

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

FORM 10-Q

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

For the quarterly period ended September 30, 2019

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)

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Trading Symbol(s)</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$.0001 per share	LTS	NYSE American
8.00% Series A Cumulative Redeemable Preferred Stock, Liquidation Preference \$25.00 per share	LTS PrA	NYSE American
6.50% Senior Notes due 2027	LTSL	NYSE American
7% Senior Notes due 2028	LTSF	NYSE American
7.25% Senior Notes due 2028	LTSK	NYSE American
7.75% Senior Notes due 2029	LTSH	NYSE American

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 every Interactive Data File required to be submitted 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 such files).

Yes X 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

Accelerated filer

Non-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 October 31, 2019 there were 148,744,079 shares of the registrant's common stock outstanding.

**LADENBURG THALMANN FINANCIAL SERVICES INC.
QUARTERLY REPORT ON FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2019**

TABLE OF CONTENTS

	<u>Page</u>
PART I. FINANCIAL INFORMATION	
<u>Item 1.</u>	<u>Financial Statements</u>
	<u>Condensed Consolidated Statements of Financial Condition as of September 30, 2019 (unaudited) and December 31, 2018</u>
	<u>1</u>
	<u>Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2019 and 2018 (unaudited)</u>
	<u>2</u>
	<u>Condensed Consolidated Statement of Changes in Shareholders' Equity for the three and nine months ended September 30, 2019 and 2018 (unaudited)</u>
	<u>3</u>
	<u>Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2019 and 2018 (unaudited)</u>
	<u>6</u>
	<u>Notes to the Condensed Consolidated Financial Statements</u>
	<u>7</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>
	<u>29</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>
	<u>42</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>
	<u>42</u>
PART II. OTHER INFORMATION	
<u>Item 1.</u>	<u>Legal Proceedings</u>
	<u>43</u>
<u>Item 1A.</u>	<u>Risk Factors</u>
	<u>44</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>
	<u>44</u>
<u>Item 6.</u>	<u>Exhibits</u>
	<u>45</u>
<u>SIGNATURES</u>	<u>46</u>

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

ASSETS	September 30, 2019 (Unaudited)	December 31, 2018
Cash and cash equivalents	\$ 251,033	\$ 182,693
Securities owned, at fair value	4,601	10,923
Receivables from clearing brokers	27,835	24,068
Receivables from other broker-dealers	5,597	7,078
Notes receivable from financial advisors, net	7,459	5,809
Other receivables, net	67,419	68,942
Insurance trailing commissions receivable	67,290	64,300
Fixed assets, net	32,068	29,994
Right-of-use assets	31,815	—
Restricted cash	771	6,588
Intangible assets, net	62,896	73,064
Goodwill	126,079	126,079
Contract acquisition costs, net	86,520	80,726
Cash surrender value of life insurance	13,934	11,406
Income taxes receivable	—	2,156
Other assets	32,807	47,078
Total assets	<u>\$ 818,124</u>	<u>\$ 740,904</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Securities sold, but not yet purchased, at fair value	\$ 35	\$ 2,575
Accrued compensation	36,871	39,264
Commissions and fees payable	106,004	105,306
Accounts payable and accrued liabilities	37,197	48,741
Deferred rent	—	2,956
Lease liabilities	34,798	—
Deferred income taxes	13,945	14,068
Deferred compensation liability	24,602	20,622
Accrued interest	—	123
Notes payable, net of unamortized discount of \$5,881 and \$6,372 in 2019 and 2018, respectively and net of debt issuance costs of \$8,660 and \$7,086 in 2019 and 2018, respectively.	315,898	254,072
Total liabilities	<u>569,350</u>	<u>487,727</u>
Commitments and contingencies (Note 10)		
SHAREHOLDERS' EQUITY:		
Preferred stock, \$.0001 par value; authorized 50,000,000 shares; 8% Series A cumulative redeemable preferred stock; designated 23,844,916 shares in 2019 and 2018; shares issued and outstanding 17,401,282 in 2019 and 17,012,075 in 2018 (liquidation preference \$435,032 and \$425,302 in 2019 and 2018, respectively)	2	2
Common stock, \$.0001 par value; authorized 1,000,000,000 shares in 2019 and 2018; shares issued and outstanding, 148,710,781 in 2019 and 146,535,796 in 2018	15	14
Additional paid-in capital	317,735	344,356
Accumulated deficit	(68,971)	(91,246)
Total shareholders' equity of the Company	<u>248,781</u>	<u>253,126</u>
Noncontrolling interest	(7)	51
Total shareholders' equity	<u>248,774</u>	<u>253,177</u>
Total liabilities and shareholders' equity	<u>\$ 818,124</u>	<u>\$ 740,904</u>

See accompanying notes.

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2019	2018	2019	2018
Revenues:				
Commissions	\$ 180,395	\$ 172,108	\$ 527,076	\$ 515,775
Advisory fees	132,763	124,550	372,664	361,571
Investment banking	18,692	9,982	40,060	38,201
Principal transactions	(258)	45	1,271	445
Interest and dividends	1,474	1,434	4,018	3,301
Service fees	31,137	28,702	95,727	81,189
Other income	10,329	12,054	32,751	35,533
Total revenues	<u>374,532</u>	<u>348,875</u>	<u>1,073,567</u>	<u>1,036,015</u>
Expenses:				
Commissions and fees	260,072	249,672	749,522	735,388
Compensation and benefits	54,026	44,905	154,514	140,727
Non-cash compensation	1,536	1,380	4,474	4,442
Brokerage, communication and clearance fees	3,392	3,734	10,956	11,994
Rent and occupancy, net of sublease revenue	2,648	2,566	7,962	7,446
Professional services	4,810	4,531	14,514	14,860
Interest	6,218	3,206	16,840	7,226
Depreciation and amortization	5,246	5,845	17,057	17,416
Acquisition-related expenses	—	—	24	913
Amortization of retention and forgivable loans	139	97	391	280
Amortization of contract acquisition costs	2,988	2,488	8,639	7,059
Other	18,067	17,740	58,746	53,922
Total expenses	<u>359,142</u>	<u>336,164</u>	<u>1,043,639</u>	<u>1,001,673</u>
Income before item shown below	15,390	12,711	29,928	34,342
Change in fair value of contingent consideration	(93)	(54)	(290)	(165)
Income before income taxes	15,297	12,657	29,638	34,177
Income tax expense	4,020	3,207	7,421	9,953
Net income	11,277	9,450	22,217	24,224
Net (loss) income attributable to noncontrolling interest	(79)	13	(58)	22
Net income attributable to the Company	\$ 11,356	\$ 9,437	\$ 22,275	\$ 24,202
Dividends declared on preferred stock	(8,702)	(8,507)	(25,987)	(25,523)
Net income (loss) available to common shareholders	<u>\$ 2,654</u>	<u>\$ 930</u>	<u>\$ (3,712)</u>	<u>\$ (1,321)</u>
Net income (loss) per common share available to common shareholders (basic)	<u>\$ 0.02</u>	<u>\$ 0.00</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>
Net income (loss) per common share available to common shareholders (diluted)	<u>\$ 0.02</u>	<u>\$ 0.00</u>	<u>\$ (0.03)</u>	<u>\$ (0.01)</u>
Weighted average common shares used in computation of per share data:				
Basic	<u>143,092,912</u>	<u>196,381,910</u>	<u>143,281,873</u>	<u>196,281,283</u>
Diluted	<u>147,960,009</u>	<u>208,387,236</u>	<u>143,281,873</u>	<u>196,281,283</u>

See accompanying notes.

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

	Preferred Stock		Common Stock		Additional Paid-In Capital	Accumulated Deficit	Noncontrolling Interest	Total
	Shares	Amount	Shares	Amount				
Balance - June 30, 2018	17,012,075	\$ 2	201,271,034	\$ 20	\$ 501,348	\$ (110,239)	\$ 32	\$ 391,163
Issuance of common stock under employee stock purchase plan	—	—	32,891	—	84	—	—	84
Exercise of stock options	—	—	778,234	—	1,304	—	—	1,304
Stock-based compensation granted to advisory board, consultants and independent financial advisors	—	—	—	—	7	—	—	7
Stock-based compensation to employees	—	—	—	—	1,373	—	—	1,373
Unvested restricted stock forfeitures	—	—	(106,250)	—	—	—	—	—
Repurchase and retirement of common stock	—	—	(1,724,113)	—	(5,318)	—	—	(5,318)
Preferred stock issued, net of underwriting discount and expense of \$91	—	—	—	—	(91)	—	—	(91)
Preferred stock dividends declared and paid	—	—	—	—	(8,507)	—	—	(8,507)
Common stock dividends declared and paid	—	—	—	—	(2,448)	—	—	(2,448)
Net income	—	—	—	—	—	9,437	13	9,450
Balance - September 30, 2018	<u>17,012,075</u>	<u>\$ 2</u>	<u>200,251,796</u>	<u>\$ 20</u>	<u>\$ 487,752</u>	<u>\$ (100,802)</u>	<u>\$ 45</u>	<u>\$ 387,017</u>
Balance - June 30, 2019	17,401,282	\$ 2	148,501,131	\$ 15	\$ 326,928	\$ (80,327)	\$ 72	\$ 246,690
Issuance of common stock under employee stock purchase plan	—	—	40,869	—	92	—	—	92
Exercise of stock options, net of 120,129 shares tendered in payment of exercise price	—	—	324,352	—	218	—	—	218
Stock-based compensation to employees	—	—	—	—	1,536	—	—	1,536
Repurchase and retirement of common stock	—	—	(155,571)	—	(526)	—	—	(526)
Preferred stock issued, net of underwriting discount and expense of \$18	—	—	—	—	(18)	—	—	(18)
Preferred stock dividends declared and paid	—	—	—	—	(8,702)	—	—	(8,702)
Common stock dividends declared and paid	—	—	—	—	(1,793)	—	—	(1,793)
Net income	—	—	—	—	—	11,356	(79)	11,277
Balance - September 30, 2019	<u>17,401,282</u>	<u>\$ 2</u>	<u>148,710,781</u>	<u>\$ 15</u>	<u>\$ 317,735</u>	<u>\$ (68,971)</u>	<u>\$ (7)</u>	<u>\$ 248,774</u>

See accompanying notes.

LADENBURG THALMANN FINANCIAL SERVICES INC.
CONDENSED CONSOLIDATED STATEMENT OF CHANGES
IN SHAREHOLDERS' EQUITY
(Amounts 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, 2017	17,012,075	\$ 2	198,583,941	\$ 20	\$ 520,135	\$ (149,778)	\$ 12	\$ 370,391
Cumulative effect of adoption of ASC 606 (See Note 2)	—	—	—	—	—	24,774	11	24,785
Balance - January 1, 2018	17,012,075	2	198,583,941	20	520,135	(125,004)	23	395,176
Issuance of common stock under employee stock purchase plan	—	—	122,192	—	365	—	—	365
Exercise of stock options, net of 203,132 shares tendered in payment of exercise price	—	—	2,285,314	—	3,636	—	—	3,636
Stock-based compensation granted to advisory board, consultants and independent financial advisors	—	—	—	—	34	—	—	34
Stock-based compensation to employees	—	—	—	—	4,408	—	—	4,408
Issuance of restricted stock	—	—	2,115,000	—	—	—	—	—
Restricted stock forfeitures	—	—	(106,250)	—	—	—	—	—
Repurchase and retirement of common stock, including 247,379 shares surrendered for tax withholdings and 19,294 shares tendered in payment of exercise price	—	—	(2,748,401)	—	(8,746)	—	—	(8,746)
Preferred stock issued, net of underwriting discount and expense of \$180	—	—	—	—	(180)	—	—	(180)
Preferred stock dividends declared and paid	—	—	—	—	(25,523)	—	—	(25,523)
Common stock dividends declared and paid	—	—	—	—	(6,377)	—	—	(6,377)
Net income	—	—	—	—	—	24,202	22	24,224
Balance - September 30, 2018	17,012,075	\$ 2	200,251,796	\$ 20	\$ 487,752	\$ (100,802)	\$ 45	\$ 387,017
Balance - December 31, 2018	17,012,075	\$ 2	146,535,796	\$ 14	\$ 344,356	\$ (91,246)	\$ 51	\$ 253,177
Issuance of common stock under employee stock purchase plan	—	—	127,507	—	342	—	—	342
Exercise of stock options, net of 663,979 shares tendered in payment of exercise price	—	—	2,529,429	—	1,372	—	—	1,372
Stock-based compensation granted to consultants and independent financial advisors	—	—	—	—	15	—	—	15
Stock-based compensation to employees	—	—	—	—	4,459	—	—	4,459
Issuance of restricted stock	—	—	2,785,000	1	—	—	—	1
Unvested restricted stock forfeitures	—	—	(82,500)	—	—	—	—	—
Repurchase and retirement of common stock, including 1,002,460 shares surrendered for tax withholdings and 12,673 shares tendered in exercise of options	—	—	(3,184,451)	—	(10,873)	—	—	(10,873)
Preferred stock issued, net of underwriting discount and expense of \$1	389,207	—	—	—	9,431	—	—	9,431
Preferred stock dividends declared and paid	—	—	—	—	(25,987)	—	—	(25,987)
Common stock dividends declared and paid	—	—	—	—	(5,380)	—	—	(5,380)
Net income	—	—	—	—	—	22,275	(58)	22,217
Balance - September 30, 2019	17,401,282	\$ 2	148,710,781	\$ 15	\$ 317,735	\$ (68,971)	\$ (7)	\$ 248,774

See accompanying notes.

