

Registered	Registered(1)	Share(2)	Aggregate Offering Price	Fee
<S> Common stock, par value \$0.0001 per share(3)	<C> (4)	<C> (4)	<C> \$10,000,000.00	<C> \$920.00

TOTAL FEE \$920.00

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- (1) Pursuant to Rule 416, there are also being registered additional shares of common stock which may be issued or distributed as a result of a dividend, stock split or other distribution with respect to the shares of common stock registered in this registration statement.
- (2) Estimated solely for the purpose of calculating the amount of the registration fee, based upon the average of the high and low prices of the common stock as reported by The American Stock Exchange on May 21, 2002, in accordance with Rule 457(c) of the Securities Act of 1933.
- (3) Represents the shares of common stock issuable upon exercise of the subscription rights.
- (4) The actual number of shares of common stock to be registered and the proposed offering price per share are omitted pursuant to Rule 457(c) as they cannot be determined at this time.

The registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

Preliminary Prospectus
Subject to Completion, May 23, 2002

LADENBURG THALMANN FINANCIAL SERVICES INC.

Rights Offering of _____ shares of common stock
at \$___ per share

We have granted to each of our shareholders and offered to each holder of our options, warrants and senior convertible promissory notes on _____, 2002 a subscription right to purchase additional shares of our common stock. Each subscription right will entitle you to purchase one share of common stock for every ___ shares owned, or deemed owned, by you at a subscription price of \$___ per share. Each holder of our outstanding options, warrants and senior convertible promissory notes will be deemed to own that number of shares of our common stock that they would own if they had exercised or converted their securities on _____, 2002.

If you fully exercise your rights and other shareholders do not, you may be able to purchase additional shares of common stock at a subscription price of \$___ per share.

We will not issue fractional rights or fractional shares. If the number of shares of common stock you own, or are deemed to own, on the record date would result in your receipt of fractional rights, the number of rights issued to you is being rounded up to the nearest whole number.

The rights are immediately exercisable and expire on _____, 2002, at 5 p.m., New York City time. However, we have the option in our sole discretion to extend the expiration date for up to 30 days.

Our common stock is traded on the American Stock Exchange under the symbol "LTS." On _____, 2002 the last reported sale price of our common stock was \$____. The rights will not be listed for trading on the American Stock Exchange or on any other national securities exchange. Except with our prior written consent, the rights may not be sold or transferred.

Investing in our common stock involves a high degree of risk. See "Risk Factors" beginning on page 9 for a discussion of information that should be considered in connection with an investment in our common stock.

Per share of Common Stock	Total
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Proceeds to us(1) \$_____ \$10,000,000

(1) Prior to deducting expenses payable by us estimated at approximately \$_____.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is _____, 2002

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide you with information different from that contained in this prospectus. The selling shareholders are offering to sell, and seeking offers to buy, shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

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PROSPECTUS SUMMARY

We are a holding company engaged in retail and institutional securities brokerage, investment banking and research services through our two operating subsidiaries, Ladenburg Thalmann & Co. Inc. and Ladenburg Capital Management Inc.

Ladenburg Thalmann & Co.

Ladenburg Thalmann & Co. is a full service broker-dealer that has been a member of the New York Stock Exchange ("NYSE") since 1879. It provides its services principally for middle market and emerging growth companies and high net worth individuals through a coordinated effort among corporate finance, research, capital markets, investment management, brokerage and trading professionals. Ladenburg Thalmann & Co. is subject to regulation by, among others, the Securities and Exchange Commission ("SEC"), the NYSE, the National Association of Securities Dealers, Inc. ("NASD") and the Securities Investor Protection Corporation ("SIPC"). Ladenburg Thalmann & Co. currently has approximately 110 registered representatives and 80 other full time employees. Its client services and institutional sales departments serve approximately 22,000 accounts worldwide and its asset management area provides investment management and financial planning services to numerous individuals and institutions.

Ladenburg Capital Management

Ladenburg Capital Management is a registered broker-dealer and a member firm of the NASD and the SIPC. Ladenburg Capital Management's business activities consist primarily of retail sales and trading of exchange listed and over-the-counter equity securities, options and mutual funds, as well as investment banking and research services. It currently has approximately 450 registered representatives and 113 other full time employees maintaining approximately 61,128 retail and institutional accounts.

We were incorporated under the laws of the State of Florida in February 1996. Ladenburg Thalmann & Co. was incorporated under the laws of the State of Delaware in December 1971 and became our wholly owned subsidiary in May 2001. Ladenburg Capital Management was incorporated under the laws of the State of New York in September 1983 and became a wholly owned subsidiary in August 1999. Our principal executive offices, as well as those of Ladenburg Thalmann & Co., are located at 590 Madison Avenue, New York, New York 10022 and both of our telephone numbers are (212) 409-2000. Ladenburg Thalmann & Co. maintains a website located at www.ladenburg.com. Ladenburg Capital Management's principal executive offices are located at 1055 Stewart Avenue, Bethpage, New York 11714 and its telephone number is (516) 470-1000. Ladenburg Capital Management's website is located at www.ladenburgcapital.com.

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The Rights Offering

What is a rights offering?

A rights offering is where a company offers to each of its existing shareholders the opportunity to purchase an additional number of shares of common stock based on the number of shares of common stock owned by each shareholder on the record date. The rights offering enables a company's shareholders to purchase additional shares of common stock while still maintaining their same percentage ownership in the company.

Who can participate in the rights offering?

Each holder of our common stock and each holder of our outstanding options, warrants and senior convertible promissory notes on _____, 2002 will be entitled to participate in the rights offering.

What is a subscription right?

Each subscription right enables you to purchase one share of common stock for every ____ shares of common stock you own, or are deemed to own, on the record date. If you hold options, warrants or senior convertible promissory notes, you will be deemed to own the number of shares of common stock that you would own if you had exercised or converted your securities on the record date. Each subscription right carries with it a basic subscription right and an over-subscription privilege.

