,258)
Insurance Brokerage	517	1,488	74	832
Corporate	(3,301)	(2,192)	(7,216)	(4,709)
Total EBITDA, as adjusted <sup>(2)</sup>	<u>\$ 13,157</u>	<u>\$ 10,511</u>	<u>\$ 20,647</u>	<u>\$ 15,584</u>

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

(2) See Note 12 to our condensed consolidated financial statements for a reconciliation of EBITDA, as adjusted, to income (loss) before income taxes.

### Three months ended June 30, 2017 versus three months ended June 30, 2016

For the quarter ended June 30, 2017, we had net income attributable to the Company of \$ 1,328 as compared to net loss attributable to the Company of \$17,787 for the quarter ended June 30, 2016, primarily due to the effect of income taxes. In the 2017 period, we had an income tax benefit of \$138 as compared to an income tax expense of \$16,225 in the 2016 period. The increase of \$41,761 (15%) in total revenues was partially offset by a \$38,984 (14%) increase in total expenses.

Our total revenues for the three months ended June 30, 2017 increased by \$41,761 (15%) from the 2016 period, primarily attributable to increases in commissions, advisory fees and investment banking revenues. Second quarter 2017 revenues included increases in commissions of \$6,941, advisory fees of \$22,445, investment banking revenue of \$6,368, interest and dividends of \$3,198, and service fees and other income of \$2,931. Our independent advisory and brokerage services segment revenues increased by \$37,215 (15%) from the 2016 period, mainly as a result of increased commissions and advisory fees. Our Ladenburg segment revenues in the second quarter of 2017 increased by \$5,500 (44%) from the comparable 2016 quarter driven by an increase in equity capital raising for small and mid-cap public companies. Our insurance brokerage segment revenues decreased by \$1,079 (8%) primarily due to decreased commissions from institutional accounts as compared to the prior-year period.

Our total expenses for the three months ended June 30, 2017 increased by \$38,984 (14%) as compared to the 2016 period, mostly driven by increases of \$35,233 (15%) and \$2,701 (20%) in our independent advisory and brokerage services and Ladenburg segments, respectively. Second quarter 2017 expenses included increases in commissions and fees expense of \$27,291, compensation and benefits expense of \$4,815, brokerage, communication and clearance fee expense of \$1,966, professional services expense of \$611, rent and occupancy expense, net of sublease revenue of \$231, amortization of retention and forgivable loans of \$127, and other expenses of \$4,446, which were partially offset by a decrease in interest expense of \$651.

Commissions revenue for the three months ended June 30, 2017 increased by \$6,941 (6%) as compared to the 2016 period, primarily attributable to an increase in sales of variable annuity and mutual fund products partially offset by lower sales of alternative investments and a decrease in fixed annuity sales during the three months ended June 30, 2017 as compared to the prior-year period. Commissions revenue in our independent advisory and brokerage services segment increased by \$9,125 (8%) for the 2017 second quarter as compared to the 2016 second quarter. Our Ladenburg segment commissions revenue decreased by \$655 (17%) for the second quarter of 2017 as compared to the prior-year period. Commissions revenue in our insurance brokerage segment also decreased by \$1,528 (12%) from the comparable 2016 quarter.

Advisory fee revenue for the three months ended June 30, 2017 increased by \$22,445 (20%) as compared to the 2016 period due to improved market conditions and higher average advisory assets. Advisory fees generally are billed to clients in advance on a quarterly or a monthly basis, and are recognized as revenue ratably during the quarter. Our advisory assets at June 30, 2017 increased by 21% as compared to June 30, 2016. Total advisory assets under management at June 30, 2017 were approximately \$63,400,000 as compared to \$52,600,000 at June 30, 2016.

The \$6,368 (98%) increase in investment banking revenue for the three months ended June 30, 2017 as compared to the 2016 period was primarily driven by a \$5,842 increase in capital raising revenue and a \$526 increase in strategic advisory services revenue as compared to the prior-year period. We derive investment banking revenue from Ladenburg's capital raising activities, including underwritten public offerings and private placements, and strategic advisory services. Revenue from capital raising activities was \$11,944 for the 2017 second quarter as compared to \$6,101 for the 2016 second quarter, resulting from a significant increase in equity capital raising for small and mid-cap public companies. Strategic advisory services revenue was \$944 in the second quarter of 2017 as compared to \$418 in the comparable 2016 quarter.

The \$122 (32%) decrease in principal transactions revenue for the three months ended June 30, 2017 as compared to the 2016 period was attributable to our Ladenburg segment, which had a decrease of \$143 due to a decline in the market value of the firm's investments.

The \$3,198 (120%) increase in interest and dividends revenue for the three months ended June 30, 2017 as compared to the 2016 period was driven by increased revenue from our cash sweep programs. Interest revenue from our cash sweep program was \$5,160 in the second quarter of 2017 as compared to \$2,423 in the 2016 period reflecting the impact of increases in the target rate for the federal funds effective rate and the implementation of an additional cash sweep program in the second quarter of 2017. Future levels of interest and dividend revenue are dependent upon prevailing interest rates and cash asset levels. At June 30, 2017, client assets included cash balances of approximately \$4,216,000, including approximately \$3,841,000 participating in our cash sweep programs.

The \$2,931 (13%) increase in service fees and other income for the three months ended June 30, 2017 as compared to the 2016 period was primarily driven by an increase of \$2,262 in our independent advisory and brokerage services segment, primarily due to increases in conference revenue of \$1,656, deferred compensation plan of \$318 and affiliation fees of \$400, partially offset by a decrease in marketing revenue of \$145.

The \$27,291 (14%) increase in commissions and fees expense for the three months ended June 30, 2017 as compared to the 2016 period was directly correlated to the increase in commissions and advisory revenue in our independent advisory and brokerage services segment. Commissions and fees expense is comprised of compensation earned by the registered representatives who serve as independent contractors in our independent advisory and brokerage services segment. These payments to the independent contractor registered representatives are calculated based on a percentage of revenues generated by such persons and vary by product. Accordingly, when our independent contractor registered representatives decrease their business, both our revenues and expenses decrease as our representatives earned reduced compensation based on the lower revenues produced.