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities:		
Net income	\$ 22,217	\$ 24,224
Adjustments to reconcile net income to net cash provided by operating activities:		
Change in fair value of contingent consideration	290	165
Adjustment to deferred rent	—	819
Amortization of right-of-use assets	5,717	—
Amortization of intangible assets	10,173	11,552
Amortization of debt discount	491	428
Amortization of debt issue cost	636	401
Amortization of retention and forgivable loans	391	280
Amortization of contract acquisition costs	8,639	7,059
Depreciation and other amortization	6,884	5,864
Deferred income taxes	(123)	6,056
Non-cash compensation expense	4,474	4,442
Gain on forgiveness of accrued interest under forgivable loans	—	(79)
Gain on forgiveness of principal of note payable under forgivable loans	—	(2,143)
Loss on write-off of furniture, fixtures and leasehold improvements, net	4	18
(Increase) decrease in operating assets		
Securities owned, at fair value	6,322	(1,570)
Receivables from clearing brokers	(3,767)	21,893
Receivables from other broker-dealers	1,481	1,350
Other receivables, net	1,523	(11,151)
Insurance trailing commissions receivable	(2,990)	—
Contract acquisition costs, net	(14,433)	(23,522)
Notes receivable from financial advisors, net	(2,041)	3
Cash surrender value of life insurance	(2,528)	(767)
Income taxes receivable	2,156	—
Other assets	14,271	(8,786)
Increase (decrease) in operating liabilities		
Securities sold, but not yet purchased, at fair value	(2,540)	(165)
Accrued compensation	(2,393)	(1,220)
Accrued interest	(123)	(153)
Commissions and fees payable	698	12,631
Deferred compensation liability	3,980	3,802
Lease liabilities	(5,787)	—
Accounts payable and accrued liabilities	(11,655)	9,932
Net cash provided by operating activities	41,967	61,363
Cash flows from investing activities:		
Purchases of fixed assets	(9,044)	(10,503)
Purchase of intangible assets	(5)	(6)
Acquisition of certain assets of Kestler Financial Group	—	(1,683)
Net cash used in investing activities	(9,049)	(12,192)
Cash flows from financing activities:		
Issuance of Series A preferred stock	9,431	(180)
Issuance of common stock	1,715	4,001
Issuance of senior notes	55,291	106,081
Series A preferred stock dividends paid	(25,987)	(25,523)
Common stock dividends paid	(5,380)	(6,377)
Repurchase and retirement of common stock	(10,873)	(8,746)
Borrowings on term loan	7,000	—
Bank loan and revolver repayments	(1,361)	(6,658)
Principal payments on notes payable	(231)	(15,209)

Net cash provided by financing activities	29,605	47,389
Net increase in cash and cash equivalents	62,523	96,560
Cash and cash equivalents including restricted cash, beginning of period	189,281	172,863
Cash and equivalents at end of period:		
Cash and cash equivalents	251,033	262,834
Restricted cash	771	6,589
Cash and cash equivalents including restricted cash, end of period	\$ 251,804	\$ 269,423

Supplemental cash flow information:

Interest paid	\$ 15,836	\$ 6,551
Taxes paid	1,940	2,786

Acquisition of certain assets of Kestler Financial Group:

Assets acquired	\$ —	\$ 7,917
Liabilities assumed	—	(784)
Net assets acquired	—	7,133
Promissory note	—	(5,450)
Net cash paid in acquisition	\$ —	\$ 1,683

See accompanying notes.

LADENBURG THALMANN FINANCIAL SERVICES INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited; Amounts 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, Triad Advisors ("Triad"), Investacorp, KMS Financial Services ("KMS"), Securities Service Network ("SSN"), Ladenburg Thalmann & Co. ("Ladenburg"), Ladenburg Thalmann Asset Management ("LTAM"), Premier Trust ("Premier Trust") and Highland Capital Brokerage ("Highland").

Securities America, Triad, Investacorp, KMS and SSN are registered investment advisors and broker-dealers that serve the independent financial advisor community. The independent financial advisors of these independent advisory and brokerage firms 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. Highland also provides marketing strategies, product expertise, and back-office processing for fixed and equity-indexed annuities.

Securities America's, Triad's, Investacorp's, KMS's, 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 is 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, 2018 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, 2018 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.

New Accounting Standards Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("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 Company adopted the provisions of Topic 842 on January 1, 2019, using the modified retrospective approach and the option presented under ASU 2018-11 to transition only active leases as of January 1, 2019. All comparative periods prior to January 1, 2019 are not adjusted and continue to be reported in accordance with Topic 840.

The Company elected to utilize the transition package of practical expedients permitted within the new standard, which among other things, allowed the Company to carryforward the historical lease classification. The Company made an accounting policy election to keep leases with an initial term of 12 months or less off the Company's Consolidated Statements of Financial Condition which resulted in recognizing those lease payments in the Consolidated Statements of Operations on a straight-line basis over the lease term. The Company did not elect the hindsight practical expedient when determining the lease terms.

Adoption of the new standard resulted in the recording of right-of-use assets and corresponding lease liabilities of \$36,522 and \$39,483, respectively, as of January 1, 2019. The difference between the right-of-use assets and the lease liabilities was recorded to eliminate existing deferred rent balances recorded under Topic 840. The adoption of the new standard did not materially impact the Company's Consolidated Statements of Operations and had no impact on the Company's Consolidated Statements of Cash Flows. The Company's current lease arrangements expire through 2030. See Note 4 for further information.

In June 2018, the FASB issued ASU 2018-07, Compensation - Stock Compensation: Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for share-based payments granted to nonemployees by aligning the accounting with the requirements for employee share-based compensation. ASU 2018-07 is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. The adoption of ASU 2018-07 was effective January 1, 2019 and did not have any impact on the consolidated financial statements.

Accounting Standards Issued, But Not Yet Effective

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU amends the requirement on the measurement and recognition of expected credit losses for financial assets held. The ASU is effective for annual periods beginning after December 15, 2019 and interim periods within those annual periods. Early adoption is permitted, but not earlier than annual and interim periods beginning after December 15, 2018. This amendment should be applied on a modified retrospective basis with a cumulative effect adjustment to retained earnings as of the beginning of the period of adoption. The Company is in the process of assessing the impact of this ASU on its 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 has not elected to early adopt ASU 2017-04. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Fair Value Measurement (Topic 820), Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurements. This ASU eliminates, adds and modifies certain disclosure requirements for fair value measurements.

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

The update eliminates the requirement to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, and introduces a requirement to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. This guidance will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019. The Company plans to adopt this new accounting standard on January 1, 2020. Adoption is not expected to have a material impact on the Company's consolidated financial statements and related disclosures.

2. Revenue from Contracts with Customers

The Company adopted ASU 2014-09 and all related amendments ("ASC 606"), effective January 1, 2018, using the modified retrospective method by recognizing the cumulative effect of initially applying ASC 606 as an adjustment to the opening balance of shareholders' equity and applied its provisions to all uncompleted contracts using the modified retrospective method. The Company recognized the cumulative effect of initially applying ASC 606 as an adjustment to increase the opening balance of retained earnings by \$24,109. During the fourth quarter of 2018, the Company determined that the deferred tax liability recorded on adoption of ASC 606 with respect to Highland was overstated, and the Company made an additional retained earnings adjustment of \$665 to correct this item as of January 1, 2018.

Performance Obligations

Revenue from contracts with customers is recognized when, or as, the Company satisfies its performance obligations by transferring promised goods or services to customers. A good or service is transferred to a customer when, or as, the customer obtains control of that good or service. A performance obligation may be satisfied over time or at a point in time. Revenue from a performance obligation satisfied at a point in time is recognized at the point in time that the Company determines the customer obtains control over the promised good or service. The amount of revenue recognized reflects the consideration to which the Company expects to be entitled in exchange for those promised goods or services. Revenues are also analyzed to determine whether the Company acts as the principal (i.e. reports revenue on a gross basis) or agent (i.e. reports revenue on a net basis) in the arrangement with the customer. Principal or agent designations depend primarily on the control an entity has over the product or service before control is transferred to a customer. The indicators of which party exercises control include primary responsibility over performance obligations, inventory risk before the good or service is transferred and discretion in establishing the price.

The following provides detailed information on the recognition of the Company's revenue from contracts with customers:

Broker-Dealer Commissions

The Company's broker-dealer subsidiaries earn commissions by executing client transactions in stocks, mutual funds, variable annuities and other financial products and services as well as from trailing commissions which are variable. Commissions revenue is recognized at the point of sale on the trade date when the performance obligation is satisfied. Commissions revenue is paid on settlement date, which is generally two business days after trade date for equities securities and corporate bond transactions and one business day for government securities and commodities transactions. The Company records a receivable on the trade date and receives a payment on settlement date. For trailing commissions, the performance obligation is satisfied at the time of the execution of the investments but the amount to be received for trailing commissions is uncertain, as it is dependent on the value of the investments at future points in time as well as the length of time the investor holds the investments, both of which are highly susceptible to variable factors outside the Company's influence. The Company does not believe that it can overcome this constraint until the market value of the investment and the investor activities are known, which are usually monthly or quarterly. The Company's Consolidated Statements of Operations reflects trailing commissions for services performed and performance obligations satisfied in previous periods and are recognized in the period that the constraint is overcome, when clients' investment holdings and their market values become known.

The Company's broker-dealer subsidiaries act as principal in satisfying the performance obligations that generate commissions revenue and maintain relationships with the product sponsors.

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

The Company's independent financial advisors assist the Company in performing its obligations. Accordingly, broker-dealer commissions revenue are presented on a gross basis.

Insurance Commissions

The Company's performance obligation with respect to each contract with its customer, the insurance carriers, is the sale of the insurance policies to clients. Insurance commissions revenue is received from insurance carriers and includes an initial up-front (first year) commission as well as annual trailing commission payments for each policy renewal. Commissions on insurance renewal premiums are considered variable consideration.

ASC 606 requires that, at the time of the initial sale of a policy, the Company must estimate the variable consideration (future renewal commissions) and determine the transaction price as the undiscounted sum of expected future renewal commissions to be received from the insurance carriers.

Therefore, the transaction price includes the first-year fixed commission and the variable consideration for the trailing commissions, estimated using the expected value method and a portfolio approach. The Company also estimates a reduction of the transaction price for possible future chargebacks from the carriers. The Company acts as principal in its relationship with the insurance carriers and receives commissions revenue for the sale of insurance products for the insurance carriers. The Company's financial advisors assist the Company in performing its obligations and act as an agent for the Company. Accordingly, the Company presents the first-year and trailing commissions revenue on a gross basis when each policy is bound as an enforceable contract.

Advisory Fees

Advisory fee revenue represents fees charged by registered investment advisors ("RIAs") to their clients based upon the value of client assets under management ("AUM"). The Company records fees charged to clients as advisory fees where the Company considers itself to be the primary RIA. The Company determined that the primary RIA firm is the principal in providing advisory services to clients and will therefore recognize the corresponding advisory fee revenues on a gross basis when the advisory services are conducted using the Company's corporate RIA platform.

As a result, the portion of the advisory fees paid to the client's independent financial advisor are classified as commissions and fees expense in the consolidated statements of operations.

Certain independent financial advisors conduct their advisory business through their own RIA firm, rather than using one of the Company's corporate RIA subsidiaries. These independent entities, or Hybrid RIAs, engage the Company for clearing, regulatory and custody services, as well as for access to investment advisory platforms. The advisory fee revenue generated by these Hybrid RIAs is earned by the independent financial advisors, and is not included in the Company's advisory fee revenues. However, the Company charges separate fees to Hybrid RIAs for technology, custody and administrative services based on the AUM within the client's accounts. These fees are recognized on a net basis and classified as advisory fees in the consolidated statements of operations. Accordingly, reported advisory revenue growth may lag behind the overall growth rate of advisory assets.

Investment Banking

Investment banking revenues consist of underwriting revenue, strategic advisory revenue and private placement fees.

Underwriting

The performance obligation is the consummation of the sale of securities for each contract with a customer. The transaction price includes fixed management fees and is recognized as revenue when the performance obligation is satisfied, generally the trade date. Where Ladenburg is the lead underwriter, revenue and expenses are first allocated to other members of a syndicate because Ladenburg is acting as an agent for the syndicate. Accordingly, the Company records revenue on a net basis. When Ladenburg is not the lead underwriter, Ladenburg recognizes its share of revenue and expenses on a gross basis, because Ladenburg is acting as the principal.

Strategic Advisory Services

Performance obligations in these arrangements vary dependent on the contract, but are typically satisfied upon

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

completion of the arrangement. Transaction fees may include retainer, management, and/or success fees, which are recognized upon completion of a deal. Ladenburg controls the service as it is transferred to the customer, and is therefore acting as a principal. Accordingly, the Company records revenues and out-of-pocket reimbursements on a gross basis.

Private Placement

The performance obligation is the consummation of the sale of securities for each contract with a customer. The transaction price includes fixed management fees and is recognized as revenue when the performance obligation is satisfied, generally the trade date. Ladenburg controls the service as it is transferred to the customer, and is therefore acting as a principal. Accordingly, the Company records revenues and out-of-pocket reimbursements on a gross basis.

Service Fees

Service fees primarily include (1) amounts charged to independent financial advisors for securities trades and for providing administrative and compliance services; and (2) fees earned for arranging the cash sweep programs between the customers and the third-party banks, in which customers' cash deposits in their brokerage accounts at the customers' direction are swept into interest-bearing FDIC-insured deposit accounts at various third-party banks.

The service fees charged to independent financial advisors are recognized when the Company satisfies its performance obligations. Transaction revenues for the processing of securities trades are recognized at the point-in-time that a transaction is executed, which is generally the trade date. Fees charged to advisors for providing administrative and compliance services are either recognized at a point-in-time to over time depending on whether the service is provided at an identifiable point-in-time or if the service is provided continually over the the year. The cash sweep fees are earned and recognized over the period of the clients' participation in these programs.

Other Income

The Company receives fees from distributors of certain products sold by financial advisors affiliated with the Company's independent advisory and brokerage subsidiaries. These fees are for marketing support and sales force education and training efforts. Compensation for these performance obligations is generally calculated as a fixed fee, as a percentage of the average annual amount of product sponsor assets held in advisors' clients' accounts, as a percentage of new sales, or a combination. As the value of product sponsor assets held in advisor's clients' accounts is susceptible to unpredictable market changes, fees based on asset levels or sales include variable consideration and are constrained until the date that the fees are determinable. The Company is the principal in these arrangements as it is responsible for and determines the level of servicing and marketing support it provides to the product sponsors.

In addition, the Company's independent advisory and brokerage subsidiaries host certain advisor conferences that serve as training, education, sales, and marketing events, for which a fee may be charged for attendance to advisors and product sponsors. Recognition is at a point-in-time when the conference is held and the Company satisfies its performance obligations.