What is the over-subscription privilege?

We do not expect that all of our shareholders will exercise their basic subscription rights in full. The over-subscription privilege entitles you to subscribe for additional shares of common stock not acquired by other holders of basic subscription rights, subject to the limitations described below.

What are the limitations on the over-subscription privilege?

We will issue a maximum of _____ shares of common stock in the rights offering. We will be able to satisfy your exercise of the over-subscription privilege only if other shareholders do not elect to purchase all of the shares offered to them under the basic subscription rights. We will honor over-subscription privileges in full to the extent we have sufficient shares available following the exercise of the basic subscription rights. If over-subscription requests exceed the number of shares remaining in the rights offering, we will allocate the available shares pro rata, in successive rounds, based on the number of shares each over-subscribing shareholder purchased under the basic subscription right until all the shares have been subscribed for.

Your over-subscription privilege is also subject to the following conditions:

- o you must exercise the over-subscription privilege at the same time you exercise your basic subscription right;
- o you must exercise your basic subscription right in full; and
- o in exercising your over-subscription privilege, you must pay the full subscription price for all the shares you are electing to purchase.

Additionally, in some circumstances, in order to comply with applicable state securities laws, we may not be able to honor all over-subscription privileges even if we have shares available and the above conditions were satisfied.

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If all basic subscription rights and over-subscription privileges have been satisfied in full and shares still remain available for issuance in the offering, New Valley Corporation will purchase up to \$5 million of the shares, as more fully described below under the caption "Have other shareholders

indicated to Ladenburg that they intend to participate in the rights offering?".

What does it mean to exercise a subscription right?

When you "exercise" a subscription right, you are choosing to purchase the common stock that the subscription right entitles you to purchase. You may exercise any number of your subscription rights, or you may choose not to exercise your subscription rights at all.

How and by what date must I exercise my subscription rights?

You must properly complete the attached subscription rights certificate and deliver it to the subscription agent before 5:00 p.m., New York City time, on _____, 2002. Your subscription rights certificate must be accompanied by proper payment for each share that you wish to purchase. If you do not exercise your subscription rights before the expiration date, your subscription rights will expire and become null and void.

What should I do if I want to participate in the rights offering but my shares are held in the name of my broker or a custodian bank?

If your shares of common stock are held through a broker, dealer or other nominee, then your broker, dealer or other nominee is the record holder of your shares. This record holder must exercise the rights on your behalf for shares of common stock you wish to purchase. Therefore, you will need to have your record holder act on your behalf. If you wish to participate in this rights offering and purchase shares of common stock, please promptly contact your record holder. To indicate your decision with respect to your rights, you should complete and return to your record holder the form entitled "Beneficial Owner Election Form." You should have received this form from your record holder with the other rights offering materials.

Have other shareholders indicated to Ladenburg that they intend to participate in the rights offering?

Yes. Several of our executive officers, directors and principal shareholders have indicated that they will exercise their basic subscription rights and over-subscription privileges for up to a total of \$_____ of rights in the rights offering.

Additionally, New Valley Corporation has agreed to purchase up to _____ shares of common stock being offered in the rights offering if, after all other shareholders have been given the chance to purchase as many shares as they wish in the offering, there still remains shares left unsubscribed for. Thus, if the rights offering is fully subscribed for by other shareholders, New Valley will not purchase any shares in the offering.

New Valley is the beneficial owner of approximately 8.6% of our common stock. Additionally, certain directors of New Valley are also directors of ours and one executive officer of New Valley is an executive officer of ours.

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Why is Ladenburg conducting the rights offering?

We are conducting the rights offering to raise additional working capital. We chose the form of a rights offering over other alternatives to provide the holders of our common stock and outstanding options, warrants and senior convertible promissory notes with the opportunity to avoid dilution by participating in the offering on a pro rata basis.

Has Ladenburg's board of directors made a recommendation regarding the rights offering?

Our board of directors is not making any recommendation as to whether or not you should exercise any of your rights. You should make your decision based on an assessment of your own best interests.

After I exercise my subscription rights, can I change my mind?

No. Once you send in your subscription rights certificate and payment, you cannot revoke the exercise of your subscription rights even if you later learn information about us that you consider to be unfavorable. We will have immediate use of the funds sent as payment by you once we receive it. You should not exercise your subscription rights unless you are certain that you wish to purchase shares of our common stock.

Is exercising the subscription rights risky?

Yes. Exercising your subscription rights means you are purchasing additional shares of our common stock. Purchasing shares of our common stock involves risks and there is a possibility that you could lose all of the money you invest in this offering. You should consider exercising your subscription rights as carefully as you would view other equity investments. Among other things, you should carefully consider the risks described under the heading "Risk Factors" beginning on page 9.

Must I exercise my subscription rights?

No. You are not required to exercise any rights, purchase any shares or otherwise take any action in response to this rights offering.

What happens if I do not exercise my subscription rights?

If you do not exercise your subscription rights, you will continue to own, or be deemed to own, the same number of shares of common stock that you did prior to the rights offering. However, if other shareholders exercise their rights and you do not, your relative percentage ownership of our common stock will decrease and your relative voting rights and economic interests will be diluted.

Can I sell or give away my subscription rights?

No. Except with our prior written consent, the subscription rights are not transferable.

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What are the federal income tax consequences of receiving and exercising the subscription rights?