The \$4,815 (13%) increase in compensation and benefits expense for the three months ended June 30, 2017 as compared to the 2016 period was attributable to an increase of \$1,906 in our Ladenburg segment, an increase of \$1,671 in our independent advisory and brokerage services segment and an increase of \$1,596 in our corporate segment, partially offset by a decrease of \$358 in our insurance brokerage segment primarily due to a decline in revenue. Revenue driven compensation in our Ladenburg segment increased \$2,639, partially offset by a \$733 decrease in salaries and benefits as headcount decreased 11% from the prior-year period. Compensation and benefits expense increased in our independent advisory and brokerage services and corporate segments due to increased headcount of 5% in each segment from the prior-year period.

The \$37 (3%) increase in non-cash compensation expense for the three months ended June 30, 2017 as compared to the 2016 period was primarily attributable to an increase in our corporate segment of \$27 and in our Ladenburg segment of \$22.

The \$1,966 (67%) increase in brokerage, communication and clearance fees expense for the three months ended June 30, 2017 as compared to the 2016 period was driven by an increase of \$1,946 in our independent advisory and brokerage services segment due to higher levels of clearing credits received in the 2016 period. We expect brokerage, communication and clearance fees expense in future periods to increase due to lower levels of clearing credits we expect to receive in future periods.

The \$231 (10%) increase in rent and occupancy expense, net of sublease revenue, for the three months ended June 30, 2017 as compared to the 2016 period was attributable primarily to increases of \$170 in our independent advisory and brokerage services segment and \$31 in our insurance brokerage segment.

The \$611 (19%) increase in professional services expense for the three months ended June 30, 2017 as compared to the 2016 period primarily was due to increases in our independent advisory and brokerage services and insurance brokerage segments of \$788 and \$131, respectively. These increases were partly offset by decreases of \$223 in our Ladenburg segment and \$85 in our corporate segment.

The \$651 (56%) decrease in interest expense for the three months ended June 30, 2017 as compared to the 2016 period primarily resulted from a decreased average debt balance and lower interest rates. Our average outstanding debt balance was approximately \$27,474 for the second quarter of 2017 as compared to \$51,827 for the second quarter of 2016. The average interest rate was 5.2% for the three months ended June 30, 2017 as compared to 7.8% for the comparable 2016 period. Our outstanding debt balance as of June 30, 2017 included \$6,738, \$3,069 and \$8,921 of indebtedness incurred in connection with the Highland, KMS and SSN acquisitions, respectively.

The \$53 (1%) increase in depreciation and amortization expense for the three months ended June 30, 2017 as compared to the 2016 period was driven by increases in our independent advisory and brokerage services segment of \$111 partially offset by a decrease of \$62 in our Ladenburg segment.

The \$58 (187%) increase in acquisition-related expense for the three months ended June 30, 2017 as compared to the 2016 period was due to higher expenses associated with a prior period asset acquisition at Securities America.

The \$127 (8%) increase in amortization of retention and forgivable loans for the three months ended June 30, 2017 as compared to the 2016 period was driven by increased loan balances at our independent advisory and brokerage services segment.

The \$4,446 (27%) increase in other expense for the three months ended June 30, 2017 as compared to the 2016 period was primarily attributable to \$4,543 in additional accruals for certain pending litigation and regulatory matters at our independent advisory and brokerage services and Ladenburg segments in the 2017 period.

We had an income tax benefit of \$138 for the three months ended June 30, 2017 as compared to an income tax expense of \$16,225 in the comparable 2016 period. The June 30, 2016 income tax provision includes a discrete expense of \$6,009 related to an increase in our valuation allowance and a discrete deferred tax benefit of \$921 related to an overaccrual of deferred taxes applicable to goodwill in prior years. Also, the income tax provision for the three months ended June 30, 2016 includes approximately \$10,667 for a cumulative adjustment related to the income tax benefit recorded in the quarter ended March 31, 2016 due to a change in the estimated annual effective rate resulting from an anticipated valuation allowance to be required at year end for deferred tax assets arising in the 2016 year (see Note 5 to our condensed consolidated financial statements).

As of June 30, 2016, the Company concluded that its deferred tax assets are not realizable on a more-likely-than-not basis. Based on objective evidence including being in cumulative losses in recent years, the Company continues to maintain a valuation allowance against its net deferred tax assets as of June 30, 2017. The income tax provision includes a deferred tax provision related to tax amortization of goodwill and a provision for state and local income taxes. See Note 5 to our condensed consolidated financial statements.

Our provision for income taxes consists of U.S. federal and state taxes in amounts necessary to align our year-to-date tax provision with the effective rate we expect to achieve for the full year.

The effective tax rate differs from the federal statutory income tax rate for the 2017 period primarily related to tax amortization of indefinite-lived intangibles including goodwill and state and local income taxes.

### **Six months ended June 30, 2017 versus six months ended June 30, 2016**

For the six months ended June 30, 2017, we had net loss attributable to the Company of \$2,346 as compared to net loss attributable to the Company of \$15,385 for the six months ended June 30, 2016, primarily due to a \$8,433 increase in income tax benefit. The increase of \$66,256 (12%) in total revenues was partially offset by a \$61,821 (11%) increase in total expenses.

Our total revenues for the six months ended June 30, 2017 increased by \$66,256 (12%) as compared to the 2016 period, resulting primarily from increases in commissions, advisory fees, investment banking revenues and interest and dividends. 2017 revenues included increases in commissions of \$10,005, advisory fees of \$38,266, investment banking revenue of \$8,355, interest and dividends of \$5,243 and service fees and other income of \$4,322. Our independent advisory and brokerage services segment revenues increased by \$59,312 (12%) from the 2016 period, primarily attributable to increased commissions, advisory fee revenue and interest and dividends. Our Ladenburg segment revenues for the six months ended June 30, 2017 increased by \$6,843 (30%) from the 2016 period driven by an increase in equity capital raising for small and mid-cap public companies.

Total expenses for the six months ended June 30, 2017 increased by \$61,821 (11%) from the prior-year period, mostly driven by an increase of \$57,146 (12%) in our independent advisory and brokerage services segment. 2017 expenses included increases in commissions and fees expense of \$46,284, compensation and benefits expense of \$7,113, brokerage, communication and clearance fees of \$1,501, professional services of \$1,520, depreciation and amortization expense of \$610 and amortization of retention loans of \$284, partially offset by a decrease in interest expense of \$1,381.