Disaggregation of Revenue

In the following table, revenue is disaggregated by service line and segment:

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

For the Three Months Ended September 30, 2019	Independent Advisory and Brokerage Services	Ladenburg	Insurance Brokerage	Corporate	Total
Commissions	\$ 133,904	\$ 2,087	\$ 44,404	\$ —	\$ 180,395
Advisory fees	130,464	2,299	—	—	132,763
Investment banking	238	18,454	—	—	18,692
Principal transactions	7	(237)	—	(28)	(258)
Interest and dividends	650	263	—	561	1,474
Service fees	30,318	551	—	268	31,137
Other income	9,623	102	510	94	10,329
Total revenues	\$ 305,204	\$ 23,519	\$ 44,914	\$ 895	\$ 374,532

For the Three Months Ended September 30, 2018	Independent Advisory and Brokerage Services	Ladenburg	Insurance Brokerage	Corporate	Total
Commissions	\$ 137,054	\$ 2,590	\$ 32,464	\$ —	\$ 172,108
Advisory fees	122,848	1,644	—	58	124,550
Investment banking	129	10,038	—	(185)	9,982
Principal transactions	(2)	48	—	(1)	45
Interest and dividends	700	185	—	549	1,434
Service fees	27,868	635	—	199	28,702
Other income	11,418	40	496	100	12,054
Total revenues	\$ 300,015	\$ 15,180	\$ 32,960	\$ 720	\$ 348,875

For the Nine Months Ended September 30, 2019	Independent Brokerage and Advisory Services	Ladenburg	Insurance Brokerage	Corporate	Total
Commissions	\$ 396,949	\$ 7,161	\$ 122,966	\$ —	\$ 527,076
Advisory fees	366,916	5,748	—	—	372,664
Investment banking	584	39,476	—	—	40,060
Principal transactions	19	1,403	—	(151)	1,271
Interest and dividends	1,964	789	—	1,265	4,018
Service fees	93,237	1,716	—	774	95,727
Other income	30,355	470	1,723	203	32,751
Total revenues	\$ 890,024	\$ 56,763	\$ 124,689	\$ 2,091	\$ 1,073,567

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

For the Nine Months Ended September 30, 2018	Independent Brokerage and Advisory Services	Ladenburg	Insurance Brokerage	Corporate	Total
Commissions	\$ 407,159	\$ 8,739	\$ 99,877	\$ —	\$ 515,775
Advisory fees	356,051	5,352	—	168	361,571
Investment banking	558	38,497	—	(854)	38,201
Principal transactions	5	433	—	7	445
Interest and dividends	1,854	420	—	1,027	3,301
Service fees	78,780	1,822	—	587	81,189
Other income	30,608	351	2,068	2,506	35,533
Total revenues	\$ 875,015	\$ 55,614	\$ 101,945	\$ 3,441	\$ 1,036,015

Contract Balances

For each of its insurance policies, the Company receives an initial up-front (first year) commission as well as annual trailing commission payments for each policy renewal. The Company will incur commission expenses related to the trailing commission payments for each policy renewal as well. The timing of revenue recognition, cash collections, and commission expense on the insurance policies results in contract assets and contract liabilities.

The following table provides information about contract assets and contract liabilities from contracts with customers. Estimated trailing commissions are included in insurance trailing commissions receivable, net while estimated expenses on trailing commissions are included in commissions and fees payable on the condensed consolidated statement of financial condition:

	As of September 30, 2019	As of December 31, 2018
Contract assets - Insurance trailing commissions	\$ 67,290	\$ 64,300
Contract liabilities - Insurance trailing commissions	32,630	31,854

Performance obligations related to insurance brokerage revenue are considered satisfied when the sale of the initial insurance policies are completed, including expected future trailing commissions due to the Company each year upon customer renewals of the policies sold. Upon receipt of the annual trailing commission, the Company pays a corresponding commission expense. Based on historical data, customer renewal periods are estimated at approximately eight years from the sale of the initial policy.

Increases to the contract asset were a result of \$7,461 and \$20,256 in estimated trailing commissions from new policies during the three and nine months ended September 30, 2019, respectively, while decreases were driven by \$5,541 and \$17,266 in actual commissions received during the three and nine months ended September 30, 2019, respectively. Increases to the contract liability were a result of \$3,276 and \$9,583 in estimated commission expense from new policies during the three and nine months ended September 30, 2019, respectively, while decreases were driven by \$2,812 and \$8,807 in actual commissions paid during the three and nine months ended September 30, 2019, respectively.

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

Costs to Obtain a Contract with a Customer

The Company capitalizes the incremental costs of obtaining a contract with a customer (independent financial advisor) if the costs (1) relate directly to an existing contract or anticipated contract, (2) generate or enhance resources that will be used to satisfy performance obligations in the future, and (3) are expected to be recovered. These costs are included in contract acquisition costs, net in the condensed consolidated statements of financial condition and are amortized over the estimated customer relationship period.

The Company uses an amortization method that is consistent with the pattern of transfer of goods or services to its customers. Any costs that are not incremental costs of obtaining a contract with a customer, such as costs of onboarding, training and support of independent financial advisors, would not qualify for capitalization.

The Company pays fees to third-party recruiters and bonuses to employees for recruiting independent financial advisors, and thereby bring their customers' accounts to the Company, which generates ongoing advisory fee revenue, commissions revenue, and monthly service fee revenue to the Company.

An additional cost to obtain an independent financial advisor may include forgivable loans. Forgivable loans take many forms, but they are differentiated by the fact that at inception the loan is intended to be forgiven over time by the Company. The loans are given as an inducement to attract independent financial advisors to become affiliated with the Company's independent advisory and brokerage subsidiaries. Each of the Company's independent advisory and brokerage subsidiaries may offer new independent financial advisors a forgivable loan as part of his/her affiliation offer letter. These amounts are paid upfront and are capitalized, then amortized over the expected useful lives of the independent financial advisor's relationship period with the independent advisory and brokerage firm.

The balance of contract acquisition costs, net, was \$86,520 as of September 30, 2019, an increase of \$5,794 compared to December 31, 2018. Amortization on these contract acquisition costs was \$8,639 during the nine months ended September 30, 2019. There were no impairments or changes to underlying assumptions related to contract acquisition costs, net, for the period.

Transaction Price Allocated to Remaining Performance Obligation

Contract liabilities represent accrued commission expense associated with the accrued insurance trailing commission contract assets. The Company does not have any contract liabilities representing revenues that will be recognized in future periods upon the satisfaction of any remaining performance obligations.

3. 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; Amounts in thousands, except share and per share amounts)

The following tables present the carrying values and estimated fair values at September 30, 2019 and December 31, 2018 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.

September 30, 2019				
<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	\$ 251,033	\$ 251,033	\$ —	\$ 251,033
Receivables from clearing brokers	27,835	—	27,835	27,835
Receivables from other broker-dealers	5,597	—	5,597	5,597
Notes receivables, net ⁽¹⁾	7,459	—	7,459	7,459
Other receivables, net	67,419	—	67,419	67,419
Insurance trailing commissions receivable	67,290	—	67,290	67,290
	\$ 426,633	\$ 251,033	\$ 175,600	\$ 426,633
<u>Liabilities</u>				
Accrued compensation	\$ 36,871	\$ —	\$ 36,871	\$ 36,871
Commissions and fees payable	106,004	—	106,004	106,004
Accounts payable and accrued liabilities ⁽²⁾	34,677	—	34,677	34,677
Accrued interest	—	—	—	—
Notes payable, net ⁽³⁾	315,898	—	333,145	333,145
	\$ 493,450	\$ —	\$ 510,697	\$ 510,697

(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 present value amount.

(2) Excludes contingent consideration liabilities of \$2,520.

(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; Amounts in thousands, except share and per share amounts)

December 31, 2018

Assets	Carrying Value	Level 1	Level 2	Total Estimated Fair Value
Cash and cash equivalents	\$ 182,693	\$ 182,693	\$ —	\$ 182,693
Receivables from clearing brokers	24,068	—	24,068	24,068
Receivables from other broker-dealers	7,078	—	7,078	7,078
Notes receivables, net ⁽¹⁾	5,809	—	5,809	5,809
Other receivables, net	68,942	—	68,942	68,942
Insurance trailing commissions receivable	64,300	—	64,300	64,300
	\$ 352,890	\$ 182,693	\$ 170,197	\$ 352,890
Liabilities				
Accrued compensation	\$ 39,264	\$ —	\$ 39,264	\$ 39,264
Commissions and fees payable	105,306	—	105,306	105,306
Accounts payable and accrued liabilities ⁽²⁾	46,511	—	46,511	46,511
Accrued interest	123	—	123	123
Notes payable, net ⁽³⁾	254,072	—	266,844	266,844
	\$ 445,276	\$ —	\$ 458,048	\$ 458,048

(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 \$2,230.

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

The following tables present the financial assets and liabilities measured at fair value on a recurring basis at September 30, 2019 and December 31, 2018:

September 30, 2019

Assets	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Certificates of deposit	\$ 289	\$ 289	\$ —	\$ —	\$ 289
Debt securities	627	—	627	—	627
U.S. treasury notes	711	—	711	—	711
Common stock and warrants	2,974	326	2,648	—	2,974
Total	\$ 4,601	\$ 615	\$ 3,986	\$ —	\$ 4,601
Liabilities					
Contingent consideration payable	\$ 2,520	\$ —	\$ —	\$ 2,520	\$ 2,520
Debt securities	29	—	29	—	29
Common stock and warrants	6	6	—	—	6
Total	\$ 2,555	\$ 6	\$ 29	\$ 2,520	\$ 2,555

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

December 31, 2018					
Assets	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Certificates of deposit	\$ 426	\$ 426	\$ —	\$ —	\$ 426
Debt securities	1,447	—	1,447	—	1,447
U.S. treasury notes	794	—	794	—	794
Common stock and warrants	8,256	7,070	1,186	—	8,256
Total	\$ 10,923	\$ 7,496	\$ 3,427	\$ —	\$ 10,923
Liabilities					
Contingent consideration payable	\$ 2,230	\$ —	\$ —	\$ 2,230	\$ 2,230
Debt securities	196	—	196	—	196
Common stock and warrants	2,379	2,379	—	—	2,379
Total	\$ 4,805	\$ 2,379	\$ 196	\$ 2,230	\$ 4,805

As of September 30, 2019 and December 31, 2018, approximately \$3,599 and \$9,763, 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 September 30, 2019 and December 31, 2018, the fair values of the warrants were \$959 and \$1,052, 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 (the "Securities Act"), 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; Amounts in thousands, except share and per share amounts)

Fair value of contingent consideration as of December 31, 2017	\$	2,104
Payments		(1,353)
Change in fair value of contingent consideration		238
Fair value of contingent consideration in connection with KFG and FSFG acquisitions		1,241
Fair value of contingent consideration as of December 31, 2018	\$	2,230
Change in fair value of contingent consideration		290
Fair value of contingent consideration as of September 30, 2019	\$	2,520

4. Leases

The Company's lease agreements primarily cover office facilities and equipment and expire at various dates. The Company's leases are predominantly operating leases, which are included in right-of-use assets and lease liabilities on the Company's Condensed Consolidated Statements of Financial Condition. The Company's current lease arrangements expire from 2019 through 2030, some of which include options to extend or terminate the lease. However, the Company in general is not reasonably certain to exercise options to renew or terminate, and therefore renewal and termination options are not considered in the lease term or the right-of-use asset and lease liabilities balances.

The Company's lease population does not include any residual value guarantees, and therefore none were considered in the calculation of the lease balances. The Company has leases with variable payments, most commonly in the form of common area maintenance charges which are based on actual costs incurred. These variable payments were excluded from the right-of-use asset and lease liability balances since they are not fixed or in-substance fixed payments. Leases with variable rate adjustments, such as Consumer Price Index (CPI) adjustments, were reflected based on contractual lease payments as outlined within the lease agreement and not adjusted for any CPI increases or decreases. The Company has lease agreements with lease and non-lease components. The Company has elected the practical expedient to account for lease and non-lease components as a single lease component.

For leases with terms greater than 12 months, right-of-use assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the lease term. The discount rate used to determine the commencement date present value of lease payments is the interest rate implicit in the lease, or when that is not readily determinable, the Company utilizes its incremental borrowing rate. Our lease agreements generally do not provide a readily determinable implicit rate nor is it available to us from our lessors. Instead, the Company estimates the Company's incremental borrowing rate based on information available at either the implementation date of Topic 842 or at lease commencement for leases entered into thereafter in determining the present value of future payments. Lease expense for net present value of payments is recognized on a straight-line basis over the lease term. Leases with an initial term of 12 months or less with purchase options or extension options that are not reasonably certain to be exercised are not recorded on the Condensed Consolidated Statements of Financial Condition; the Company recognizes lease expense for these leases on a straight-line basis over the term of the lease.

Lease cost. The Company's components of lease cost for the three and nine months ended September 30, 2019 were as follows:

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

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
Operating lease cost	\$ 2,346	\$ 7,106
Short-term lease cost	89	146
Variable lease cost	194	676
Amortization of finance lease assets	31	91
Interest on finance lease liabilities	2	6
Sublease income	(25)	(74)
Total lease cost	\$ 2,637	\$ 7,951

Lease commitments. The table below summarizes the Company's scheduled future minimum lease payments under operating and finance leases, recorded on the Condensed Consolidated Statements of Financial Condition as of September 30, 2019:

	Operating and Finance Leases	
Remainder of 2019	\$	2,344
2020		8,218
2021		6,114
2022		5,339
2023		3,903
Thereafter		15,750
Total lease payments		41,668
Less imputed interest		(6,870)
Present value of lease payments	\$	34,798

As of September 30, 2019, the Company has additional operating leases, primarily for additional office space at Securities America, that have not yet commenced.

In connection with an office lease entered into in March 2016, Securities America has exercised an option to lease additional office space, which is under construction, for 2 years and would require the payment of an estimated average annual rent of \$1,700 plus operating expenses, subject to certain adjustments. The Company currently expects that this lease would commence in 2020 upon completion of the construction. Such estimated rent amounts are not included in the total minimum lease payments above.

The table below presents additional information related to our leases as of September 30, 2019:

Weighted Average Remaining Lease Term:	
Operating leases	7.04 years
Weighted Average Discount Rate:	
Operating leases	4.42 %

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

Supplemental cash flow information. The table below presents supplemental cash flow information related to leases during the nine months ended September 30, 2019:

	Nine months ended September 30, 2019	
Cash paid for amounts included in measurement of lease liabilities:		
Operating cash flows from operating and finance leases	\$	8,280

Non-cash investing and financing activities. The Right-of-use assets obtained in exchange for lease obligations during the nine months ended September 30, 2019 was:

	Nine months ended September 30, 2019	
Operating and finance leases	\$	6,861

Subleases and lessor activity. The Company had rental income from subleasing activity during the period ended September 30, 2019 which was immaterial to the Company's consolidated financial statements.