The receipt and exercise of the subscription rights granted to holders of our common stock and warrants should not result in any taxable income to those holders. The receipt of subscription rights granted to holders of our stock options should not result in taxable income to those holders, but they will recognize ordinary income upon the exercise of the rights in an amount equal to the excess, if any, of the fair market value of the common stock at the time of exercise over the subscription price. The receipt and exercise of subscription rights granted to holders of our senior convertible promissory notes should not result in any taxable income to those holders. However, the receipt of the rights by these individuals will be treated as a return of basis. You should review the discussion of the tax consequences of the rights offering under the heading "Material Federal Income Tax Considerations" beginning on page 26. You should also seek specific tax advice from your personal tax advisor.

If I exercise my subscription rights, when will I receive my additional shares of common stock?

If you purchase shares of common stock through the rights offering, you will receive your additional shares as soon as practicable after the expiration date of the rights offering. Subject to state securities laws and regulations, we have the discretion to delay allocation and distribution of any shares you may elect to purchase in order to comply with state securities laws.

Can Ladenburg cancel the rights offering?

Yes. Our board of directors may cancel the rights offering in its sole and absolute discretion at any time before 5:00 p.m., New York City time on _____, 2002. However, we do not expect to cancel the rights offering and are not aware of any facts or circumstances which would cause us to do so. We have reserved this right for our protection only in the event we learn of facts or future events that would cause us to determine that the rights offering is not in our best interests. If we do cancel the rights offering, any money received from our shareholders will be refunded promptly.

If the rights offering is cancelled or my subscription is not accepted for some reason, will I be paid interest on the money sent by me to exercise my rights?

No. You will not be paid any interest on the money sent by you to exercise your rights. If the rights offering is cancelled or we are unable to accept your subscription for any reason, we will only be obligated to return to you money actually sent by you to us.

How much money will Ladenburg receive from the rights offering?

The gross proceeds we will receive from the rights offering will depend on the number of shares of common stock that are purchased in the offering. If we sell all _____ shares which may be purchased upon exercise of the subscription rights offered by this prospectus, we will receive proceeds of approximately \$10,000,000, before deducting expenses payable by us, estimated to be approximately \$_____.

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How many shares of common stock will be outstanding after the rights offering?

The number of shares of common stock that will be outstanding after the rights offering depends on the number of shares that are purchased. Since New Valley has agreed to purchase up to _____ shares not purchased by our other shareholders, we expect to issue at least _____ shares of common stock during this rights offering, and if we sell all of the shares of common stock offered by this prospectus, then we will issue _____ new shares of common stock. As

a result, we expect to have between approximately _____ and _____ shares of common stock outstanding immediately after the rights offering, excluding shares issuable upon exercise or conversion of outstanding options, warrants or other convertible securities.

What should I do if I have other questions?

If you have any other questions, need additional copies of offering documents or otherwise need assistance, please contact our corporate secretary, Joseph Giovanniello Jr., Ladenburg Thalmann Financial Services Inc., 590 Madison Avenue, 34th Floor, New York, New York 10022, telephone number (212) 409-2544. To ask other questions or to receive copies of our recent SEC filings, you can also contact us by mail or telephone, or refer to the other sources described under the heading "Where You Can Find More Information" beginning on page 29 of this prospectus.

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RISK FACTORS

You should carefully consider the risks described below before you decide to invest in our company. The risks described below are not the only ones facing us. Additional risks not presently known to us or that we currently believe are immaterial may also impair our business operations. Our business, financial condition or results of operation could be materially adversely affected by any of these risks. The trading price of our common stock could decline because of any one of these risks, and you may lose all or part of your investment.

Risks Related to the Rights Offering

If you do not exercise all of your rights, you may suffer significant dilution to your percentage ownership of our common stock.

This rights offering is designed to enable us to raise capital while allowing all of our shareholders and holders of our derivative securities on the record date to maintain their relative proportionate voting and economic interests. To the extent that other shareholders exercise their rights and you do not, your proportionate voting and ownership interests will be reduced.

The price of our common stock may decline during or after the rights offering.

We cannot assure you that the public trading market price for our common stock will stay at its current level after you elect to exercise your rights. If the price of our common stock declines during or after the rights offering, you may have committed to buy shares of common stock at a price above the prevailing market price and you will have an immediate unrealized loss. Moreover, we cannot assure you that following the exercise of rights you will be able to sell your shares of common stock at a price equal to or greater than the subscription price. Although certificates representing the shares of common stock purchased in the rights offering will be delivered as soon as practicable after the expiration of the rights offering, until the shares are actually delivered, you may not be able to sell the shares that you purchase.

The subscription price is not an indication of our value.

Our board of directors set the subscription price after considering a variety of factors, including the desire to encourage full shareholder participation in the rights offering. The subscription price does not necessarily bear any relationship to the book value of our assets, past operations, cash flows, losses, financial condition or any other established criteria for value. We have neither sought nor obtained a valuation opinion from an outside financial consultant or investment banker.

Once you exercise your subscription rights, you cannot revoke or change your subscription.

You are not allowed to revoke or change your exercise of rights after you send in your subscription rights certificate and payment even if you later learn information about us that you consider to be unfavorable. Once you send in your payment, we will have immediate use of those funds. Additionally, if we cancel this rights offering, you will not receive any interest on the payment sent to us as we are only obligated to refund payments actually received by us.

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You need to act promptly and follow the subscription instructions in order to participate in the rights offering.

Shareholders who desire to purchase shares of common stock in this rights offering must act promptly to ensure that all required forms and payments are actually received by our subscription agent, American Stock Transfer & Trust

Company, prior to the expiration date. If you fail to complete and sign the required subscription forms, send an incorrect payment amount, or otherwise fail to follow the subscription procedures that apply to your desired transaction, we may, depending on the circumstances, reject your subscription or accept it to the extent of the payment received. Neither we nor American Stock Transfer & Trust Company are required to contact you concerning, or attempt to correct, an incomplete or incorrect subscription form or payment. We have the sole discretion to determine whether a subscription exercise properly follows the subscription procedures.

We will have broad discretion in using the proceeds of this offering.