The \$10,005 (4%) increase in commissions revenue for the six months ended June 30, 2017 as compared to the 2016 period was primarily attributable to an increase in sales of variable annuity and mutual fund products partially offset by lower sales of alternative investments and a decrease in fixed annuity sales as compared to the six months ended June 30, 2016. Our independent advisory and brokerage services segment commissions revenue increased by \$11,300 (5%) resulting from increased sales of variable annuity and mutual fund products during the 2017 period. Our Ladenburg segment commissions revenue decreased by \$1,165 (16%) in the six months ended June 30, 2017 as compared to the same period of 2016. Our insurance brokerage segment commissions revenue decreased by \$130 (1%) in 2017 from the prior-year period.

The \$38,266 (17%) increase in advisory fee revenue for the six months ended June 30, 2017 as compared to the 2016 period was primarily attributable to a \$38,964 (18%) increase in advisory fee revenue in our independent advisory and brokerage services segment due to improved market conditions and higher average advisory assets. Advisory fee revenue for a particular period is primarily affected by the level of average advisory assets during the period and market conditions. As of June 30, 2017, our advisory assets increased by 21% as compared to June 30, 2016. Total advisory assets under management at June 30, 2017 were approximately \$63,400,000 as compared to \$52,600,000 at June 30, 2016.

The \$8,355 (76%) increase in investment banking revenue for the six months ended June 30, 2017 as compared to the 2016 period was due to a \$7,258 increase in capital raising revenue and a \$1,097 increase in strategic advisory services revenue during 2017. We derive investment banking revenue from Ladenburg's capital raising activities, including underwritten public offerings and private placements, and strategic advisory services. Revenue from capital raising activities was \$17,251 for the six months ended June 30, 2017 as compared to \$9,992 for the prior-year period, resulting from a significant increase in equity capital raising for small and mid-cap public companies. Strategic advisory services revenue was \$2,125 in the six months ended June 30, 2017 as compared to \$1,029 in the comparable 2016 period.

The \$65 (13%) increase in principal transactions revenue for the six months ended June 30, 2017 as compared to the 2016 period was primarily attributable to our Ladenburg segment, which had an increase of \$40 (8%) due to an increase in the market value of the firm's investments.

The \$5,243 (119%) increase in interest and dividends revenue for the six months ended June 30, 2017 as compared to the 2016 period was driven by increased revenue from our cash sweep programs.

Interest revenue from our cash sweep program was \$8,259 in the six months ended June 30, 2017, as compared to \$3,646 in the comparable 2016 period, reflecting the impact of increases in the target rate for the federal funds effective rate and the implementation of new cash sweep programs. Future levels of interest and dividend revenue are dependent upon changes in prevailing interest rates and asset levels. At June 30, 2017, client assets included cash balances of approximately \$4,216,000 including approximately \$3,841,000 participating in our cash sweep programs.

The \$4,322 (10%) increase in service fees and other income for the six months ended June 30, 2017 as compared to the 2016 period was primarily driven by an increase of \$3,935 in our independent advisory and brokerage services segment, primarily due to increases in conference revenue of \$2,029, trading related fees of \$1,165, deferred compensation plan of \$1,237 and affiliation fees of \$882, partially offset by a decrease in marketing revenue of \$1,378.

The \$46,284 (12%) increase in commissions and fees expense for the six months ended June 30, 2017 as compared to the 2016 period was directly correlated to the increase in commissions and advisory revenue in our independent advisory and brokerage services segment. Commissions and fees expense is comprised of compensation earned by the registered representatives who serve as independent contractors in our independent advisory and brokerage services segment. These payments to the independent contractor registered representatives are calculated based on a percentage of revenues generated by such persons and vary by product. Accordingly, when our independent contractor registered representatives decrease their business, both our revenues and expenses decrease because our representative earned reduced compensation based on the lower revenues produced.

The \$7,113 (10%) increase in compensation and benefits expense for the six months ended June 30, 2017 as compared to the 2016 period was attributable to an increase of \$3,407 in our independent advisory and brokerage services segment, as headcount grew 5% from the prior-year period, an increase of \$2,994 in our corporate segment, as headcount increased 5%, and an increase of \$1,387 in the Ladenburg segment, as revenue driven compensation increased \$2,780, partially offset by a \$1,393 decrease in Ladenburg segment salaries and benefits due to an 11% headcount reduction as compared to the prior-year period. Compensation and benefits expense in our insurance brokerage segment decreased \$675 primarily due to a decline in revenue.

The \$111 (4%) increase in non-cash compensation expense for the six months ended June 30, 2017 as compared to the 2016 period was primarily attributable to an increase in our corporate segment of \$61 and our Ladenburg segment of \$44.

The \$1,501 (19%) increase in brokerage, communication and clearance fees expense for the six months ended June 30, 2017 as compared to the 2016 period was driven by an increase of \$1,604 in our independent advisory and brokerage services segment due to increased levels of clearing credits in the 2016 period. This was partially offset by a decrease of \$133 in our Ladenburg segment due to lower transaction-based revenues as compared to the prior-year period. We expect brokerage, communication and clearance fees expense in future periods to increase due to reduced level of clearing credits we expect to receive in future periods.

The \$173 (4%) increase in rent and occupancy, net of sublease revenue, for the six months ended June 30, 2017 as compared to the 2016 period was attributable to increases of \$134 in our independent advisory and brokerage services segment, \$17 in our corporate segment and \$14 in our insurance brokerage segment.

The \$1,520 (24%) increase in professional services expense for the six months ended June 30, 2017 as compared to the 2016 period was primarily due to increases in our independent advisory and brokerage services segment of \$1,904, partly offset by a decrease in our Ladenburg segment of \$466.