5. Intangible Assets

At September 30, 2019 and December 31, 2018, intangible assets subject to amortization consisted of the following:

	Weighted-Average Estimated Useful Life (years)	September 30, 2019		December 31, 2018	
		Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Technology	7.9	\$ 25,563	\$ 23,774	\$ 25,563	\$ 22,187
Relationships with financial advisors	14.3	126,122	67,430	126,122	59,584
Covenants not-to-compete	3.8	6,964	6,610	6,964	6,258
Trade names	7.7	16,921	14,860	16,916	14,472
Total		\$ 175,570	\$ 112,674	\$ 175,565	\$ 102,501

Aggregate amortization expense for the nine months ended September 30, 2019 and 2018 amounted to \$10,173 and \$11,552, respectively. The weighted-average amortization period for total amortizable intangibles at September 30, 2019 is 9.81 years. As of September 30, 2019, the remaining estimated amortization expense for each of the five succeeding years or remaining period of such, and thereafter is as follows:

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

Remainder of 2019	\$	2,898
2020		11,466
2021		6,628
2022		6,555
2023		6,217
2024 - 2036		29,132
	\$	<u>62,896</u>

6. Notes Receivable from Financial Advisors

From time to time, the Company's subsidiaries may make loans to their financial advisors. The notes receivable balance is comprised of unsecured non-interest-bearing and interest-bearing loans (interest of up to 10.0%) to the financial advisors. These notes have various schedules for repayment or forgiveness and mature at various dates through 2026.

The notes are amortized over the forgiveness period, which generally ranges from 3 to 5 years. Receivables are continually evaluated for collectability and possible write-offs and an allowance for doubtful accounts is provided where a loss is considered probable. As of September 30, 2019 and December 31, 2018, the allowance amounted to \$1,585 and \$1,528, respectively.

7. 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, SSN and Ladenburg has elected to compute its net capital under the alternative method allowed by this rule, and at September 30, 2019, each, had a \$250 minimum net capital requirement.

At September 30, 2019, Securities America had regulatory net capital of \$15,375, Triad had regulatory net capital of \$9,690, Investacorp had regulatory net capital of \$8,657, KMS had regulatory net capital of \$7,534, SSN had regulatory net capital of \$6,618 and Ladenburg had regulatory net capital of \$23,428.

Each of Securities America, Triad, Investacorp, KMS, SSN and Ladenburg claim exemptions from the provisions of the SEC's Rule 15c3-3 pursuant to paragraphs (k)(2)(i) and (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 September 30, 2019, Premier Trust had stockholders' equity of \$4,826, including at least \$250 in cash.

8. 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 September 30, 2019, the estimated annual effective tax rate for 2019 (exclusive of discrete items) is approximately 28% of projected pre-tax income. Our estimated annual tax expense consists of a provision for federal and state and local income taxes.

For the three and nine months ended September 30, 2019, the Company recorded an income tax expense of \$4,020 on pre-tax income of \$15,297 and an income tax expense of \$7,421 on a pre-tax income of \$29,638. The estimated annual effective tax rate is higher than the statutory rate of 21% related primarily to state and local taxes and certain non-deductible expenses including meals and entertainment and IRC §162(m).

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

For the three and nine months ended September 30, 2018, the Company recorded an income tax expense of \$3,207 on a pre-tax income of \$12,657 and an income tax expense of \$9,953 on a pre-tax income of \$34,177.

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. As of September 30, 2019, the Company concluded that its deferred tax assets were realizable on a more-likely-than-not basis with the exception of certain separate company state net operating losses.

On January 1, 2018, the Company adopted ASC 606. Upon adoption, the Company recorded a net deferred tax liability of \$3,600 with an offset to retained earnings. During the fourth quarter of 2018, the Company determined that the deferred tax liability recorded on adoption of ASC 606 with respect to Highland was overstated, and the Company made an additional retained earnings adjustment of \$665 to correct this item as of January 1, 2018. As such, the net deferred tax liability related to ASC 606 is \$2,935.

9. Notes Payable

Notes payable consisted of the following:

	September 30, 2019	December 31, 2018
Note payable under subsidiary's term loan with bank	\$ 5,728	\$ —
Note payable under subsidiary's revolver with bank	—	89
Notes payable to Kestler Financial Group's former shareholders	5,242	5,399
Notes payable to Four Seasons Financial Group's former shareholders	290	364
6.5% Senior Notes, net of \$61 and \$67 of unamortized discount in 2019 and 2018, respectively	82,748	82,742
7% Senior Notes, net of \$41 and \$44 of unamortized discount in 2019 and 2018, respectively	42,479	42,475
7.25% Senior Notes	60,000	60,000
7.75% Senior Notes	57,500	—
7.25% December 2018 Notes, net of \$5,779 and \$6,261 of unamortized discount in 2019 and 2018, respectively	70,571	70,089
Less: Unamortized debt issuance costs	(8,660)	(7,086)
Total	\$ 315,898	\$ 254,072

The Company estimates that the fair value of notes payable was \$33,145 at September 30, 2019 and \$266,844 at December 31, 2018 based on then current interest rates at which similar amounts of debt could then be borrowed (Level 2 inputs). As of September 30, 2019, the Company was in compliance with all covenants in its debt agreements.

Senior Notes

On November 21, 2017, the Company sold \$72,500 principal amount of its 6.5% senior notes due November 2027 ("6.5% Senior Notes") pursuant to an underwritten offering. Interest on the 6.5% Senior Notes accrues from November 21, 2017 and is paid quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The Company may redeem the 6.5% Senior Notes in whole or in part on or after November 30, 2020, at its option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest.

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

On December 12, 2017, the underwriters exercised their option to purchase an additional \$4,069 principal amount of the 6.5% Senior Notes, which resulted in total gross proceeds of \$76,569, before deducting the underwriting discount paid to unaffiliated underwriters and offering expenses aggregating \$3,313, including \$1,187 of brokerage commissions earned by employees of Ladenburg, which served as the lead underwriter in the offering. In connection with the offering of 6.5% Senior Notes, certain members of the Company's management and Board of Directors purchased \$10,400 of the 6.5% Senior Notes offered by the Company. In February 2018, the Company entered into a note distribution agreement under which the Company may sell up to \$25,000 principal amount of additional 6.5% Senior Notes from time to time in an "at the market" offering in accordance with Rule 415 under the Securities Act. Ladenburg is acting as the representative of the agents named in the note distribution agreement in the "at the market" offering and may receive commissions of up to 2% of gross sales. During 2018, the Company sold \$6,240 principal amount of 6.5% Senior Notes pursuant to the "at the market" offering. The Company did not sell any 6.5% Senior Notes pursuant to the "at the market" offering during the nine months ended September 30, 2019.

On May 22, 2018, the Company sold \$40,000 principal amount of its 7% senior notes due May 2028 ("7% Senior Notes") pursuant to an underwritten offering. Interest on the 7% Senior Notes accrues from May 30, 2018 and is paid quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The Company may redeem the 7% Senior Notes in whole or in part on or after May 31, 2021, at its option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest. On June 22, 2018, the underwriters exercised their option to purchase an additional \$1,412 principal amount of the 7% Senior Notes, which resulted in total gross proceeds of \$41,412, before deducting the underwriting discount paid to unaffiliated underwriters and offering expenses aggregating \$2,020, including \$464 of brokerage commissions earned by employees of Ladenburg, which served as the lead underwriter in the offering. In June 2018, the Company entered into a note distribution agreement under which the Company may sell up to \$25,000 principal amount of additional 7% Senior Notes from time to time in an "at the market" offering. Ladenburg is acting as the representative of the agents named in the note distribution agreement in the "at the market" offering and may receive commissions of up to 2% of gross sales. During 2018, the Company sold \$2,729 principal amount of 7% Senior Notes pursuant to the "at the market" offering. The Company did not sell any 7% Senior Notes pursuant to the "at the market" offering during the nine months ended September 30, 2019. At September 30, 2019, Ladenburg held \$1,622 of 7% Senior Notes, which are not included in notes payable.

On August 9, 2018, the Company sold \$60,000 principal amount of its 7.25% senior notes due September 2028 ("7.25% Senior Notes") pursuant to an underwritten offering. Interest on the 7.25% Senior Notes accrues from August 16, 2018 and is paid quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The Company may redeem the 7.25% Senior Notes in whole or in part on or after September 30, 2021 at its option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest. The offering resulted in total gross proceeds of \$60,000, before deducting the underwriting discount paid to unaffiliated underwriters and offering expenses aggregating \$2,135, including \$120 of brokerage commissions earned by employees of Ladenburg, which served as one of the five underwriters in the offering.

On May 29, 2019, the Company sold \$57,500 principal amount of its 7.75% senior notes due June 2029 ("7.75% Senior Notes") pursuant to an underwritten offering. Interest on the 7.75% Senior Notes accrues from May 29, 2019 and is paid quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The Company may redeem the 7.75% Senior Notes in whole or in part on or after June 30, 2022 at its option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest. The offering resulted in total gross proceeds of \$57,500, before deducting the underwriting discount paid to unaffiliated underwriters and offering expenses aggregating \$2,068.

Promissory Note - KFG

On August 31, 2018, as part of the consideration paid for the acquisition of Kestler Financial Group ("KFG"), the Company issued a promissory note (the "KFG Note") to the former shareholders of KFG in the aggregate principal amount of \$5,450, bearing interest at 4.00% per annum and payable in equal monthly installments beginning on September 15, 2018, with the final installment being due and payable on or before November 15, 2036. The KFG Note may be prepaid in full or in part at any time without premium or penalty. The KFG Note contains customary events of default, which if uncured, entitle the holder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the KFG Note.

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

Promissory Note - FSFG

In November 2018, as part of the consideration paid for the acquisition of Four Seasons Financial Group ("FSFG"), Highland issued two promissory notes (the "FSFG Notes") to the former shareholders of FSFG in the aggregate principal amount of \$372, one bearing interest at 3.99% per annum and payable in equal monthly installments beginning on November 1, 2018, with the final installment being due and payable on or before October 1, 2021 and the other bearing interest at 4.75% per annum and payable in equal monthly installments beginning on November 15, 2018, with the final installment being due and payable on or before January 15, 2024. The FSFG Notes may be prepaid in full or in part at any time without premium or penalty. The FSFG Notes contains customary events of default, which if uncured, entitle the holder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the FSFG Notes.

Promissory Notes - December 2018 Notes

On December 24, 2018, the Company entered into an agreement (the "Repurchase Agreement") with its former principal shareholder, Phillip Frost, M.D., and an entity affiliated with Dr. Frost, Frost Nevada Investments Trust (together with Dr. Frost, the "Sellers"), pursuant to which the Company agreed to repurchase 50,900,000 shares of its common stock directly from the Sellers (the "Share Repurchase") in a private transaction at a price of \$2.50 per share. The Company funded the Share Repurchase with \$50,900 in cash on hand and by issuing \$76,350 in aggregate principal amount of 7.25% Senior Notes due 2028 (the "December 2018 Notes") to the Sellers. Also, under the Repurchase Agreement, options to purchase 3,610,000 shares of the Common Stock held by Dr. Frost were cancelled in exchange for \$3,000 in cash.

The December 2018 Notes are senior unsecured obligations of the Company and rank equally in right of payment with all of the Company's existing and future senior unsecured and unsubordinated indebtedness. The December 2018 Notes are effectively subordinated in right of payment to all of the Company's existing and future secured indebtedness and structurally subordinated to all existing and future indebtedness of the Company's subsidiaries. The December 2018 Notes bear interest from December 24, 2018 at the rate of 7.25% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on March 31, 2019, and at maturity. The December 2018 Notes mature on September 30, 2028.

The Company may, at its option, at any time and from time to time, on or after September 30, 2021, redeem the December 2018 Notes, in whole or in part, at a redemption price equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest to, but excluding, the date fixed for redemption. On and after any redemption date, interest will cease to accrue on the redeemed December 2018 Notes.

The December 2018 Notes contain exchange and resale registration rights that require the Company, at the written request of the note holders, to use commercially reasonable efforts to issue in exchange for the December 2018 Notes a new series of notes under our existing Indenture, dated as of November 21, 2017, as amended and supplemented from time to time, on substantially the same terms as the Company's outstanding publicly-traded 7.25% Senior Notes due 2028, which have substantially the same terms as the December 2018 Notes, effect the registration with the Securities and Exchange Commission of the resale and listing of the December 2018 Notes on the NYSE American, and assist in marketing the December 2018 Notes for resale. The Company has received such written request from the note holders regarding the exchange and resale registration rights.

Bank Loan - Securities America

On February 6, 2019, Securities America Financial Corporation entered into an amendment to its loan agreement with a third-party financial institution to provide for a term loan in the aggregate principal amount of \$7,000, with interest accruing at the rate of 5.52%. Securities America began monthly payments of principal and interest under the term loan in the amount of \$212 on March 6, 2019. The term loan matures on February 6, 2022. The loan is collateralized by Securities America's assets. The loan agreement contains certain affirmative and negative covenants, including covenants regarding Securities America's client asset levels and number of financial advisors. Total interest expense related to the term loan was \$210 for the nine months ended September 30, 2019. At September 30, 2019, \$5,728 was outstanding under the term loan.

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

10. 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. In August 2017, the court granted the plaintiffs’ motion for class certification. In September 2019 the parties entered into a stipulation of settlement that provides for resolution of the matter with no contribution from Ladenburg or the other underwriter defendants. In October 2019, the court entered an order granting preliminary approval to the settlement. A final hearing seeking court approval of the settlement agreement is scheduled for January 2020. In the event that the lawsuit proceeds, Ladenburg intends to vigorously defend against these claims.

In November 2015, two purported class action complaints were filed in state court in Tennessee against Miller Energy Resources, Inc. (“Miller”), officers, directors, auditors and nine firms that underwrote six securities offerings in 2013 and 2014, which offerings 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. In August 2017, the court granted in part and denied in part the underwriters’ motion to dismiss the complaint. The plaintiffs’ motions for class certification and to remand the case to state court are pending. Ladenburg intends to vigorously defend against these claims.

SEC examination 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 (including the requirement to seek best execution) 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 SEC 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 completed restitution to its affected clients in 2016.