We intend to use the proceeds from this offering for working capital and other general corporate purposes, including the repayment of a \$2.5 million promissory note that we issued to New Valley in March 2002 which by its terms must be repaid upon the earlier of June 30, 2002 and the consummation of an equity offering raising in excess of \$5 million. Accordingly, we will have broad discretion in using the proceeds. You will not have the opportunity to evaluate the economic, financial or other information that we will use to determine how to use our proceeds.

Risks Related to our Company

We are subject to various risks associated with the securities industry.

As securities broker-dealers, Ladenburg Thalmann & Co. and Ladenburg Capital Management are subject to uncertainties that are common in the securities industry. These uncertainties include:

- o the volatility of domestic and international financial, bond and stock markets, as demonstrated by recent disruptions in the financial markets;
- o extensive governmental regulation;
- o litigation;
- o intense competition;
- o substantial fluctuations in the volume and price level of securities; and
- o dependence on the solvency of various third parties.

As a result, revenues and earnings may vary significantly from quarter to quarter and from year to year. In periods of low volume, profitability is impaired because certain expenses remain relatively fixed. Ladenburg Thalmann & Co. and Ladenburg Capital Management are much smaller and have much less capital than many competitors in the securities industry. In the event of a market downturn, our business could be adversely affected in many ways, including those described below. Our revenues are likely to decline in such circumstances and, if we are unable to reduce expenses at the same pace, our profit margins would erode.

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Our business could be adversely affected by a breakdown in the financial markets.

As a securities broker-dealer, our business is materially affected by conditions in the financial markets and economic conditions generally, both in the United States and elsewhere around the world. Many factors or events could lead to a breakdown in the financial markets including war, terrorism, natural catastrophes and other types of disasters. These types of events could cause people to begin to lose confidence in the financial markets and their ability to function effectively. If the financial markets are unable to effectively prepare for these types of events and ease public concern over their ability to function, our revenues are likely to decline and our operations will be adversely affected.

We have incurred, and may in the future incur, significant losses from trading and investment activities due to market fluctuations and volatility.

We generally maintain trading and investment positions in the equity markets. To the extent that we own assets, i.e., have long positions, in those markets, a downturn in those markets could result in losses from a decline in the value of those long positions. Conversely, to the extent that we have sold assets that we do not own, i.e., have short positions, in any of those markets, an upturn in those markets could expose us to potentially unlimited losses as we attempt to cover our short positions by acquiring assets in a rising market.

We may from time to time have a trading strategy consisting of holding a long position in one asset and a short position in another from which we expect to earn revenues based on changes in the relative value of the two assets. If, however, the relative value of the two assets changes in a direction or manner that we did not anticipate or against which we are not hedged, we might realize a loss in those paired positions. In addition, we maintain trading

positions that can be adversely affected by the level of volatility in the financial markets, i.e., the degree to which trading prices fluctuate over a particular period, in a particular market, regardless of market levels.

Our revenues may decline in adverse market or economic conditions.

Unfavorable financial or economic conditions may reduce the number and size of the transactions in which we provide underwriting services, merger and acquisition consulting and other services. Our investment banking revenues, in the form of financial advisory and underwriting fees, are directly related to the number and size of the transactions in which we participate and would therefore be adversely affected by a sustained market downturn. Additionally, a downturn in market conditions could lead to a decline in the volume of transactions that we execute for our customers and, therefore, to a decline in the revenues we receive from commissions and spreads.

Our risk management policies and procedures may leave us exposed to unidentified risks or an unanticipated level of risk.

The policies and procedures we employ to identify, monitor and manage risks may not be fully effective. Some methods of risk management are based on the use of observed historical market behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than the historical measures indicate. Other risk management methods depend on evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible by us. This information may not be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. We cannot assure you that our policies and procedures will effectively and accurately record and verify this information.

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We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems. We believe that we effectively evaluate and manage the market, credit and other risks to which we are exposed. Nonetheless, the effectiveness of our ability to manage risk exposure can never be completely or accurately predicted or fully assured. For example, unexpectedly large or rapid movements or disruptions in one or more markets or other unforeseen developments can have a material adverse effect on our results of operations and financial condition. The consequences of these developments can include losses due to adverse changes in inventory values, decreases in the liquidity of trading positions, higher volatility in earnings, increases in our credit risk to customers as well as to third parties and increases in general systemic risk.

Credit risk exposes us to losses caused by financial or other problems experienced by third parties.

We are exposed to the risk that third parties that owe us money, securities or other assets will not perform their obligations. These parties include:

- o trading counterparties;
- o customers;
- o clearing agents;
- o exchanges;
- o clearing houses; and
- o other financial intermediaries as well as issuers whose securities we hold.

These parties may default on their obligations owed to us due to bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from:

- o holding securities of third parties;
- o executing securities trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries; and
- o extending credit to clients through bridge or margin loans or other arrangements.

Significant failures by third parties to perform their obligations owed to us could adversely affect our revenues and perhaps our ability to borrow in the credit markets.

We may have difficulty effectively managing our growth.

Over the past several years, we have experienced significant growth in our business activities and the number of our employees through a variety of transactions. For instance, in May 2001, we acquired Ladenburg Thalmann & Co. and significantly increased the number of registered representatives under our control. We expect our business to continue to grow. Growth of this nature involves numerous risks such as:

- o difficulties and expenses incurred in connection with the subsequent assimilation of the operations and services or products of the acquired company;
- o the potential loss of key employees of the acquired company; and
- o the diversion of management's attention from other business concerns.

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If we are unable to effectively address these risks, we may be required to restructure the acquired business or write off the value of some or all of the assets of the acquired business. Further, this type of growth requires increased investments in management personnel, financial and management systems and controls, and facilities. We cannot assure you that we will experience parallel growth in these areas. If these areas do not grow at the same time, our operating margins may decline from current levels.