The \$1,381 (58%) decrease in interest expense for the six months ended June 30, 2017 as compared to the 2016 period primarily resulted from a decreased average debt balance and lower interest rates. Our average outstanding debt balance was approximately \$27,474 for the second quarter of 2017 as compared to \$51,827 for the second quarter of 2016. The average interest rate was 5.3% for the six months ended June 30, 2017 as compared to 7.8% for the comparable 2016 period. Our outstanding debt balance as of June 30, 2017 included \$6,738, \$3,069 and \$8,921 of indebtedness incurred in connection with the Highland, KMS and SSN acquisitions, respectively.

The \$610 (4%) increase in depreciation and amortization expense for the six months ended June 30, 2017 as compared to the 2016 period was attributable to increases of \$635 in our independent advisory and brokerage services segment and \$54 in our insurance brokerage segment partially offset by a decrease of \$74 in our Ladenburg segment.

The \$198 (296%) increase in acquisition-related expense for the six months ended June 30, 2017 as compared to the 2016 period was due to higher expenses associated with a prior period asset acquisition at Securities America.

The \$284 (10%) increase in amortization of retention and forgivable loans for the six months ended June 30, 2017 as compared to the 2016 period was driven by increased loan balances at our independent advisory and brokerage services segment.

The \$5,408 (18%) increase in other expense for the six months ended June 30, 2017 as compared to the 2016 period was primarily attributable to \$4,667 in additional accruals for certain pending litigation and regulatory matters at our independent advisory and brokerage services and Ladenburg segments in the 2017 period.

We had an income tax benefit of \$977 for the six months ended June 30, 2017 as compared to an income tax expense of \$7,456 in the comparable 2016 period. For the six months ended June 30, 2016 our income tax provision includes a discrete expense of \$6,009 related to an increase in our valuation allowance and a discrete deferred tax benefit of \$921 related to an over accrual of deferred taxes applicable to goodwill in prior years (see Note 5 to our condensed consolidated financial statements).

Our provision for income taxes consists of U.S. federal and state taxes in amounts necessary to align our year-to-date tax provision with the effective rate we expect to achieve for the full year. The effective tax rate differs from the federal statutory income tax rate for the 2017 period primarily related to the change in our assessment with respect to the realizability of our deferred tax assets.

### **Liquidity and Capital Resources**

Approximately 28% and 27% of our total assets at June 30, 2017 and December 31, 2016, respectively, consisted of cash and cash equivalents, securities owned and receivables from clearing brokers and other broker-dealers, all of which fluctuate, depending upon the levels of customer business and trading activity. Receivables from broker-dealers, which are primarily from clearing brokers, turn over rapidly. Our total assets or the individual components of our total assets may vary significantly from period to period because of changes relating to economic and market conditions.

Each of Securities America, Triad, Investacorp, KMS, SSN and Ladenburg is subject to a minimum net capital requirement. At June 30, 2017, each of Securities America, Triad, Investacorp, KMS and Ladenburg was subject to a \$250 minimum net capital requirement. SSN was subject to a \$846 minimum net capital requirement.

At June 30, 2017, the regulatory net capital of each of our broker-dealer subsidiaries was as follows: Securities America \$11,052, Triad \$7,039, Investacorp \$7,242, KMS \$6,282, SSN \$5,843 and Ladenburg \$23,425. Failure to maintain the required net capital may subject our broker-dealer subsidiaries to suspension or expulsion by FINRA, the SEC and other regulatory bodies and ultimately may require their liquidation. The Net Capital Rule also prohibits the payment of dividends, redemption of stock and prepayment or payment of principal of subordinated indebtedness if net capital, after giving effect to the payment, redemption or prepayment, would be less than specified percentages of the minimum net capital requirement. Compliance with the Net Capital Rule could limit Ladenburg's operations that require the intensive use of capital, such as underwriting and trading activities, and also could restrict our ability to withdraw capital from our subsidiaries, which in turn, could limit our ability to pay dividends and repay debt.

Premier Trust, chartered by the state of Nevada, is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division. Under Nevada law, Premier Trust must maintain stockholders' equity of at least \$1,000, including cash of at least \$250. At June 30, 2017, Premier Trust had stockholders' equity of \$1,934, including at least \$250 in cash.

Our primary sources of liquidity include cash flows from operations, sales of securities in public or private transactions and funds available under our \$40,000 revolving credit agreement with an affiliate of Dr. Phillip Frost, our chairman and principal shareholder.

We have entered into equity distribution agreements under which we sold, and may sell, shares of our Series A Preferred Stock in "at the market" offerings under Rule 415 under the Securities Act of 1933. During the three and six months ended June 30, 2017, we sold 398,259 shares of Series A Preferred Stock pursuant to the "at the market" offering, which provided us with total gross proceeds of \$9,911, before deducting the commission paid to unaffiliated sales agents and offering expenses aggregating \$428. As of June 30, 2017, approximately 7,601,741 shares remained available for issuance pursuant to the "at the market" offering.

Borrowings under the \$40,000 revolving credit agreement bear interest at a rate of 11% per annum, payable quarterly. We had no outstanding balance under the revolving credit agreement at either June 30, 2017 or December 31, 2016. We may repay outstanding amounts or re-borrow amounts under our revolving credit facility at any time prior to the maturity date of August 25, 2021, without penalty. We believe our existing assets, sales of securities in public or private transactions, cash flows from operations and funds available under our \$40,000 revolving credit facility will provide adequate funds for continuing operations at current activity levels and for payment of our obligations, including outstanding indebtedness and the dividends for our outstanding Series A Preferred Stock. We were in compliance with all covenants in our debt agreements as of June 30, 2017.

Cash used in operating activities for the six months ended June 30, 2017 was \$3,708, which primarily consisted of our net loss of \$2,354 adjusted for non-cash expenses, amortization of intangible assets, amortization of retention and forgivable loans, deferred income taxes, increases in receivables from clearing brokers, receivables from other broker dealers, notes receivable from financial advisors, net and cash surrender value of life insurance, as well as, decreases in accrued compensation and accounts payable and accrued liabilities, partially offset by decreases in other receivables, net, other assets, increases in commissions and fees payable and deferred compensation plan.