On April 6, 2018, the SEC issued an order against Securities America Advisors on consent that includes a cease and desist order and imposes remedial sanctions of disgorgement, prejudgment interest, and a fine; the combined total amount is \$5,828, which had previously been reserved. Securities America Advisors has completed its distribution of the funds pursuant to the terms of the order.

In February 2018, the SEC announced a Share Class Selection Disclosure Initiative (“Initiative”) to encourage registered investment advisory firms to self-report failures to disclose conflicts of interest to clients concerning the selection of mutual fund share classes that paid fees pursuant to Rule 12b-1 of the Investment Company Act of 1940 for the period 2014-2016. Under the Initiative, the SEC requires self-reporting firms, among other things, to disgorge to clients the 12b-1 fees received during the relevant period when lower-cost share classes were available. Three of the Company’s investment advisory subsidiaries determined to self-report under the Initiative. On March 11, 2019, the SEC issued orders on consent against SSN Advisory, Inc. and Investacorp Advisory Services, Inc. that include cease and desist orders and impose remedial sanctions of disgorgement and prejudgment interest; the combined total amount is \$2,149, which had previously been reserved. The matter was closed as to the third investment advisory subsidiary without formal action. SSN Advisory, Inc. and Investacorp Advisory Services, Inc. are paying out the funds pursuant to the terms of the orders.

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

Two arbitration claims were filed against Securities America in June and September 2018, and one complaint was filed in the United States District Court for the Southern District of New York in February 2019, by a total of 14 customers asserting that a former registered representative of Securities America defrauded them through, among other things, the use of improper wire transfers and false account documents. The customers asserted, among other claims, claims for fraud, negligence, §10(b) violations, failure to supervise, respondeat superior, breach of fiduciary and other duties. In November and December 2018, settlements were reached resolving the two arbitration claims; the amounts paid in connection with those two claims were not material. Securities America has moved to compel arbitration of the complaint, which asserts a total of \$18,000 in compensatory damages.

In August and September 2019, four purported class action complaints were filed in Florida courts, three in state court and one in federal court, against Greenlane Holdings, Inc. ("Greenlane"), as well as its officers, directors, and five underwriters of Greenlane's initial public offering in April 2019, which raised approximately \$110,000. Ladenburg was one of the five underwriters. The complaints allege, among other things, that the offering materials were misleading based on the failures to disclose risks that Greenlane, a large distributor of JUUL electronic cigarette products, faces from initiatives in several large cities to limit or ban the manufacture and/or sale of electronic cigarette products. The complaints also allege 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. The three state court cases have been consolidated and an amended complaint is expected to be filed by December 2019. Ladenburg intends to vigorously defend against these claims.

From July to October 2019, six customers filed arbitration claims against Triad, asserting, among other things, that Triad was negligent in permitting Triad's registered representatives to solicit investments in private placements offered by GPB Capital Holdings, because of purported excessive risk and unsuitability. The customers assert, among other claims, claims for negligence, breach of contract, failure to supervise, and breach of fiduciary duty. Total compensatory damages sought for investments in GPB Capital Holdings that occurred at Triad are approximately \$1,650. Also, a purported class action lawsuit was filed in United States District Court for the Western District of Texas in October 2019 against GPB Capital Holdings, and a number of other defendants including its founder, distributing broker-dealer, auditor, fund administrator and 76 broker-dealers that offered its funds, including Triad. The lawsuit alleges, among other things, fraud, breach of fiduciary duty, negligence, and violations of the Texas Securities Act in connection with sales of private placements offered by GPB Capital Holdings. Damages are unspecified. Triad has not yet been served with the lawsuit. Triad intends to vigorously defend against all of these matters.

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.

The Company had accrued liabilities in the amount of approximately \$3,718 at September 30, 2019 and \$9,869 at December 31, 2018 for certain pending matters which are included in accounts payable and accrued liabilities. Amounts accrued are based on judgment and currently available information and involve a variety of factors, including, but not limited to, the type and nature of the litigation, claim or proceeding, the progress of the matter, advice of counsel, available defenses, potential recoveries from other parties, experience in similar cases of proceedings, as well as assessment of matters, including settlements, involving other defendants in similar or related cases of proceedings. During the three and nine months ended September 30, 2019, the Company charged \$444 and \$1,812, 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.

11. 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.

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

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 two clearing brokers. At September 30, 2019, the amount due from these clearing brokers was \$27,835, which represents a substantial concentration of credit risk should these clearing brokers be unable to fulfill their obligations.

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 September 30, 2019, 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 market values of the related securities, and such entities will incur a loss if, at the time of purchase, the market 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.

12. Shareholders' Equity

Repurchase Program

In March 2007, October 2011, November 2014, November 2016 and April 2019, the Company's board of directors authorized, in the aggregate, the repurchase of up to 37,500,000 shares of the Company's common stock from time to time on the open market or in privately negotiated transactions, depending on market conditions.

Since inception through September 30, 2019, 27,226,063 shares of common stock have been repurchased for \$73,194 under the program and have been retired, including the repurchase of 155,571 for \$526 and 2,041,958 shares for \$7,078 during the three and nine months ended September 30, 2019. As of September 30, 2019, 10,273,937 shares remained available for purchase under the program.

Stock Compensation Plans

As of September 30, 2019, there was \$56 of unrecognized compensation cost for stock-based compensation related to options. This cost is expected to be recognized over the remaining vesting periods of the options, which on a weighted-average basis is approximately 0.29 year for all grants.

Options were exercised to purchase 444,481 and 3,193,408 shares of the Company's common stock during the three and nine months ended September 30, 2019, respectively, for which the intrinsic value on dates of exercise was \$583 and \$6,917, respectively.

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

Restricted stock granted during the nine months ended September 30, 2019 was as follows:

Grant Date	Final Vesting Date	Shares	Fair Value ⁽¹⁾
January 10, 2019 ⁽²⁾	January 10, 2023	2,295,000	\$ 7,436
January 25, 2019 ⁽³⁾	January 25, 2021	30,000	86
April 22, 2019 ⁽²⁾	April 22, 2023	250,000	945
June 13, 2019 ⁽³⁾	June 13, 2021	210,000	737
		2,785,000	\$ 9,204

- (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 two equal annual installments beginning on the first anniversary of the grant date.

During the three and nine months ended September 30, 2019, 0 and 82,500 shares of restricted stock were forfeited, respectively.

As of September 30, 2019, there was \$12,363 of unrecognized compensation cost for stock-based compensation related to restricted stock grants, of which \$7,431 related to the 2019 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 2.68 years for all grants and approximately 3.16 years for the 2019 grants.

Stock-based compensation, including options and restricted stock, attributed to employees was \$1,536 and \$4,459 for the three and nine months ended September 30, 2019, respectively.

Stock-based compensation for consultants and independent financial advisors was \$0 and \$15 for the three and nine months ended September 30, 2019, respectively. In the three and nine months ended September 30, 2019, \$0 and 1,002,460 shares were surrendered to cover payment of taxes.

Capital Stock

During the three months ended September 30, 2019, the Company sold no shares of Series A Preferred Stock under the Company's "at the market" offering program and incurred costs of \$18 in connection with such program. For the nine months ended September 30, 2019, the Company sold 389,207 shares of Series A Preferred Stock under its "at the market" offering program, which provided to the Company net proceeds of \$9,431.

For the three and nine months ended September 30, 2019, the Company paid dividends of \$8,702 and \$25,987, on its outstanding Series A Preferred Stock based on a monthly dividend of approximately \$0.1667 per share.

For the three and nine months ended September 30, 2019, the Company paid a quarterly dividend of \$0.0125 per share on its outstanding common stock. For the three and nine months ended September 30, 2019, the Company paid dividends of \$1,793 and \$5,380 on its outstanding common stock.

13. Per Share Data

Basic net income (loss) per common share is computed by dividing net income (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:

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

	Three Months Ended September 30,		Nine Months Ended September 30, 2019	
	2019	2018	2019	2018
Basic weighted-average shares	143,092,912	196,381,910	143,281,873	196,281,283
Effect of dilutive securities:				
Options to purchase common stock	4,310,499	10,616,368	—	—
Restricted shares of common stock	556,598	1,388,958	—	—
Dilutive potential common shares	4,867,097	12,005,326	—	—
Weighted average common shares outstanding and dilutive potential common shares	147,960,009	208,387,236	143,281,873	196,281,283

Basic weighted-average shares do not include 5,336,500 and 4,215,270 unvested restricted shares of common stock for the three and nine months ended September 30, 2019 and 2018, respectively.

For the three months ended September 30, 2019, options to purchase 7,894,000 shares of common stock and 2,921,250 unvested restricted shares of common stock and for the nine months ended September 30, 2019, options to purchase 17,424,872 shares of common stock and 5,336,500 unvested restricted shares of common stock were not included in the computation of diluted income (loss) per share as the effect would have been anti-dilutive.

For the three months ended September 30, 2018, options to purchase 4,289,000 shares of common stock and 437,000 unvested restricted shares of common stock and for the nine months ended September 30, 2018 options to purchase 26,371,583 shares of common stock and 4,215,270 unvested restricted shares of common stock were not included in the computation of diluted income (loss) per share as the effect would have been anti-dilutive.

14. 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.

15. Segment Information

The Company has three operating segments. The independent advisory and brokerage services segment includes the investment advisory and broker-dealer services provided by the Company's independent advisory and brokerage 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, 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 an affiliate of Highland, 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, amortization of contract acquisition costs, change in fair value of contingent consideration related to acquisitions, non-cash compensation expense, financial advisor recruiting expense and other expense, which includes 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 acquisition-related expense, amortization of retention and forgivable loans, amortization of contract acquisition costs 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 nine months ended September 30, 2019 and 2018 was as follows:

Three Months Ended September 30, 2019	Independent Advisory and Brokerage Services	Ladenburg	Insurance Brokerage	Corporate	Total
Revenues	\$ 305,204	\$ 23,519	\$ 44,914	\$ 895	\$ 374,532
Income (loss) before income taxes	20,238	5,191	1,719	(11,851) ⁽¹⁾	15,297
EBITDA, as adjusted ⁽³⁾	28,466	5,210	2,343	(4,933)	31,086
Identifiable assets ⁽²⁾	539,991	58,679	101,780	117,674	818,124
Depreciation and amortization	4,653	120	468	5	5,246
Interest	133	1	58	6,026	6,218
Capital expenditures	2,892	—	2	(3)	2,891
Non-cash compensation	251	178	—	1,107	1,536
Three Months Ended September 30, 2018					
Revenues	\$ 300,015	\$ 15,180	\$ 32,960	\$ 720	\$ 348,875
Income (loss) before income taxes	18,538	821	(145)	(6,557) ⁽¹⁾	12,657

EBITDA, as adjusted ⁽³⁾	27,224	1,110	239	(3,264)	25,309
Identifiable assets ⁽²⁾	509,270	49,841	90,920	150,560	800,591
Depreciation and amortization	5,457	122	261	5	5,845
Interest	311	2	76	2,817	3,206
Capital expenditures	3,780	95	31	(8)	3,898
Non-cash compensation	317	176	—	887	1,380

Nine Months Ended September 30, 2019	Independent Advisory and Brokerage Services		Ladenburg	Insurance Brokerage	Corporate	Total
	\$		\$	\$	\$	\$
Revenues	\$ 890,024		\$ 56,763	\$ 124,689	\$ 2,091	\$ 1,073,567
Income (loss) before income taxes	52,334		8,524	2,254	(33,474) ⁽¹⁾	29,638
EBITDA, as adjusted ⁽³⁾	78,040		9,217	4,160	(13,246)	78,171
Identifiable assets ⁽²⁾	539,991		58,679	101,780	117,674	818,124
Depreciation and amortization	15,270		359	1,412	16	17,057
Interest	365		(10)	177	16,308	16,840
Capital expenditures	9,100		—	35	(91)	9,044
Non-cash compensation	765		536	—	3,173	4,474

Nine Months Ended September 30, 2018						
	\$		\$	\$	\$	\$
Revenues	\$ 875,015		\$ 55,614	\$ 101,945	\$ 3,441	\$ 1,036,015
Income (loss) before income taxes	45,926		7,113	556	(19,418) ⁽¹⁾	34,177
EBITDA, as adjusted ⁽³⁾	72,456		8,029	2,093	(11,266)	71,312
Identifiable assets ⁽²⁾	509,270		49,841	90,920	150,560	800,591
Depreciation and amortization	16,332		345	726	13	17,416
Interest	861		50	415	5,900	7,226
Capital expenditures	10,035		351	101	16	10,503
Non-cash compensation	936		529	113	2,864	4,442

(1) Includes interest expense, compensation, professional fees, and other general and administrative expenses related to the Corporate segment.

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

(3) The following table reconciles income before income taxes for the three and nine months ended September 30, 2019 and 2018 to EBITDA, as adjusted.

	Three Months Ended September 30, 2019		Nine Months Ended September 30, 2019	
	2019	2018	2019	2018
Income before income taxes	\$ 15,297	\$ 12,657	\$ 29,638	\$ 34,177
Adjustments:				
Interest income	(882)	(810)	(2,138)	(1,688)
Change in fair value of contingent consideration	93	54	290	165
Interest expense	6,218	3,206	16,840	7,226
Depreciation and amortization	5,246	5,845	17,057	17,416
Non-cash compensation expense	1,536	1,380	4,474	4,442
Amortization of retention and forgivable loans	139	97	391	280
Amortization of contract acquisition costs	2,988	2,488	8,639	7,059
Financial advisor recruiting expense	9	115	18	291
Acquisition-related expense	—	—	24	913
Income attributable to noncontrolling interest	79	(13)	58	(22)
Other ^{(1) (2)}	363	290	2,880	1,053
EBITDA, as adjusted	\$ 31,086	\$ 25,309	\$ 78,171	\$ 71,312
EBITDA, as adjusted				
Independent Advisory and Brokerage Services	\$ 28,466	\$ 27,224	\$ 78,040	\$ 72,456
Ladenburg	5,210	1,110	9,217	8,029
Insurance Brokerage	2,343	239	4,160	2,093
Corporate	(4,933)	(3,264)	(13,246)	(11,266)
Total segments	\$ 31,086	\$ 25,309	\$ 78,171	\$ 71,312

- (1) Includes severance costs of \$160 and \$1,269, excise and franchise tax expense of \$134 and \$416, compensation expense that may be paid in stock of \$399 and \$1,256, non-recurring expenses related to a block repurchase of our common stock and other legal matters of \$(55) and \$214 and reversal of a write-off for a sublease commitment of \$(275) for the three and nine months ended September 30, 2019.
- (2) Includes severance costs of \$0 and \$174, excise and franchise tax expense of \$164 and \$486 and compensation expense that may be paid in stock of \$126 and \$393 for the three and nine months ended September 30, 2018.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS
(amounts in thousands, except share and per share data)

Overview

We are a diversified financial services company engaged in independent advisory and brokerage services, asset management services, investment research, investment banking, institutional sales and trading, wholesale life insurance and annuity brokerage and trust services through our principal subsidiaries, Securities America, Triad Advisors ("Triad"), Securities Service Network ("SSN"), Investacorp, KMS Financial Services ("KMS"), Ladenburg Thalmann & Co. ("Ladenburg"), Ladenburg Thalmann Asset Management ("LTAM"), Premier Trust and Highland Capital Brokerage ("Highland"). 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 advisory and brokerage services industry. During the past decade, this has been one of the fastest growing segments of the financial services industry. With approximately 4,400 financial advisors located in 50 states, we have become one of the largest independent advisory and brokerage networks.