Additionally, as is common in the securities industry, we will continue to be highly dependent on the effective and reliable operation of our communications and information systems. We believe that our current and anticipated future growth will require implementation of new and enhanced communications and information systems and training of our personnel to operate such systems. Any difficulty or significant delay in the implementation or operation of existing or new systems or the training of personnel could adversely affect our ability to manage our growth.

We depend on several key employees and the loss of any of their services could harm our business.

Our success is dependent in large part upon the services of several key employees. We have employment agreements with Victor Rivas, Richard Rosenstock, Mark Zeitchick and Vincent Mangone which provide for these individuals to be employed by us through August 2004. Each of these individuals, however, may terminate their agreement upon 30 days' notice. Although the employment agreements contain various incentives designed to retain the services of these individuals, including stock options and other incentive based awards as well as non-solicitation provisions in our favor, these provisions may be insufficient to keep these individuals from leaving us for a more lucrative opportunity. This is especially true in light of the increasing competition for experienced professionals in the securities industry. We do not maintain and do not intend to obtain key man insurance on the lives of any of these individuals. In the event that any of these individuals terminate their agreements or otherwise leave our company, our operations may be materially and adversely affected.

We face significant competition for professional employees.

From time to time, individuals we employ may choose to leave our company to pursue other opportunities. We have experienced losses of research, investment banking and sales and trading professionals in the past and the level of competition for key personnel remains intense. We cannot assure you that the loss of key personnel will not occur again in the future. The loss of an investment banking, research, or sales and trading professional, particularly a senior professional with a broad range of contacts in an industry, could materially and adversely affect our operating results.

Intense competition from existing and new entities may adversely affect our revenues and profitability.

The securities industry is rapidly evolving, intensely competitive and has few barriers to entry. We expect competition to continue and intensify in the future. Many of our competitors have significantly greater financial, technical, marketing and other resources than we do. Some of our competitors also offer a wider range of services and financial products than we do and have greater name recognition and a larger client base. These competitors may be able to respond more quickly to new or changing opportunities, technologies and client requirements. They may also be able to undertake more extensive promotional activities, offer more attractive terms to clients, and adopt more aggressive pricing policies. We may not be able to compete effectively with current or future competitors and competitive pressures faced by us may harm our business.

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We currently do not have internet brokerage service capability.

Recently, a growing number of brokerage firms have begun offering internet brokerage services to their customers in response to increased customer demand for these services. While we intend to offer internet brokerage services in the future, we may not be able to offer services that will appeal to our current or prospective customers and these services may not be profitable. Our failure to commence internet brokerage services in the near future could have a material adverse effect on our business. Additionally, if we commence internet brokerage services but are unable to attract customers for our services, our revenues will decline.

We rely on clearing brokers and termination of the agreements with these clearing brokers could disrupt our business.

Ladenburg Thalmann & Co. and Ladenburg Capital Management use clearing brokers to process their securities transactions and maintain customer accounts on a fee basis. The clearing brokers also provide billing services, extend credit and provide for control and receipt, custody and delivery of securities. Our broker-dealers depend on the operational capacity and ability of the clearing brokers for the orderly processing of transactions. In addition, by engaging the processing services of a clearing firm, Ladenburg Thalmann & Co. and Ladenburg Capital Management are exempt from some capital reserve requirements and other regulatory requirements imposed by federal and state securities laws. If the clearing agreements are terminated for any reason, we would be forced to find alternative clearing firms. We cannot assure you that we would be able to find an alternative clearing firm on acceptable terms to them or at all.

Clearing brokers extend credit to our clients and we are liable if the clients do not pay.

Ladenburg Thalmann & Co. and Ladenburg Capital Management permit their clients to purchase securities on a margin basis or sell securities short, which means that the clearing firm extends credit to the client secured by cash and securities in the clients' account. During periods of volatile markets, the value of the collateral held by the clearing brokers could fall below the amount borrowed by the client. If margin requirements are not sufficient to cover losses, the clearing brokers sell or buy securities at prevailing market prices, and may incur losses to satisfy client obligations. Ladenburg Thalmann & Co. and Ladenburg Capital Management have agreed to indemnify the clearing brokers for losses they incur while extending credit to their clients.

The precautions we take to prevent and detect employee misconduct may not be effective and we could be exposed to unknown and unmanaged risks or losses.

We run the risk that employee misconduct could occur. Misconduct by employees could include:

- o employees binding us to transactions that exceed authorized limits or present unacceptable risks to us;
- o employees hiding unauthorized or unsuccessful activities from us; or
- o the improper use of confidential information.

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These types of misconduct could result in unknown and unmanaged risks or losses to us including regulatory sanctions and serious harm to our reputation. The precautions we take to prevent and detect these activities may not be effective. If employee misconduct does occur, our business operations could be materially adversely affected.

We are currently subject to extensive securities regulation and the failure to comply with these regulations could subject us to penalties or sanctions.

The securities industry and our business is subject to extensive regulation by the SEC, state securities regulators and other governmental regulatory authorities. We are also regulated by industry self-regulatory organizations, including the NYSE, the NASD and the Municipal Securities Rulemaking Board.

Ladenburg Thalmann & Co. and Ladenburg Capital Management are registered broker-dealers with SEC and member firms of the NASD. Ladenburg Thalmann & Co. is also a member firm of the NYSE. Broker-dealers are subject to regulations which cover all aspects of the securities business, including:

- o sales methods and supervision;
- o trading practices among broker-dealers;
- o use and safekeeping of customers' funds and securities;
- o capital structure of securities firms;
- o record keeping; and

- o the conduct of directors, officers and employees.

Much of the regulation of broker-dealers has been delegated to self-regulatory organizations, principally the NASD Regulation, Inc., the regulatory arm of the NASD, and the NYSE, which are our primary regulatory agencies. NASD Regulation and the NYSE adopt rules, subject to approval by the SEC, that govern its members and conducts periodic examinations of member firms' operations.