Cash used in operating activities for the six months ended June 30, 2016 was \$1,656, which primarily consisted of our net loss of \$15,417 adjusted for non-cash expenses, amortization of intangible assets, deferred income taxes, decreases in securities owned at market value, receivables from clearing brokers, cash surrender value of life insurance and other assets, offset by increases in notes receivable from financial advisors, net and other receivables, net, as well as, decreases in accrued compensation, commissions and fees payable, deferred compensation liability, and accounts payable and accrued liabilities.

Investing activities used \$4,455 for the six months ended June 30, 2017 due to the purchase of furniture, equipment and leasehold improvements. Investing activities used \$3,700 for the six months ended June 30, 2016, primarily due to the purchase of furniture, equipment and leasehold improvements.

Financing activities used \$1,915 for the six months ended June 30, 2017, primarily due to payment of \$15,877 of dividends on our Series A Preferred Stock, \$2,581 used for common stock repurchases and retirements and \$4,069 in payments of outstanding indebtedness that included a \$2,500 repayment of outstanding notes related to the SSN acquisition and a \$1,004 repayment of outstanding notes related to the KMS acquisition and \$565 of bank loan and revolver repayment. This was partially offset by \$8,000 of borrowings on a term note at one of our subsidiaries, \$9,483 from the issuance of Series A Preferred Stock under our "at the market" offering and \$3,979 from the issuance of common stock upon option exercises and under our employee stock purchase plan. Financing activities used \$16,582 for the six months ended June 30 2016, primarily due to payment of \$14,734 of dividends on our Series A Preferred Stock, \$8,904 used for common stock repurchases and retirements and \$3,753 in payments of outstanding indebtedness that included a \$2,457 repayment of outstanding notes related to the SSN acquisition, a \$985 repayment of outstanding notes related to the KMS acquisition. This was partially offset by \$2,032 from the issuance of common stock upon option exercises and under our employee stock purchase plan and \$8,777 from the issuance of the Series A Preferred Stock under our "at the market" offering.

At June 30, 2017, we were obligated under several non-cancelable lease agreements for office space, which provide for future minimum lease payments aggregating approximately \$48,835, through January 2030. See "Contractual Obligations" below for information relating to a new lease entered into after December 31, 2016. We have subleased vacant space under subleases to unrelated subtenants, which entitle us to receive rents aggregating approximately \$162 through February 2020.

In connection with a new office lease dated March 28, 2016, a subsidiary has an option to lease office space, which has not yet been constructed, for 12 years and, if exercised, would require the payment of an estimated average annual rent of \$1,811, subject to certain adjustments. Because the subsidiary has not yet exercised the option to lease the newly-built space, beginning on June 1, 2017, it became required to pay certain holding and operating costs and imputed interest charges in the amount of approximately \$25 per month through the earlier of the date the option is exercised and December 31, 2017. If such option is not exercised by December 31, 2017, the subsidiary would be required to pay certain financial penalties.

On November 4, 2011, National Financial Services LLC ("NFS") provided us with a seven-year, \$15,000 forgivable loan. We used the proceeds to fund expenses related to the Securities America acquisition. Interest on the loan accrues at the average annual Federal Funds effective rate plus 6% per annum, subject to the maximum rate of 11% per annum.

If Securities America meets certain annual clearing revenue targets set forth in the loan agreement, the principal balance of the loan will be forgiven in seven equal yearly installments of \$2,143 through November 2018. Interest payments due with respect to each such year will also be forgiven if the annual clearing revenue targets are met. Any principal amounts not forgiven will be due in November 2018, and any interest payments not forgiven are due annually. If during the loan term any principal amount is not forgiven, we may have such principal forgiven in future years if Securities America exceeds subsequent annual clearing revenue targets. The Company continues to expense interest under this loan agreement until such time as such interest is forgiven. Upon meeting annual revenue targets, principal and interest of \$2,143 and \$408, respectively, in 2016 were forgiven and included in other income.

The 2011 forgivable loan agreement contains other covenants including limitations on the incurrence of additional indebtedness, maintaining minimum adjusted shareholders' equity levels and a prohibition on the termination of our \$40,000 revolving credit agreement prior to its current maturity. The 2011 forgivable loan agreement is secured by our, but not our subsidiaries', deposits and accounts held at NFS or its affiliates. Upon the occurrence of an event of default, the outstanding principal and interest under the 2011 forgivable loan agreement may be accelerated and become due and payable. If the clearing agreements between NFS and certain of our broker-dealer subsidiaries are terminated prior to the loan maturity date, all amounts then outstanding must be repaid on demand. The clearing agreements contain customary termination provisions. NFS is permitted to terminate such agreements following certain termination events, including, but not limited to, our breach of such agreements that is not cured within any applicable time periods. The NFS loans are conditioned upon the continuation of the clearing agreements with NFS and any termination of the clearing agreements by NFS prior to the loan maturity date would require us to repay any outstanding amounts under the NFS loans.

In July 2016, as part of an amendment to a clearing agreement between one of our broker-dealer subsidiaries and its clearing firm, the clearing firm has agreed to provide a credit of \$2,000 in July 2017 and \$2,250 in July 2018. We have reflected the expense reduction ratably in our financial statements.

On November 6, 2013, Securities America entered into a loan agreement (the "SA Loan Agreement") with a financial institution for (i) a term loan in the aggregate principal amount of \$1,709 and (ii) a revolving credit facility of up to \$1,500. The term loan bears interest at 5.5%, with a maturity date of May 5, 2018. At June 30, 2017, \$0 was outstanding under this term loan. Revolving loans bore interest at 5.5% per annum over a 5-year term. On November 24, 2015, the SA Loan Agreement was amended to increase the total revolving credit availability to \$1,950. At June 30, 2017, \$392 was outstanding under the revolving credit facility.

On April 21, 2017, Securities America entered into an amended and restated loan agreement with a financial institution (the "Amended SA Loan Agreement"). The loan agreement modified the interest rate for new loans under Securities America's revolving credit facility to prime plus 2.25%. As of June 30, 2017, Securities America had \$1,000 of availability under the revolving credit facility. This loan agreement also provides for an additional term loan in the aggregate principal amount of \$8,000 subject to certain conditions. This second term loan bears interest at 5.75%, with a maturity date of May 1, 2020. The loans are collateralized by Securities America's assets. The Amended SA Loan Agreement contains certain affirmative and negative covenants, including covenants regarding Securities America's client asset levels and number of financial advisors. At June 30, 2017, \$7,815 was outstanding under this term loan.