We believe that we have the opportunity through internal growth, recruiting and acquisitions to continue expanding our market share in this segment over the next several years.

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 investment advisory and brokerage services provided by our independent advisory and brokerage subsidiaries (Securities America, Triad, SSN, Investacorp and KMS) 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 and long-term care solutions to investment and insurance providers, and 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 is 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.

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 successfully integrate acquired businesses into our existing business and operations.

During the three years ended September 30, 2019, we incurred \$5,823 of acquisition indebtedness, related to the acquisitions in 2018 of certain assets by Highland. As of September 30, 2019, \$5,532 of this acquisition-related indebtedness was outstanding.

Critical Accounting Policies

In the notes to our consolidated financial statements and 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,

2018, we have disclosed those accounting policies that we consider to be significant in determining our results of operations and financial condition. For the Company's significant accounting policies affecting leases, see Note 4 within the notes to the unaudited condensed consolidated financial statements. There have been no other material changes to those policies that we consider to be significant since the filing of our annual report on Form 10-K for the year ended December 31, 2018.

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 attributable to the Company as reported to EBITDA, as adjusted, for the periods ended September 30, 2019 and 2018:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Total revenues	\$ 374,532	\$ 348,875	\$ 1,073,567	\$ 1,036,015
Total expenses	359,142	336,164	1,043,639	1,001,673
Income before income taxes	15,297	12,657	29,638	34,177
Net income attributable to the Company	11,356	9,437	22,275	24,202
Reconciliation of net income attributable to the Company to EBITDA, as adjusted:				
Net income attributable to the Company	\$ 11,356	\$ 9,437	\$ 22,275	\$ 24,202
Less:				
Interest income	(882)	(810)	(2,138)	(1,688)
Change in fair value of contingent consideration	93	54	290	165
Add:				
Interest expense	6,218	3,206	16,840	7,226
Income tax expense	4,020	3,207	7,421	9,953
Depreciation and amortization	5,246	5,845	17,057	17,416
Non-cash compensation expense	1,536	1,380	4,474	4,442
Amortization of retention and forgivable loans	139	97	391	280
Amortization of contract acquisition costs ⁽³⁾	2,988	2,488	8,639	7,059
Financial advisor recruiting expense	9	115	18	291
Acquisition-related expense	—	—	24	913
Other ⁽¹⁾⁽²⁾	363	290	2,880	1,053
EBITDA, as adjusted	\$ 31,086	\$ 25,309	\$ 78,171	\$ 71,312

(1) Includes severance costs of \$160 and \$1,269, excise and franchise tax expense of \$134 and \$416, compensation expense that may be paid in stock of \$399 and \$1,256, non-recurring expenses related to a block repurchase of our common stock and other legal matters of \$(55) and \$214 and reversal of a write-off for a sublease commitment of \$(275) for the three and nine months ended September 30, 2019, respectively.

(2) Includes severance costs of \$0 and \$174, excise and franchise tax expense of \$164 and \$486 and compensation expense that may be paid in stock of \$126 and \$393 for the three and nine months ended September 30, 2018.

(3) See Note 2, "Revenue from Contracts with Customers" to our condensed consolidated financial statements included in Part I, Item 1 of this quarterly report on Form 10-Q.

Earnings before interest, taxes, depreciation and amortization, or EBITDA, as adjusted for acquisition-related expense, amortization of retention and forgivable loans, amortization of contract acquisition costs, change in fair value of contingent consideration related to acquisitions, non-cash compensation expense, financial advisor recruiting expense and other expense, which includes 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 (the "Securities Act"). 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, amortization of contract acquisition costs, 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.

EBITDA, as adjusted, for the third quarter of 2019 was \$31,086, an increase of \$5,777 (23%), from EBITDA, as adjusted, of \$25,309 for the third quarter of 2018. This increase was primarily due to an increase in EBITDA, as adjusted, in our Ladenburg segment, insurance brokerage segment and independent advisory and brokerage services segment, partially offset by a decrease in our corporate segment. Our independent advisory and brokerage services segment experienced an increase in EBITDA, as adjusted, of \$1,242 (5%) on increased revenue of \$5,189 (2%). EBITDA, as adjusted, in our Ladenburg segment increased by \$4,100 (369%) on increased revenue of \$8,339 (55%). EBITDA, as adjusted, in our insurance brokerage segment increased by \$2,104 (880%) on increased revenue of \$11,954 (36%). EBITDA, as adjusted in our corporate segment decreased by \$1,669 (51%) on increased revenue of \$175 (24%).

EBITDA, as adjusted, for the nine months ended September 30, 2019 was \$78,171, an increase of \$6,859 (10%), from EBITDA, as adjusted, of \$71,312 for the nine months ended September 30, 2018. This increase was primarily due to an increase in EBITDA, as adjusted, in the independent advisory and brokerage services segment, insurance brokerage segment and Ladenburg segment, partially offset by a decrease in our corporate segment. Our independent advisory and brokerage services segment experienced an increase in EBITDA, as adjusted, of \$5,584 (8%) on increased revenue of \$15,009 (2%). EBITDA, as adjusted, in our Ladenburg segment increased by \$1,188 (15%) on increased revenue of \$1,149 (2%). EBITDA, as adjusted, in our insurance brokerage segment increased by \$2,067 (99%) on increased revenue of \$22,744 (22%). EBITDA, as adjusted in our corporate segment decreased by \$1,980 (18%) on decreased revenue of \$1,350 (39%).

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 investment advisory and broker-dealer services provided by our independent advisory and brokerage 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 which provides marketing strategies, product expertise, and back-office processing for fixed and equity-indexed annuities.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Revenues:				
Independent advisory and brokerage services	\$ 305,204	\$ 300,015	\$ 890,024	\$ 875,015
Ladenburg	23,519	15,180	56,763	55,614
Insurance Brokerage	44,914	32,960	124,689	101,945
Corporate	895	720	2,091	3,441
Total revenues	<u>\$ 374,532</u>	<u>\$ 348,875</u>	<u>\$ 1,073,567</u>	<u>\$ 1,036,015</u>
Income (loss) before income taxes:				
Independent advisory and brokerage services	\$ 20,238	\$ 18,538	\$ 52,334	\$ 45,926
Ladenburg	5,191	821	8,524	7,113
Insurance Brokerage	1,719	(145)	2,254	556
Corporate ⁽¹⁾	(11,851)	(6,557)	(33,474)	(19,418)
Total income before income taxes	<u>\$ 15,297</u>	<u>\$ 12,657</u>	<u>\$ 29,638</u>	<u>\$ 34,177</u>
EBITDA, as adjusted:				
Independent advisory and brokerage services	\$ 28,466	\$ 27,224	\$ 78,040	\$ 72,456
Ladenburg	5,210	1,110	9,217	8,029
Insurance Brokerage	2,343	239	4,160	2,093
Corporate	(4,933)	(3,264)	(13,246)	(11,266)
Total EBITDA, as adjusted ⁽²⁾	<u>\$ 31,086</u>	<u>\$ 25,309</u>	<u>\$ 78,171</u>	<u>\$ 71,312</u>

(1) Includes interest expense, compensation, professional fees and other general administrative expenses related to the corporate segment.

(2) See Note 15 to our condensed consolidated financial statements for a reconciliation of income before income taxes to EBITDA, as adjusted.

Three months ended September 30, 2019 versus three months ended September 30, 2018

For the quarter ended September 30, 2019, we had net income attributable to the Company of \$11,356 as compared to net income attributable to the Company of \$9,437 for the quarter ended September 30, 2018, primarily due to an increase in revenue, partially offset by increased overall expenses. The increase of \$25,657 (7%) in total revenues was partially offset by a \$22,978 (7%) increase in total expenses.

Our total revenues for the three months ended September 30, 2019 increased by \$25,657 (7%) from the 2018 period, primarily attributable to increases in investment banking revenue, commissions revenue, advisory fees and service fees, which was partially offset by a decrease in other income. Third quarter 2019 revenues included increases in investment banking revenue of \$8,710, commissions revenue of \$8,287, advisory fees of \$8,213 and service fees of \$2,435, partially offset by a decrease in other income of \$1,725. Our independent advisory and brokerage services segment revenues increased by \$5,189 (2%) from the 2018 period, mainly as a result of increased advisory fees and service fees, partially offset by a decrease in commissions and other income. Our Ladenburg segment revenues in the third quarter of 2019 increased by \$8,339 (55%) from the comparable 2018 quarter due to increased investment banking revenue. Our insurance brokerage segment revenues increased by \$11,954 (36%) for the three months ended September 30, 2019 compared to the prior-year period, primarily due to the acquisition of certain assets of Kestler Financial Group ("KFG") by Highland in August 2018. Our corporate segment revenue increased by \$175 (24%) for the three months ended September 30, 2019 compared to the prior-year period.

Our total expenses for the three months ended September 30, 2019 increased by \$22,978 (7%) as compared to the 2018 period, mostly driven by increases of \$10,051 (30%), \$5,469 (75%), \$3,969 (28%) and \$3,489 (1%) in our insurance brokerage, corporate, Ladenburg and independent advisory and brokerage services segments, respectively. Third quarter 2019 expenses included increases in commissions and fees expense of \$10,400, compensation and benefits expense of \$9,121, interest expense of \$3,012, and amortization of contract acquisition costs of \$500.

Commissions revenue for the three months ended September 30, 2019 increased by \$8,287 (5%) as compared to the 2018 period, primarily due to an increase in revenue from our insurance brokerage segment of \$11,940 (37%) due to the acquisition of certain assets of KFG by Highland, partially offset by a decrease in our independent advisory and brokerage services segment of \$3,150 (2%) due to a decrease in mutual fund trailing commissions, fewer equity trades and decreased sales of alternative investments.

Advisory fee revenue for the three months ended September 30, 2019 increased by \$8,213 (7%) as compared to the 2018 period primarily due to higher advisory asset balances as a result of improved market conditions. Advisory fee revenue increased in our independent advisory and brokerage services segment by \$7,616 (6%). Advisory fee revenue for a particular period is primarily affected by the level of average advisory assets during the period and market conditions. 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 September 30, 2019 increased by 13% as compared to September 30, 2018 and by 24% as compared to December 31, 2018, primarily due to improved market conditions. Total advisory assets under management at September 30, 2019 were approximately \$90,400,000 as compared to \$80,100,000 at September 30, 2018 and \$72,800,000 at December 31, 2018.

The \$8,710 (87%) increase in investment banking revenue for the three months ended September 30, 2019 as compared to the 2018 period was primarily driven by a \$9,336 increase in capital raising revenue, partially offset by a decrease of \$626 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 \$18,007 for the 2019 third quarter as compared to \$8,671 for the 2018 third quarter. Strategic advisory services revenue was \$685 in the third quarter of 2019 as compared to \$1,311 in the comparable 2018 period.

The \$303 (673%) decrease in principal transactions revenue for the three months ended September 30, 2019 as compared to the 2018 period was primarily attributable to our Ladenburg segment, which had a decrease of \$285 due to a decrease in the market value of the firm's investments.

The \$40 (3%) increase in interest and dividends revenue for the three months ended September 30, 2019 as compared to the 2018 period was primarily driven by higher cash balances and interest rates in the 2019 period.

The \$2,435 (8%) increase in service fees revenue for the three months ended September 30, 2019 as compared to the 2018 period was driven by an increase of \$2,450 in our independent advisory and brokerage services segment. The total increase was primarily due to increases in revenue from our cash sweep programs of \$1,668 and affiliation fees of \$504. Service fees revenue from our cash sweep programs was \$16,655 in the third quarter of 2019 as compared to \$14,987 in the comparable 2018 period, reflecting the impact of the 2018 increases in the target rate for the federal funds effective rate. In October 2019, the Federal Reserve reduced the federal funds target rate to 1.50 - 1.75%. Future levels of service fees revenue from our cash sweep programs are dependent upon prevailing interest rates and cash asset levels. At September 30, 2019, client assets included cash balances of approximately \$4,327,000, including approximately \$3,942,000 participating in our cash sweep programs.

The \$1,725 (14%) decrease in other income for the three months ended September 30, 2019 as compared to the 2018 period was primarily attributable to a decrease in our independent advisory and brokerage services segment of \$1,795. The total decrease was primarily due to a decrease in conference revenue of \$1,575 and deferred compensation investment revenue of \$645.

The \$10,400 (4%) increase in commissions and fees expense for the three months ended September 30, 2019 as compared to the 2018 period was primarily due to the increase in commissions revenue in our insurance brokerage segment due to the acquisition of certain assets of KFG by Highland and also an increase in the 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 and insurance agents who serve as independent contractors in our insurance brokerage segment.

These payments to the independent contractor registered representatives and insurance agents are calculated based on a percentage of revenues generated by such persons and vary by product. Accordingly, when our independent contractor registered representatives and insurance agents increase their business, both our revenues and expenses increase as our representatives and agents earned increased compensation based on the higher revenues produced.

The \$9,121 (20%) increase in compensation and benefits expense for the three months ended September 30, 2019 as compared to the 2018 period was attributable to an increase in our Ladenburg segment of \$3,332, our corporate segment of \$2,194, our insurance brokerage segment of \$2,084 and our independent advisory and brokerage services segment of \$1,511. The increase in salaries and benefits was primarily due to an increase in bonus accrual during the three months ended September 30, 2019.