Compliance with many of the regulations applicable to us involves a number of risks, particularly in areas where applicable regulations may be subject to varying interpretation. The requirements imposed by these regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. Consequently, these regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements. If we are found to have violated an applicable regulation, administrative or judicial proceedings may be initiated against us that may result in:

- o censure;
- o fine;
- o civil penalties, including treble damages in the case of insider trading violations;
- o the issuance of cease-and-desist orders;
- o the deregistration or suspension of our broker-dealer activities;
- o the suspension or disqualification of our officers or employees; or
- o other adverse consequences.

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The imposition of any of these or other penalties could have a material adverse effect on our operating results and financial condition.

The regulatory environment is also subject to change. We may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other federal or state governmental regulatory authorities, or self-regulatory organizations. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations.

Failure to comply with net capital requirements could subject us to suspension or revocation by the SEC or suspension or expulsion by the NASD and the NYSE.

Each of our subsidiaries is subject to the SEC's net capital rule which requires the maintenance of minimum net capital. The net capital rule is designed to measure the general financial integrity and liquidity of a broker-dealer. In computing net capital, various adjustments are made to net worth which exclude assets not readily convertible into cash. Additionally, the regulations require that certain assets, such as a broker-dealer's position in securities, be valued in a conservative manner so as to avoid over-inflation of the broker-dealer's net capital. The net capital rule requires that a broker-dealer maintain a certain minimum level of net capital and a certain ratio of net capital to aggregate indebtedness. The particular levels vary in application depending upon the nature of the activity undertaken by a firm. Compliance with the net capital rule limits those operations of broker-dealers which require the intensive use of their capital, such as underwriting commitments and principal trading activities. The rule also limits the ability of securities firms to pay dividends or make payments on certain indebtedness such as subordinated debt as it matures. A significant operating loss or any charge against net capital could adversely affect the ability of a broker-dealer to expand or, depending on the magnitude of the loss or charge, maintain its then present level of business. The NASD and the NYSE may enter the offices of a broker-dealer at any time, without notice, and calculate the firm's net capital. If the calculation reveals a deficiency in net capital, the NASD may immediately restrict or suspend certain or all of the activities of a broker-dealer, including its ability to make markets. Our subsidiaries may not be able to maintain adequate net capital, or their net capital may fall below requirements established by the SEC, and subject us to disciplinary action in the form of fines, censure, suspension, expulsion or the termination of business altogether.

Risk of losses associated with securities laws violations and litigation.

Many aspects of our business involve substantial risks of liability. An underwriter is exposed to substantial liability under federal and state securities laws, other federal and state laws, and court decisions, including decisions with respect to underwriters' liability and limitations on indemnification of underwriters by issuers. For example, a firm that acts as an underwriter may be held liable for material misstatements or omissions of fact in a prospectus used in connection with the securities being offered or for

statements made by its securities analysts or other personnel. In recent years, there has been an increasing incidence of litigation involving the securities industry, including class actions that seek substantial damages. Our underwriting activities will usually involve offerings of the securities of smaller companies, which often involve a higher degree of risk and are more volatile than the securities of more established companies. In comparison with more established companies, smaller companies are also more likely to be the subject of securities class actions, to carry directors and officers liability insurance policies with lower limits or not at all, and to become insolvent. Each of these factors increases the likelihood that an underwriter of a smaller companies' securities will be required to contribute to an adverse judgment or settlement of a securities lawsuit.

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In the normal course of business, our operating subsidiaries have been and continue to be the subject of numerous civil actions and arbitrations arising out of customer complaints relating to our activities as a broker-dealer, as an employer and as a result of other business activities. In general, the cases involve various allegations that our employees had mishandled customer accounts. We believe that, based on our historical experience and the reserves established by us, the resolution of the claims presently pending will not have a material adverse effect on our financial condition. However, although we typically reserve an amount we believe will be sufficient to cover any damages assessed against us, we have in the past been assessed damages that exceeded our reserves. If we misjudged the amount of damages that may be assessed against us from pending or threatened claims, or if we are unable to adequately estimate the amount of damages that will be assessed against us from claims that arise in the future and reserve accordingly, our financial condition may be materially adversely affected.

Our principal shareholders including our directors and officers control a large percentage of our shares of common stock and can significantly influence our corporate actions.

At the present time, our executive officers, directors and companies that these individuals control beneficially own approximately 43% of our common stock. Accordingly, these individuals and entities will be able to significantly influence most, if not all, of our corporate actions, including the election of directors and the appointment of officers. Additionally, this ownership of our common stock may make it difficult for a third party to acquire control of us, therefore possibly discouraging third parties from seeking to acquire us. A third party would have to negotiate any possible transactions with these principal shareholders, and their interests may be different from the interests of our other shareholders. This may depress the price of our common stock. Possible additional issuances will cause dilution.

While we currently have outstanding 42,025,211 shares of common stock, options to purchase a total of 5,171,629 shares of common stock, warrants to purchase a total of 200,000 shares of common stock and senior convertible promissory notes initially convertible into 11,296,746 shares of common stock, we are authorized to issue up to 100,000,000 shares of common stock and are therefore able to issue additional shares without being required to obtain shareholder approval. If we issue additional shares, or if our existing shareholders exercise or convert their outstanding options or notes, our other shareholders may find their holdings drastically diluted, which if it occurs, means that they will own a smaller percentage of our company.

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The American Stock Exchange may delist our common stock from quotation on its exchange.