On July 31, 2014, we acquired by way of merger HCHC Holdings, Inc. ("HCHC"), the parent company of Highland. Under the terms of the merger agreement, all outstanding shares of HCHC common stock were converted into the right to receive \$3,613 in cash and 2,540,762 shares of our common stock, which are subject to certain transfer restrictions. Also, we caused all indebtedness owed by certain HCHC subsidiaries under a credit agreement (in the amount of \$21,834) to be repaid. At June 30, 2017, approximately \$6,738 of HCHC Acquisition Inc.'s (as successor in interest to HCHC) 10% promissory notes due February 26, 2019 remained outstanding.

Accrued interest on the promissory notes is payable quarterly on the 15th of October, January, April and July. The promissory notes may be prepaid. Payment of the principal and all accrued and unpaid interest under the promissory notes may be accelerated upon the occurrence of customary events of default, including the failure to make payments when due and the commencement of bankruptcy or similar proceedings. We used approximately \$25,400 of cash to finance the Highland acquisition.

On October 15, 2014, we acquired all of the issued and outstanding capital stock of KMS. At the closing of the acquisition, we paid approximately \$24,000, consisting of \$11,000 in cash, \$8,000 principal amount of promissory notes, and 1,440,922 shares of our common stock, which are subject to certain transfer restrictions. The notes are unsecured and bear interest at 1.84% per annum and are payable in 16 equal quarterly installments.

The notes may be prepaid in full or in part at any time without premium or penalty. The holders may accelerate the notes upon certain customary events of default. At June 30, 2017, the outstanding balance of these notes, net of a \$159 discount, amounted to \$2,910.

On January 2, 2015, we acquired all of the capital stock of SSN and a related company ("RCC"). The purchase price was approximately \$47,287, including \$25,000 principal amount of secured short-term promissory notes, which bore interest at 0.41% per annum and were paid in full on the business day following the closing date, and \$20,000 principal amount of secured four-year promissory notes, bearing interest at 1.74% per annum and payable in equal quarterly installments of principal and interest. The notes may be prepaid in full or in part at any time without premium or penalty.

The holders may accelerate the notes upon certain customary events of default. The notes are secured by a pledge of the shares of SSN and RCC purchased in the acquisition pursuant to a stock pledge agreement. At June 30, 2017, the outstanding balance of these notes, net of a \$488 discount, amounted to \$8,433. We paid an additional amount of approximately \$3,590, which is included in the purchase price above, based on the amount by which the aggregate net worth of SSN and RCC as of the acquisition closing date exceeded a targeted amount.

In March 2007, our board of directors authorized the repurchase of up to 2,500,000 shares of our common stock from time to time on the open market or in privately negotiated transactions depending on market conditions. In each of October 2011, November 2014 and November 2016, our board approved an amendment to the repurchase program to permit the repurchase of an additional 5,000,000 shares, 10,000,000 shares and 10,000,000 shares, respectively. As of June 30, 2017, 18,397,874 shares had been repurchased for \$46,886 under the program and have been retired, including the repurchase of 897,874 shares for \$2,196 during the six months ended June 30, 2017. As of June 30, 2017, 9,102,126 shares remained available for repurchase under the program. Beginning in the fourth quarter of 2015, we adopted a Rule 10b5-1 trading plan to permit the repurchase of common stock pursuant to the existing stock repurchase program during certain restricted trading periods. We intend to execute similar Rule 10b5-1 plans periodically in the future.

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

Each of our broker-dealer subsidiaries, as guarantor of its customer accounts to its clearing broker, is exposed to off-balance-sheet risks in the event that its customers do not fulfill their obligations with the clearing broker. Also, if any of our broker-dealer subsidiaries maintains a short position in certain securities, it is exposed to off-balance-sheet market risk, because its ultimate obligation to purchase securities may exceed the amount recognized in the financial statements.

Please see Note 8 to our unaudited condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

### **Contractual Obligations**

The Contractual Obligations table as disclosed in our annual report on Form 10-K for the year ended December 31, 2016 is updated as follows:

Our Ladenburg subsidiary is obligated under an office lease agreement effective February 1, 2017 at 277 Park Avenue, New York, providing for annual rental payments of \$498 for 2017, \$996 for each of 2018, 2019 and 2020 and \$83 for 2021.

### **Market Risk**

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

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

We maintain inventories of trading securities. At June 30, 2017, the fair market value of our inventories was \$4,267 in long positions and \$351 in short positions. We performed an entity-wide analysis of our financial instruments and assessed the related market risk. Based on this analysis, we do not expect that the market risk associated with our financial instruments at June 30, 2017 will have a material adverse effect on our consolidated financial position or results of operations.

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

We and our representatives may from time to time make oral or written “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including any statements that may be contained in the foregoing discussion in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report, elsewhere in this report, and in other filings with the SEC and in our reports to shareholders, which reflect our expectations or beliefs with respect to future events and financial performance.

These forward-looking statements are subject to certain risks and uncertainties and, in connection with the "safe-harbor" provisions of the Private Securities Litigation Reform Act, we have identified under "Risk Factors" in our annual report on Form 10-K for the year ended December 31, 2016, important factors that could cause actual results to differ materially from these contained in any forward-looking statement made by or on behalf of us.

Results actually achieved may differ materially from expected results included in these forward-looking statements as a result of these or other factors. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date on which such statements are made. We do not undertake to update any forward-looking statement that may be made from time to time by or on behalf of us, except as required by law.

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

The information under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk” contained in this Quarterly Report on Form 10-Q is incorporated herein by reference. Through the end of the period covered by this Quarterly Report on Form 10-Q, there have been no material changes to the information provided in Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2016.

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

#### **Disclosure Controls and Procedures**

Disclosure controls and procedures (as defined in Rule 13a-15(e) or 15d-15(e) of the Securities Exchange Act of 1934, as amended) are our controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding disclosure.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report, and, based on that evaluation, our principal executive officer and principal financial officer concluded that these controls and procedures were effective as of such date.