The \$342 (9%) decrease in brokerage, communication and clearance fees expense for the three months ended September 30, 2019 as compared to the 2018 period was driven primarily by decreases of \$174 and \$134 in our Ladenburg and our independent advisory and brokerage services segments, respectively. The decrease in expense resulted from increased levels of clearing credits during the 2019 period, resulting from new annual business credits being received in connection with the May 2018 extension of the term of our clearing agreements with one of our clearing firms.

The \$3,012 (94%) increase in interest expense for the three months ended September 30, 2019 as compared to the 2018 period primarily resulted from an increased average debt balance due to the issuance of senior notes during the second half of 2018 and second quarter of 2019. Our average outstanding debt balance was approximately \$330,761 in the third quarter of 2019 as compared to \$162,207 in the third quarter of 2018. The average interest rate was 7.0% for the three months ended September 30, 2019 and 6.8% for the comparable 2018 period. Our outstanding debt balance as of September 30, 2019 included \$319,178 of indebtedness due to the issuance of our senior notes, \$5,728 of indebtedness incurred in connection with a term loan at one of our subsidiaries and \$5,532 of indebtedness incurred in connection with asset acquisitions in our insurance brokerage segment.

The \$599 (10%) decrease in depreciation and amortization expense for the three months ended September 30, 2019 as compared to the 2018 period was primarily due to a decrease of \$804 in our independent advisory and brokerage services segment.

The \$500 (20%) increase in amortization of contract acquisition costs for the three months ended September 30, 2019 as compared to the 2018 period was primarily due to an increase in our independent advisory and brokerage services segment due to the issuance of loans to newly recruited financial advisors during the fourth quarter of 2018 and the first nine months of 2019.

The \$327 (2%) increase in other expense for the three months ended September 30, 2019 as compared to the 2018 period was primarily driven by increases at our Ladenburg segment of \$264, our insurance brokerage segment of \$261 and our independent advisory and brokerage services segment of \$221, partially offset by a decrease at our corporate segment of \$419. The total increase in other expense was primarily attributable to increases in computer and software expenses of \$980 and firm insurance of \$392, partially offset by a decrease in bad debt expense of \$492, deferred compensation expense of \$357 and conference expense of \$248.

We had income tax expense of \$4,020 for the three months ended September 30, 2019 as compared to income tax expense of \$3,207 in the comparable 2018 period.

As of September 30, 2019, we concluded that our deferred tax assets are realizable on a more-likely-than-not basis, with the exception of certain separate company state net operating losses. The income tax provision includes a provision for federal, state and local income taxes. See Note 8 to our condensed consolidated financial statements.

The Tax Cuts and Jobs Act of 2017 (the "TCJA") provided a permanent reduction in our federal corporate income tax rate from 35% to 21%, effective January 1, 2018. During the year ended December 31, 2018, we finalized the accounting for the tax effects of TCJA with no material changes to the provisional estimate recorded in prior periods.

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 together with the tax effect of discrete items. The effective tax rate differs from the federal statutory income tax rate of 21% for the 2019 period primarily related to state and local taxes and certain non-deductible expenses. The effective tax rate differs from the federal statutory income tax rate of 21% for the 2018 period primarily related to state and local taxes and certain non-deductible expenses.

Nine months ended September 30, 2019 versus nine months ended September 30, 2018

For the nine months ended September 30, 2019, we had net income attributable to the Company of \$22,275 as compared to net income attributable to the Company of \$24,202 for the nine months ended September 30, 2018, primarily due to increased overall expenses, partially offset by increased revenues. The increase of \$37,552 (4%) in total revenues was offset by a \$41,966 (4%) increase in total expenses.

Our total revenues for the nine months ended September 30, 2019 increased by \$37,552 (4%) from the 2018 period, primarily attributable to increases in service fees, commissions revenue, advisory fees and investment banking revenue, partially offset by a decrease in other income. The 2019 period revenues included increases in service fees of \$14,538, commissions revenue of \$11,301, advisory fees of \$11,093 and investment banking revenue of \$1,859, partially offset by a decrease in other income of \$2,782. Our independent advisory and brokerage services segment revenues increased by \$15,009 (2%) from the 2018 period, mainly as a result of increased service fees and advisory fees, partially offset by a decrease in commissions revenues. Our Ladenburg segment revenues for the nine months ended 2019 increased by \$1,149 (2%) from the comparable 2018 period due to an increase in investment banking revenue and principal transactions. Our insurance brokerage segment revenues increased by \$22,744 (22%) for the nine months ended September 30, 2019 compared to the prior-year period, primarily due to the acquisition of certain assets of KFG by Highland in August 2018. Our corporate segment revenue decreased by \$1,350 (39%) primarily due to the forgiveness of the forgivable loan by National Financial Services ("NFS") in May 2018.

Our total expenses for the nine months ended September 30, 2019 increased by \$41,966 (4%) as compared to the 2018 period, mostly driven by increases of \$20,903 (21%), \$12,706 (56%) and \$8,619 (1%) in our insurance brokerage, corporate and independent advisory and brokerage services segments, respectively. This increase in total expenses was partially offset by a decrease in expenses in our Ladenburg segment of \$262 (1%).

Expenses for the nine months ended September 30, 2019 included increases in commissions and fees expense of \$14,134, compensation and benefits expense of \$13,787, interest expense of \$9,614, other expenses of \$4,824 and amortization of contract acquisition costs of \$1,580, partially offset by decreases in brokerage, communication and clearance fee expense of \$1,038, acquisition-related expenses of \$889 and depreciation and amortization expense of \$359.

Commissions revenue for the nine months ended September 30, 2019 increased by \$11,301 (2%) as compared to the 2018 period, primarily attributable to an increase in revenue in our insurance brokerage segment of \$23,089 (23%) due to the acquisition of certain assets of KFG. This was partially offset by a decrease in commissions revenue in our independent advisory and brokerage services segment of \$10,210 (3%) due to the decrease in mutual fund trailing commissions, fewer equity trades and lower alternative investment sales. Also, commissions revenue in our Ladenburg segment decreased by \$1,578 (18%) for the nine months ended September 30, 2019 as compared to the prior-year period due to a decrease in retail and institutional sales.

Advisory fee revenue for the nine months ended September 30, 2019 increased by \$11,093 (3%) as compared to the 2018 period primarily due to higher advisory asset balances due to improved market conditions. Advisory fee revenue increased in our independent advisory and brokerage services segment by \$10,865 (3%). Advisory fee revenue for a particular period is primarily affected by the level of average advisory assets during the period and market conditions. 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 September 30, 2019 increased by 13% as compared to September 30, 2018 and by 24% as compared to December 31, 2018, primarily due to improved market conditions. Total advisory assets under management at September 30, 2019 were approximately \$90,400,000 as compared to \$80,100,000 at September 30, 2018 and \$72,800,000 at December 31, 2018.

The \$1,859 (5%) increase in investment banking revenue for the nine months ended September 30, 2019 as compared to the 2018 period was primarily driven by \$2,038 increase in strategic advisory services revenue, partially offset by a decrease of \$179 in capital raising revenue as compared to the prior-year period. Capital market activity was negatively impacted during the first quarter of 2019 by the temporary U.S. government shutdown. 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 \$33,755 for the nine months ended September 30, 2019, as compared to \$33,934 for the prior year period. Strategic advisory services revenue was \$6,305 for the nine months ended September 30, 2019 as compared to \$4,267 in the comparable 2018 period.

The \$826 (186%) increase in principal transactions revenue for the nine months ended September 30, 2019 as compared to the 2018 period was primarily attributable to our Ladenburg segment which had an increase of \$970 due to an increase in the market value of the firm's investments.

The \$717 (22%) increase in interest and dividends revenue for the nine months ended September 30, 2019 as compared to the 2018 period was primarily driven by higher cash balances and interest rates in the 2019 period.

The \$14,538 (18%) increase in service fees revenue for the nine months ended September 30, 2019 as compared to the 2018 period was driven by an increase of \$14,457 in our independent advisory and brokerage services segment. The total increase was primarily due to increases in revenue from our cash sweep programs of \$13,115 and affiliation fees of \$1,447. In October 2019, the Federal Reserve reduced the federal funds target rate to 1.50 - 1.75%. Future levels of service fees revenue from our cash sweep programs are dependent upon prevailing interest rates and cash asset levels. At September 30, 2019, client assets included cash balances of approximately \$4,327,000, including approximately \$3,942,000 participating in our cash sweep programs.

The \$2,782 (8%) decrease in other income for the nine months ended September 30, 2019 as compared to the 2018 period was primarily attributable to a decrease of \$2,303 in our corporate segment. The total decrease in other income was primarily due to a decrease in growth incentive payments from a clearing firm of \$3,133 and the forgiveness of the NFS loan in May 2018 of \$2,222, partially offset by an increase in deferred compensation investment revenue of \$1,092.

The \$14,134 (2%) increase in commissions and fees expense for the nine months ended September 30, 2019 as compared to the 2018 period was primarily due to the increase in commissions revenue in our insurance brokerage segment due to the acquisition of certain assets of KFG by Highland. This was partially offset by lower commissions and fees expense in the 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 and insurance agents who serve as independent contractors in our insurance brokerage segment. These payments to the independent contractor registered representatives and insurance agents are calculated based on a percentage of revenues generated by such persons and vary by product. Accordingly, when our independent contractor registered representatives and insurance agents increase their business, both our revenues and expenses increase as our representatives and agents earned increased compensation based on the higher revenues produced.

The \$13,787 (10%) increase in compensation and benefits expense for the nine months ended September 30, 2019 as compared to the 2018 period was attributable to an increase in our independent advisory and brokerage services segment of \$7,852, an increase of \$3,559 in our insurance brokerage segment, an increase of \$2,108 in our corporate segment and an increase of \$268 in our Ladenburg segment. The increase in salaries and benefits is primarily due to increased headcount. Also, we recorded severance expense of \$1,269 during the nine months ended September 30, 2019.

The \$1,038 (9%) decrease in brokerage, communication and clearance fees expense for the nine months ended September 30, 2019 as compared to the 2018 period was driven primarily by a decrease of \$568 in our independent advisory and brokerage services segment and a decrease of \$419 in our Ladenburg segment. The decrease in expense resulted from increased levels of clearing credits during the 2019 period, resulting from new annual business credits being received in connection with the May 2018 extension of the term of our clearing agreements with one of our clearing firms.

The \$516 (7%) increase in rent and occupancy expense, net of sublease revenue, for the nine months ended September 30, 2019 as compared to the 2018 period was primarily attributable to an increase of \$452 in our insurance brokerage segment.

The \$346 (2%) decrease in professional services expense for the nine months ended September 30, 2019 as compared to the 2018 period was due to decreases of \$374 and \$180 in our independent advisory and brokerage services and Ladenburg segments, respectively, partially offset by an increase of \$229 in our corporate segment. Decreased professional services expense was primarily due to lower legal expenses.

The \$9,614 (133%) increase in interest expense for the nine months ended September 30, 2019 as compared to the 2018 period primarily resulted from an increased average debt balance due to the issuance of senior notes in the second half of 2018 and the second quarter of 2019. Our average outstanding debt balance was approximately \$297,378 for the nine months ended September 30, 2019 as compared to \$129,210 for the nine months ended September 30, 2018. The average interest rate was 7% for the nine months ended September 30, 2019 and 6.5% for the comparable 2018 period. Our outstanding debt balance as of September 30, 2019 primarily included \$319,178 of indebtedness due to the issuance of our senior notes, \$5,728 of indebtedness in connection with a term loan at one of our subsidiaries and \$5,532 of indebtedness incurred in connection with asset acquisitions in our insurance brokerage segment.

The \$889 (97%) decrease in acquisition-related expense for the nine months ended September 30, 2019 as compared to the 2018 period was due to a decrease in our independent advisory and brokerage services segment. The nine month period ended September 30, 2018 included expense associated with temporary help and overtime compensation related to newly recruited advisors.

The \$1,580 (22%) increase in amortization of contract acquisition costs for the nine months ended September 30, 2019 as compared to the 2018 period was primarily due to an increase in our independent advisory and brokerage services segment as a result of the issuance of loans to newly recruited financial advisors during the fourth quarter of 2018 and the first nine months of 2019.

The \$4,824 (9%) increase in other expense for the nine months ended September 30, 2019 as compared to the 2018 period was primarily driven by increases at our independent advisory and brokerage services segment of \$4,040 and our insurance brokerage segment of \$998. The total increase in other expense was primarily attributable to increases in computer and software expenses of \$2,696, deferred compensation expense of \$2,061, conference expenses of \$1,418 and firm insurance of \$1,018, partially offset by a decrease in legal settlement expense of \$1,581, dues, licenses and registrations of \$462 and travel and entertainment expense of \$441.

We had income tax expense of \$7,421 for the nine months ended September 30, 2019 as compared to income tax expense of \$9,953 in the comparable 2018 period.

As of September 30, 2019, we concluded that our deferred tax assets are realizable on a more-likely-than-not basis, with the exception of certain separate company state net operating losses. The income tax provision includes a provision for federal, state and local income taxes. See Note 8 to our condensed consolidated financial statements.

The TCJA provided a permanent reduction in our federal corporate income tax rate from 35% to 21%, effective January 1, 2018. During the year ended December 31, 2018, we finalized the accounting for the tax effects of TCJA with no material changes to the provisional estimate recorded in prior periods.

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 together with the tax effect of discrete items. The effective tax rate differs from the federal statutory income tax rate of 21% for the 2019 period primarily related to state and local taxes and certain non-deductible expenses. The effective tax rate differs from the federal statutory income tax rate of 21% for the 2018 period primarily related to state and local taxes and certain non-deductible expenses.

Liquidity and Capital Resources

Approximately 35% and 30% of our total assets at September 30, 2019 and December 31, 2018, 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 September 30, 2019, each of Securities America, Triad, Investacorp, KMS, SSN and Ladenburg was subject to a \$250 minimum net capital requirement.

At September 30, 2019, the regulatory net capital of each of our broker-dealer subsidiaries was as follows: Securities America \$15,375, Triad \$9,690, Investacorp \$8,657, KMS \$7,534, SSN \$6,618 and Ladenburg \$23,428. 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 September 30, 2019, Premier Trust had stockholders' equity of \$4,826, including at least \$250 in cash.