Our common stock is currently quoted on the American Stock Exchange. In order to continue quotation of our common stock, we must maintain certain financial, distribution and stock price levels. If we are unable to maintain these levels, the American Stock Exchange may delist our common stock from trading on its exchange. If this occurs, we could face significant material adverse consequences including:

- o a limited availability of market quotations for our common stock;
- o a limited amount of news and analyst coverage for our company; and
- o a decreased ability to issue additional securities or obtain additional financing in the future.

We may issue preferred stock with preferential rights that may adversely affect your rights.

The rights of our shareholders will be subject to and may be adversely affected by the rights of holders of any preferred stock that we may issue in

the future. Our articles of incorporation authorize our board of directors to issue up to 2,000,000 shares of "blank check" preferred stock and to fix the rights, preferences, privilege and restrictions, including voting rights, of these shares without further shareholder approval.

WARNING REGARDING OUR USE OF FORWARD-LOOKING STATEMENTS

Some of the statements contained in this prospectus are forward-looking that relate to possible future events, our future performance and our future operations. In some cases, you can identify these forward-looking statements by the use of words such as "may," "will," "should," "anticipates," "believes," "expects," "plans," "future," "intends," "could," "estimate," "predict," "potential," "continue," or the negative of these terms or other similar expressions. These statements are only our predictions. Our actual results could and likely will differ materially from these forward-looking statements for many reasons, including the risks described above and appearing elsewhere in this prospectus. We cannot guarantee future results, levels of activities, performance or achievements. We are under no duty to update any of the forward-looking statements after the date of this prospectus to conform them to actual results or to changes in our expectations.

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PROCEDURES OF THE RIGHTS OFFERING

Before exercising any rights, you should carefully consider the information set forth under the heading "Risk Factors" beginning on page 9 of this prospectus.

Reason for the rights offering

We believe that a rights offering provides several advantages over a traditional public offering. First, it allows us to offer our shares to investors who already have some knowledge of our business. We are also able to distribute the shares to a broader, more stable shareholder base than might otherwise be available in the context of an underwritten public offering. Second, a rights offering enables our shareholders to purchase additional shares of our common stock and maintain and possibly increase their current percentage ownership.

No board investment recommendation to shareholders

Our board of directors is not making any recommendation to you about whether or not you should exercise any rights in this offering. In making your decision, you should consider your own best interests.

The rights

We have granted to each of our shareholders and offered to each holder of our options, warrants and senior convertible promissory notes as of _____, 2002 a subscription right to purchase additional shares of our common stock. Each subscription right will entitle you to purchase one share of common stock for every ___ shares owned, or deemed owned, by you on the record date at a subscription price of \$___ per share. Each holder of our options, warrants and senior convertible promissory notes will be deemed to own that number of shares of our common stock that they would own if they had exercised or converted their securities on _____, 2002.

We will not issue fractional rights. If the number of shares of common stock you own, or are deemed to own, on the record date would have resulted in your receipt of fractional rights, the number of rights issued to you will be rounded up to the nearest whole number.

Subscription price

The subscription price for the rights offering is \$___ per share. All payments must be cleared on or before the expiration date.

Basic and over-subscription privileges

Basic subscription right. The basic subscription right entitles you to purchase one share of common stock for every ___ shares of common stock owned, or deemed owned, on the record date.

Over-subscription privilege. If you exercise your basic subscription right in full, the over-subscription privilege entitles you to purchase additional shares of common stock that other shareholders have not purchased under their basic subscription rights. If there are not enough shares available to fill all of the over-subscriptions for additional shares, the available shares of common stock will be allocated pro rata, in successive rounds, based on the number of shares each subscriber has purchased under the basic subscription right until all shares have been subscribed for. We will not allocate to you more than the number of shares of common stock you have actually subscribed and paid for.

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You are not entitled to exercise the over-subscription privilege unless you elect to exercise your basic subscription right in full. You can elect to exercise the over-subscription privilege only at the same time you exercise your basic subscription right in full. In exercising the over-subscription privilege, you must pay the full subscription price for all the shares you are electing to purchase. If we do not allocate to you all of the shares you have subscribed for under the over-subscription privilege, we will refund to you any payment you have made for shares which are not available to issue to you, as soon as practicable after completion of this rights offering. Interest will not be payable on amounts refunded.

Banks, brokers and other nominees who exercise the over-subscription privilege on behalf of beneficial owners must report certain information to the subscription agent and us and report certain other information received from each beneficial owner exercising rights. Generally, banks, brokers and other nominees must report:

- o the number of shares held on the record date on behalf of each beneficial owner,
- o the number of rights as to which the basic subscription right has been exercised on behalf of each beneficial owner,
- o that each beneficial owner's basic subscription right held in the same capacity has been exercised in full, and
- o the number of shares subscribed for under the over-subscription privilege by each beneficial owner.

If you complete the portion of the subscription rights certificate to exercise the over-subscription privilege, you will be representing and certifying that you have fully exercised your basic subscription right as described above. You must exercise your over-subscription privilege at the same time you exercise your basic subscription right.

Expiration date

The rights are immediately exercisable and expire on _____, 2002, at 5:00 p.m., New York City time. Rights not exercised by the expiration date will be null and void.

Mailing of subscription rights certificates and instructions

Subscription rights certificates are being sent along with this prospectus. In addition to the subscription rights certificates, you are being sent detailed instructions regarding exercising your subscription rights.

Foreign and unknown addresses

Shareholders whose addresses are outside the United States or who have an APO or FPO address are not being sent subscription rights certificates. In those cases, the subscription rights certificates will be held by the subscription agent. If you live outside the United States or have an APO or FPO address, you should notify the subscription agent prior to 11:00 a.m., New York City time, on the third business day prior to the expiration date in order to exercise your subscription rights.

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Right to block exercises

We reserve the right to refuse the exercise of subscription rights by any holder who would, in our opinion, be required to obtain prior clearance or approval from any state, federal or foreign regulatory authorities for the exercise of rights or ownership of additional shares of common stock if, at the expiration date, this clearance or approval has not been obtained. We are not undertaking to pay any expenses incurred in seeking this clearance or approval.