## **Changes in Internal Control Over Financial Reporting**

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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

Please see Note 7 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

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

Except as set forth below, there have been no material changes to the risk factors previously disclosed in Part 1, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2016.

#### ***Extensive or frequent changes in regulations could adversely affect our business and results of operations.***

The securities industry is subject to extensive and frequently changing requirements under federal and state securities and other applicable laws and self-regulatory organization rules. The SEC, FINRA, various securities exchanges and other U.S. governmental or regulatory authorities continuously review legislation and regulatory initiatives and may adopt new or revised laws and regulations. Such laws and regulations may be complex, and we may not have the benefit of regulatory or federal interpretations to guide us in compliance. Changes in laws and regulation or new interpretations of existing laws and regulations also could have an adverse effect on our methods and costs of doing business.

For example, certain state securities regulators require that investors in certain securities meet minimum income and/or net worth standards. These standards vary from state to state and change frequently. Changes to suitability standards may require us to expend resources to ensure that we and our financial advisors comply with the new standards. If a financial advisor does not satisfy the requirements with regard to suitability standards, we could be subject to substantial liability, including fines, penalties and possibly rescission. Along with suitability requirements, state regulators have also imposed limitations on an investor's exposure to direct investment programs. The breadth and scope of these limitations have varied considerably and may operate to limit the exposure that a resident of a particular state has to a product, sponsor or direct investment programs generally. These concentration limitations have been applied with increasing frequency and have increasingly targeted all direct investment programs.

FINRA has identified rollovers of client assets from group retirement plans to IRAs as an area of increased scrutiny. FINRA has announced that its periodic regulatory examinations of broker-dealers will focus on this area, including compliance with regulations regarding suitability, conflicts of interest, disclosures to clients and supervision. This enhanced regulatory focus may discourage rollovers of assets into IRAs, which would negatively impact our results of operations. Qualified accounts, specifically IRAs, make up a significant portion of our client assets.

Also, with respect to direct investment programs, FINRA has amended its rules, effective as of April 2016, that govern disclosure of a per share estimated value of a direct investment program security. The new rules provide different methodologies for calculating and reporting such per share estimated values and require enhanced disclosure to investors. These new rules could adversely impact direct investment programs if investors or financial advisors react negatively to the new disclosure regime, and such an adverse impact may harm our results of operations.

Additionally, the Dodd-Frank Act may impact the manner in which we operate our business and interact with regulators and many regulations under the Dodd-Frank Act have not yet been proposed or implemented. In particular, the impact of the establishment of a fiduciary standard for broker-dealers by the SEC is uncertain and may require us to expend resources to ensure that we and our financial advisors comply with the new standards.

As discussed in Item 1, "Business - Government Regulation" of our Annual Report on Form 10-K for the year ended December 31, 2016, the DOL Rule significantly expands the scope of who is considered an ERISA fiduciary and what activity constitutes acting as an ERISA fiduciary, while prohibiting certain additional types of transactions conducted by persons who are considered fiduciaries.

The DOL Rule focuses on conflicts of interest related to investment recommendations made by financial advisors or registered investment advisors to clients holding qualified accounts and other types of ERISA clients as well as how financial advisors are able to discuss IRA rollovers. On April 5, 2017, the DOL delayed implementation of the fiduciary rule. The Best Interest Contract Exemption (BICE) became effective on June 9, 2017. The definition of “fiduciary” in the rule and the Impartial Conduct Standards under the BICE took effect on June 9, 2017; the remaining conditions of the BICE are scheduled to take effect on January 1, 2018.

On June 29, 2017, the DOL issued a request for information, seeking additional input concerning possible additional exemption approaches or changes to the fiduciary rule as well as regarding extending the January 1, 2018 applicability date.

The DOL Rule could be further delayed or revised. We expect that the DOL Rule will impact how we receive fees, how we compensate our advisors, how we are able to retain advisors, and how we design our investments and services for qualified accounts. Because qualified retirement accounts and IRAs make up a significant portion of our business, we expect that implementation of the DOL Rule and related exemptions will negatively impact our results, including the impact of increased expenditures related to legal, compliance, information technology and other costs.

## Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

### Issuer Purchases of Equity Securities

This table shows information regarding our monthly purchases of our common stock during the second quarter of 2017.

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(1)</sup>
April 1 to April 30, 2017	193,092 <sup>(2)</sup>	\$ 2.57	187,399	9,697,601
May 1 to May 31, 2017	267,023	2.39	267,023	9,430,578
June 1 to June 30, 2017	348,110 <sup>(3)</sup>	2.42	328,452	9,102,126
Total	808,225	\$ 2.45	782,874	

<sup>(1)</sup> In March 2007, our board of directors authorized the repurchase of up to 2,500,000 shares of our common stock from time to time on the open market or in privately negotiated transactions depending on market conditions. In each of October 2011, November 2014 and November 2016, our board approved an amendment to the repurchase program to permit the repurchase of an additional 5,000,000 shares, 10,000,000 shares and 10,000,000 shares, respectively. As of June 30, 2017, 18,397,874 shares had been repurchased for \$46,887 under the program and 9,102,126 shares remain available for repurchase under the program. Beginning in the fourth quarter of 2015, we adopted a Rule 10b5-1 trading plan to permit the repurchase of common stock pursuant to the existing stock repurchase program during certain restricted trading periods. We intend to execute similar Rule 10b5-1 plans periodically in the future.

<sup>(2)</sup> Includes 5,693 shares surrendered to the Company in satisfaction of withholding taxes in connection with the vesting of restricted stock awards issued under the Company’s Amended and Restated 2009 Incentive Compensation Plan.

<sup>(3)</sup> Includes 19,658 shares surrendered to the Company in satisfaction of the cost to exercise options in connection with stock option awards issued under the Company’s Amended and Restated 1999 Incentive Compensation Plan.