Our primary sources of liquidity include cash flows from operations and sales of equity and debt securities in public or private transactions. We believe that we have adequate cash and regulatory capital to fund our current level of operating activities through at least November 2020.

In June 2018, we entered into an equity distribution agreement under which we may sell up to 6,832,841 shares of our Series A Preferred Stock in an "at the market" offering under Rule 415 under the Securities Act. This equity distribution agreement replaced our previous equity distribution agreement pursuant to which we could sell up to 8,000,000 shares of our Series A Preferred Stock. During the nine months ended September 30, 2019, we sold 389,207 shares of Series A Preferred Stock pursuant to the "at the market" offering, which provided total net proceeds of \$9,431. As of September 30, 2019, we had 6,443,634 shares of Series A Preferred Stock remaining available for sale under such equity distribution agreement.

On November 21, 2017, we sold \$72,500 principal amount of our 6.5% senior notes due November 2027 (the "6.5% Senior Notes"). Interest on the 6.5% Senior Notes accrues from November 21, 2017 and is paid quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. We may redeem the 6.5% Senior Notes in whole or in part on or after November 30, 2020, at our option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest. During the fourth quarter of 2017, the underwriters exercised their option to purchase an additional \$4,069 principal amount of 6.5% Senior Notes. The offering resulted in total gross proceeds of \$76,569, before deducting the underwriting discount paid to unaffiliated underwriters and offering expenses aggregating \$3,313. In February 2018, we entered into a note distribution agreement under which we may sell up to \$25,000 of additional 6.5% Senior Notes from time to time in an "at the market" offering. During 2018, we sold \$6,240 principal amount of 6.5% Senior Notes, pursuant to the "at the market" offering and received net proceeds of \$6,058. No compensation was paid to the agents with respect to such sales. We did not sell any 6.5% Senior Notes pursuant to the "at the market" offering during the nine months ended September 30, 2019.

On May 22, 2018, we sold \$40,000 principal amount of our 7% senior notes due May 2028 (the "7% Senior Notes") pursuant to an underwritten offering. Interest on the 7% Senior Notes accrues from May 30, 2018 and is paid quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. We may redeem the 7% Senior Notes in whole or in part on or after May 31, 2021, at our option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest. During the second quarter of 2018, the underwriters exercised their option to purchase an additional \$1,412 principal amount of the 7% Senior Notes. The offering resulted in total gross proceeds of \$41,412, before deducting (i) the underwriting discount paid to unaffiliated underwriters and offering expenses aggregating \$2,020 and (ii) \$1,622 of 7% Senior Notes repurchased by Ladenburg. In June 2018, we entered into a note distribution agreement under which we may sell up to \$25,000 of additional 7% Senior Notes from time to time in an "at the market" offering. In 2018, we sold \$2,729 principal amount of 7% Senior Notes, pursuant to the "at the market" offering for net proceeds of \$2,682. No compensation was paid to the agents with respect to such sales. We did not sell any 7% Senior Notes pursuant to the "at the market" offering during the nine months ended September 30, 2019.

On August 9, 2018, we sold \$60,000 principal amount of our 7.25% senior notes due September 2028 (the "7.25% Senior Notes") pursuant to an underwritten offering. Interest on the 7.25% Senior Notes accrues from August 16, 2018 and is paid quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. We may redeem the 7.25% Senior Notes in whole or in part on or after September 30, 2021 at our option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest. The offering resulted in total gross proceeds of \$60,000, before deducting the underwriting discount paid to unaffiliated underwriters and offering expenses aggregating \$2,135.

On May 29, 2019, we sold \$57,500 principal amount of our 7.75% senior notes due June 2029 (the "7.75% Senior Notes") pursuant to an underwritten offering. Interest on the 7.75% Senior Notes accrues from May 29, 2019 and is paid quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. We may redeem the 7.75% Senior Notes in whole or in part on or after June 30, 2022 at our option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest. The offering resulted in total gross proceeds of \$57,500, before deducting the underwriting discount paid to unaffiliated underwriters and offering expenses aggregating \$2,068.

We believe our existing assets and cash flows from operations will provide adequate funds for continuing operations at current activity levels and for payment of our obligations, including outstanding indebtedness and the dividends on our outstanding Series A Preferred Stock. We were in compliance with all covenants in our debt agreements as of September 30, 2019.

Cash provided by operating activities for the nine months ended September 30, 2019 was \$41,967, which primarily consisted of our net income of \$22,217 adjusted for non-cash expenses, decreases in other assets, securities owned, income tax receivables and other receivables, as well as increases in the deferred compensation plan, partially offset by increases in contract acquisition costs, as well as decreases in accounts payable and accrued liabilities and lease liabilities.

Cash provided by operating activities for the nine months ended September 30, 2018 was \$61,363, which primarily consisted of our net income of \$24,224 adjusted for non-cash expenses, decreases in receivables from clearing brokers, and receivables from other broker-dealers, as well as increases in commissions and fees payable, accounts payable and accrued liabilities and deferred compensation, partially offset by increases in contract acquisition costs, other receivables, net and other assets.

Investing activities used \$9,049 for the nine months ended September 30, 2019, primarily due to the purchase of furniture, equipment and leasehold improvements. Investing activities used \$12,192 for the nine months ended September 30, 2018, primarily due to the purchase of furniture, equipment and leasehold improvements and the acquisition of certain assets of KFG.

Financing activities provided \$29,605 for the nine months ended September 30, 2019, primarily due to the issuance of senior notes providing \$55,291, issuance of preferred stock providing \$9,431 and borrowings on the term note of \$7,000, partially offset by payment of \$25,987 of dividends on our Series A Preferred Stock, \$5,380 of dividends on our common stock and \$10,873 used for common stock repurchases and retirements.

Financing activities provided \$47,389 for the nine months ended September 30, 2018 primarily due to \$106,081 from the issuance of senior notes and \$4,001 from the issuance of common stock upon option exercises and under our employee stock purchase plan. This was partially offset by payment of \$25,523 of dividends on our Series A Preferred Stock, \$6,377 of dividends on our common stock, \$8,746 used for common stock repurchases and retirements and \$21,867 in payments of outstanding indebtedness that included a \$6,738 repayment of outstanding notes related to the Highland acquisition, \$6,400 repayment of outstanding notes related to the SSN acquisition, a \$2,055 repayment of outstanding notes related to the KMS acquisition and \$6,658 of bank loan and revolver payments.

At September 30, 2019, we were obligated under several non-cancelable lease agreements for office space, which provide for future minimum lease payments aggregating approximately \$41,315, through January 2030. We have subleased vacant space under subleases to unrelated subtenants, which entitle us to receive rents aggregating approximately \$38 through February 2020.

In connection with an office lease entered into in March 2016, Securities America has exercised an option to lease additional office space, which is under construction, for 12 years and would require the payment of an estimated average annual rent of \$1,700 plus operating expenses, subject to certain adjustments. The Company currently expects that this lease will commence in 2020 upon completion of the construction. Such estimated rent amounts are not included in the total minimum lease payments above.

On November 6, 2013, Securities America entered into a loan agreement (the "SA Loan Agreement") with a third-party financial institution for a \$1,000 revolving credit facility. Revolving loans bore interest at 5.5% per annum over a 5-year term. On April 21, 2017, the SA Loan Agreement was amended to modify the interest rate for new revolving loans to prime plus 2.25%. The \$1,000 revolving credit facility was terminated in February 2019.

On February 6, 2019, the SA Loan Agreement was amended to provide for a new term loan in the aggregate principal amount of \$7,000, with interest at the rate of 5.52% per annum. Securities America began monthly payments of principal and interest under the new term loan in the amount of \$212 on March 6, 2019. The term loan matures on February 6, 2022. The loans are collateralized by Securities America's assets. The SA Loan Agreement contains certain affirmative and negative covenants, including covenants regarding Securities America's client assets levels and number of financial advisors.

On August 31, 2018, as part of the consideration paid for the acquisition of certain assets of KFG, an affiliate of Highland issued a promissory note (the "KFG Note") to the former shareholders of KFG in the aggregate principal amount of \$5,450, bearing interest at 4% per annum and payable in equal monthly installments beginning on September 15, 2018, with the final installment being due on November 15, 2036. The KFG Note may be prepaid in full or in part at any time without premium or penalty. The KFG Note contains customary events of default, which if uncured, entitle the holder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the KFG Note. Total interest expense on the KFG Note was \$160 for the nine months ended September 30, 2019.

In November 2018, as part of the consideration paid for the acquisition of certain assets of Four Seasons Financial Group ("FSFG"), Highland issued two promissory notes in the amounts of \$169 and \$203, bearing interest at 3.99% and 4.75%, per annum, respectively and payable in equal monthly installments. The notes mature on October 1, 2021 and January 15, 2024, respectively.

In December 2018, as part of the consideration paid for the repurchase of 50.9 million shares of our common stock from our former principal shareholder, Phillip Frost, M.D., and an entity affiliated with Dr. Frost, Frost Nevada Investments Trust (together with Dr. Frost, the "Sellers"), we issued \$76.35 million aggregate principal amount of 7.25% Senior Notes due 2028 (the "December 2018 Notes") to the Sellers. The December 2018 Notes are senior unsecured obligations of ours and rank equally in right of payment with all of the Company's existing and future senior unsecured and unsubordinated indebtedness. The December 2018 Notes are effectively subordinated in right of payment to all of our existing and future secured indebtedness and structurally subordinated to all existing and future indebtedness of our subsidiaries. The December 2018 Notes bear interest from December 24, 2018 at the rate of 7.25% per annum, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year, commencing on March 31, 2019, and at maturity. The December 2018 Notes mature on September 30, 2028.

We may, at our option, at any time and from time to time, on or after September 30, 2021, redeem the December 2018 Notes, in whole or in part, at a redemption price equal to 100% of the outstanding principal amount thereof plus accrued and unpaid interest to, but excluding, the date fixed for redemption. On and after any redemption date, interest will cease to accrue on the redeemed December 2018 Notes. The December 2018 Notes contain exchange and resale registration rights that require us, at the written request of the note holders, to use commercially reasonable efforts to issue in exchange for the December 2018 Notes a new series of notes under our existing Indenture, dated as of November 21, 2017, as amended and supplemented from time to time, on substantially the same terms as our outstanding publicly-traded 7.25% Senior Notes due 2028, which have substantially the same terms as the December 2018 Notes, effect the registration with the SEC of the resale and listing of the December 2018 Notes on the NYSE American, and assist in marketing the December 2018 Notes for resale. We have received such written request from the note holders regarding the exchange and resale registration rights.

In March 2007, October 2011, November 2014, November 2016 and April 2019, our board of directors authorized in the aggregate the repurchase of up to 37,500,000 shares of our common stock from time to time on the open market or in privately negotiated transactions depending on market conditions. During the nine months ended September 30, 2019, 2,041,958 shares were repurchased pursuant to the repurchase program. As of September 30, 2019, 27,226,063 shares have been repurchased for \$73,194 under the program and have been retired. As of September 30, 2019, 10,273,937 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 may 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 11 to our unaudited condensed consolidated financial statements included elsewhere in this quarterly report on Form 10-Q.

Contractual Obligations

Except as set forth below, there are no material updates to the Contractual Obligations table as disclosed in our annual report on Form 10-K for the year ended December 31, 2018.

On February 6, 2019, Securities America Financial Corporation entered into an amendment to its loan agreement with a third-party financial institution to provide for a term loan in the aggregate principal amount of \$7,000, with interest accruing at the rate of 5.52%. Securities America began monthly payments of principal and interest under the term loan in the amount of \$212 on March 6, 2019. The term loan matures on February 6, 2022.

On May 29, 2019, we sold \$57,500 principal amount of our 7.75% Senior Notes pursuant to an underwritten offering. Interest on the 7.75% Senior Notes accrues from May 29, 2019 and is paid quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. We may redeem the 7.75% Senior Notes in whole or in part on or after June 30, 2022 at our option, at a redemption price equal to 100% of their principal amount, plus accrued and unpaid interest. The offering resulted in total gross proceeds of \$57,500, before deducting the underwriting discount paid to unaffiliated underwriters and offering expenses aggregating \$2,068.

Due to new lease arrangements resulting from Highland's acquisitions of certain assets of KFG and Four Seasons, Highland is obligated to make payments of \$2,030 through 2025 relating to KFG's lease and to make payments of \$192 through December 2022 relating to Four Seasons' lease.

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 September 30, 2019, the fair market value of our inventories was \$4,601 in long positions and \$35 in short positions. We performed an entity-wide analysis of our financial instruments and assessed the related market risk. Based on this analysis, we do not expect that the market risk associated with our financial instruments at September 30, 2019 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, 2018 and our subsequent quarterly reports, 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, 2018.

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 (the "Exchange Act") 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 September 30, 2019 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 10 to our unaudited condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Item 1A. RISK FACTORS

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, 2018.

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 third quarter of 2019.

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 ⁽¹⁾
July 1 to July 31, 2019	155,571	\$ 3.38	155,571	10,273,937
August 1 to August 31, 2019	—	—	—	10,273,937
September 1 to September 30, 2019	—	—	—	10,273,937
Total	<u>155,571</u>	<u>\$ 3.38</u>	<u>155,571</u>	

- (1) In March 2007, October 2011, November 2014, November 2016 and April 2019, our board of directors authorized in the aggregate the repurchase of up to 37,500,000 shares of our common stock from time to time on the open market or in privately negotiated transactions depending on market conditions. As of September 30, 2019, 27,226,063 shares had been repurchased for \$73,194 under the program and 10,273,937 shares remain available for repurchase under the program depending on market conditions. In April 2019, our board of directors authorized the repurchase of up to an additional 10,000,000 shares of our common stock from time to time on the open market or in privately negotiated transactions depending on market conditions. 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 may execute similar Rule 10b5-1 plans periodically in the future.

Item 6. EXHIBITS

Exhibit No.	Description
31.1	<u>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*</u>
31.2	<u>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*</u>
32.1	<u>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**</u>
32.2	<u>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**</u>
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: November 8, 2019

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

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

I, Richard J. Lampen, certify that:

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

Date: November 8, 2019

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

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

I, Brett H. Kaufman, certify that:

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

Date: November 8, 2019

/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 September 30, 2019 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: November 8, 2019

/s/ Richard J.

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

SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

In connection with the Quarterly Report of Ladenburg Thalmann Financial Services Inc. (the "Company") on Form 10-Q for the period ended September 30, 2019 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: November 8, 2019

/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.