## Item 6. EXHIBITS

Exhibit No.	Description
3.1	Articles of Amendment to Articles of Incorporation designating 6,554,916 additional shares of Ladenburg Thalmann Financial Services Inc.'s 8.00% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on May 22, 2017)
10.1	Equity Distribution Agreement, dated May 22, 2017, between Ladenburg Thalmann Financial Services Inc. and Jefferies LLC, as representative of the Sales Agents listed on Schedule I thereto (incorporated by reference to exhibit 1.1 to the Company's Current Report on Form 8-K filed with the SEC on May 22, 2017)
12.1	Statement re: Computation of Ratios of Earnings to Fixed Charges, and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends*
31.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase.*
101.PRE	XBRL Taxonomy Extension Label Linkbase.*
101.LAB	XBRL Taxonomy Extension Presentation Linkbase.*

\*Filed herewith

\*\*Furnished herewith

**SIGNATURES**

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

LADENBURG THALMANN FINANCIAL SERVICES INC.  
(Registrant)

Date: August 9, 2017

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

## EXHIBIT INDEX

Exhibit No.	Description
3.1	Articles of Amendment to Articles of Incorporation designating 6,554,916 additional shares of Ladenburg Thalmann Financial Services Inc.'s 8.00% Series A Cumulative Redeemable Preferred Stock (incorporated by reference to exhibit 3.1 to the Company's Current Report on Form 8-K filed with the SEC on May 22, 2017)
10.1	Equity Distribution Agreement, dated May 22, 2017, between Ladenburg Thalmann Financial Services Inc. and Jefferies LLC, as representative of the Sales Agents listed on Schedule I thereto (incorporated by reference to exhibit 1.1 to the Company's Current Report on Form 8-K filed with the SEC on May 22, 2017)
12.1	Statement re: Computation of Ratios of Earnings to Fixed Charges, and Ratios of Earnings to Combined Fixed Charges and Preferred Stock Dividends*
31.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase.*
101.PRE	XBRL Taxonomy Extension Label Linkbase.*
101.LAB	XBRL Taxonomy Extension Presentation Linkbase.*

\*Filed herewith

\*\*Furnished herewith

**Ladenburg Thalmann Financial Services Inc.**  
**Ratio of Earnings to Fixed Charges**  
**and Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends**  
**(dollars in thousands)**  
**(unaudited)**

	Six Months Ended June 30,		Year Ended December 31,			
	2017	2016	2015	2014	2013	2012
<b>Ratio of Earnings to Fixed Charges</b>						
(Loss) income before income taxes	\$ (3,331)	\$ (12,286)	\$ (11,695)	\$ 10,006	\$ 2,404	\$ (14,892)
Add: Fixed charges	2,618	7,486	8,435	9,337	17,534	26,741
(Loss) income before income taxes and fixed charges	<u>\$ (713)</u>	<u>\$ (4,800)</u>	<u>\$ (3,260)</u>	<u>\$ 19,343</u>	<u>\$ 19,938</u>	<u>\$ 11,849</u>
Fixed Charges:						
Total interest expense	\$ 998	\$ 4,262	\$ 5,169	\$ 6,990	\$ 15,438	\$ 24,541
Interest factor in rents <sup>(1)</sup>	1,620	3,224	3,266	2,347	2,096	2,200
Total fixed charges	<u>\$ 2,618</u>	<u>\$ 7,486</u>	<u>\$ 8,435</u>	<u>\$ 9,337</u>	<u>\$ 17,534</u>	<u>\$ 26,741</u>
Ratio of earnings to fixed charges	*	*	*	2.1	1.1	*
* Deficiency of earnings available to cover fixed charges	\$ (3,331)	\$ (12,286)	\$ (11,695)	\$ —	\$ —	\$ (14,892)
<b>Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends</b>						
(Loss) income before income taxes	\$ (3,331)	\$ (12,286)	\$ (11,695)	\$ 10,006	\$ 2,404	\$ (14,892)
Add: Fixed charges	2,618	7,486	8,435	9,337	17,534	26,741
(Loss) income before income taxes and combined fixed charges and preferred stock dividends	<u>\$ (713)</u>	<u>\$ (4,800)</u>	<u>\$ (3,260)</u>	<u>\$ 19,343</u>	<u>\$ 19,938</u>	<u>\$ 11,849</u>
Fixed Charges:						
Total interest expense	\$ 998	\$ 4,262	\$ 5,169	\$ 6,990	\$ 15,438	\$ 24,541
Interest factor in rents <sup>(1)</sup>	1,620	3,224	3,266	2,347	2,096	2,200
Preferred stock dividends <sup>(2)</sup>	26,462	50,730	46,847	28,740	11,518	—
Total combined fixed charges and preferred stock dividends	<u>\$ 29,080</u>	<u>\$ 58,216</u>	<u>\$ 55,282</u>	<u>\$ 38,077</u>	<u>\$ 29,052</u>	<u>\$ 26,741</u>
Ratio of earnings to combined fixed charges and preferred stock dividends	*	*	*	*	*	*
* Deficiency of earnings available to cover combined fixed charges and preferred stock dividends	\$ (29,793)	\$ (63,016)	\$ (58,542)	\$ (18,734)	\$ (9,114)	\$ (14,892)

<sup>(1)</sup> One-third of rent expense is the portion deemed representative of the interest factor.

<sup>(2)</sup> The preferred stock dividend amounts represent pre-tax earnings required to cover dividends on preferred stock.

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

I, Richard J. Lampen, certify that:

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

Date: August 9, 2017

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

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

I, Brett H. Kaufman, certify that:

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

Date: August 9, 2017

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

## SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

In connection with the Quarterly Report of Ladenburg Thalmann Financial Services Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Lampen, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: August 9, 2017

Richard J. Lampen

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

/s/

The certification set forth above is being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes – Oxley Act of 2002 and is not being filed as part of the Report or as a separate disclosure document of Ladenburg Thalmann Financial Services Inc., or the certifying officers.

**SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER**

In connection with the Quarterly Report of Ladenburg Thalmann Financial Services Inc. (the "Company") on Form 10-Q for the period ended June 30, 2017 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brett H. Kaufman, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: August 9, 2017

/s/ Brett H. Kaufman

Brett H. Kaufman  
Senior Vice President and Chief Financial Officer  
(Principal Financial and Accounting Officer)

The certification set forth above is being furnished as an exhibit solely pursuant to Section 906 of the Sarbanes – Oxley Act of 2002 and is not being filed as part of the Report or as a separate disclosure document of Ladenburg Thalmann Financial Services Inc., or the certifying officers.