We are not offering or selling, or soliciting any purchase of, shares in any state or other jurisdiction in which this rights offering is not permitted. We reserve the right to delay the commencement of this rights offering in certain states or other jurisdictions if necessary to comply with local laws. However, we may elect not to offer rights to residents of any state or other jurisdiction whose law would require a change in this rights offering in order to carry out this rights offering in such state or jurisdiction.

Procedures for exercising rights

You may exercise your subscription rights by delivering to the subscription agent on or prior to the expiration date the following:

- o a properly completed and duly executed subscription rights certificate;

- o any required signature guarantees; and
- o payment in full of \$____ per share of common stock to be purchased through the basic subscription right and over-subscription privilege.

You should deliver your subscription rights certificate and payment to the subscription agent at the address listed under the section below entitled "Subscription Agent."

Proper methods of payment for exercising the subscription rights

If you exercise any of your subscription rights, you must deliver full payment in the form of:

- o a personal check, certified or cashier's check or bank draft drawn upon a United States postal, telegraphic or bank money order, payable to "American Stock Transfer & Trust Company, as Subscription Agent"; or
- o a wire transfer of immediately available funds.

If you are purchasing at least _____ shares of common stock, the subscription agent may agree to an alternative payment method. If you use an alternative payment method, the subscription agent must receive the full amount of your payment in currently available funds within one trading day prior to _____, 2002. Payment will be deemed to have been received by the subscription agent only upon:

- o clearance of any uncertified check;
- o receipt by the subscription agent of any certified check or bank draft drawn upon a United States bank, any postal, telegraphic or express money order, or any funds transferred by wire transfer; or
- o receipt of funds by the subscription agent through an alternative payment method as described above.

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All payments must be cleared on or before the expiration date. Funds paid by uncertified personal check may take at least five business days to clear. Accordingly, if you pay the subscription price by means of an uncertified personal check, you should make payment sufficiently in advance of the expiration date to ensure that your check actually clears and the payment is received before that time. We are not responsible for any delay in payment by you and suggest that you consider payment by means of certified or cashier's check, money order or wire transfer of funds.

Subscription Agent

We have appointed American Stock Transfer & Trust Company, the transfer agent for our common stock, as subscription agent for the rights offering. The subscription agent's address for packages sent are:

By First Class Mail:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

By Hand:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

By Overnight Delivery:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

The subscription agent's telephone number is (718) 921-8200 and its facsimile number is (718) 234-5001. You should deliver your subscription rights certificate, payment of the subscription price and any required notice of guaranteed delivery to the subscription agent. We will pay the fees and specified expenses of the subscription agent, which we estimate will be approximately \$7,500. We have also agreed to indemnify the subscription agent from any liability that it may incur in connection with the rights offering.

Notice of guaranteed delivery

If you wish to exercise your rights but cannot ensure that your executed subscription rights certificate will actually be received prior to the expiration date, you may alternatively exercise your rights through the

following guaranteed delivery procedures. In order to exercise your rights using the guaranteed delivery process, the subscription agent must receive the following prior to the expiration date:

- o full payment for all of the shares of common stock you desire to purchase pursuant to the basic subscription right and the over-subscription privilege; and
- o a guarantee notice from executed by both you and one of the following:
 - o a member firm of a registered national securities exchange;
 - o a member of the NASD;
 - o a commercial bank or trust company having an office or correspondent in the United States; or
 - o other acceptable eligible guarantor institution qualified under a guarantee program.

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The co-signing institution must provide a Medallion Guaranty on the notice of guaranteed delivery guaranteeing that the subscription rights certificate will be delivered within three business days after the date of the form. Your notice of guaranteed delivery must also provide other relevant details concerning the intended exercise of your rights. The properly completed subscription rights certificate with any required signature guarantee must be received within three business days following the date of the related notice of guaranteed delivery. If you are a nominee holder of rights, the "Nominee Holder Certification" must also accompany the notice of guaranteed delivery.

A notice of guaranteed delivery may be delivered in the same manner as subscription rights certificates at the addresses set forth above under the caption "Subscription Agent" or facsimile transmission to facsimile number (718) 234-5001.

Additional copies of the form of notice of guaranteed delivery are available upon request from the subscription agent, whose address and telephone number is set forth above under the caption "Subscription Agent."

Incomplete forms; Insufficient or excess payments

If you do not indicate on your subscription rights certificate the number of rights being exercised, or do not forward sufficient payment for the number of rights that you indicate are being exercised, then we will accept the subscription forms and payment only for the maximum number of rights that may be exercised based on the actual payment delivered. We will make this determination as follows:

- o you will be deemed to have exercised your basic subscription right to the full extent of the payment received; and
- o if any funds remain, you will be deemed to have exercised your over-subscription privilege to the extent of the remaining funds.

We will return any payment not applied to the purchase of shares under this rights offering as soon as practicable.

Prohibition on fractional shares

Each whole right entitles you to purchase one share of common stock at the subscription price per share. We will accept any inadvertent subscription indicating a purchase of fractional shares by rounding up to the nearest whole share and, as soon as practicable, refunding any payment received for a fractional share.

Instructions to nominee holders

If you are a broker, trustee or depositary for securities who held shares of our common stock for the account of others on the record date, you should notify the respective beneficial owners of such shares of the rights offering as soon as possible to find out their intentions with respect to exercising their rights. You should obtain instructions from the beneficial owner with respect to the rights, as set forth in the instructions we have provided to you for your distribution to beneficial owners. If the beneficial owner so instructs, you should complete the appropriate subscription rights certificate and submit it to the subscription agent with the proper payment. If you hold shares of our common stock for the account of more than one beneficial owner, you may exercise the number of rights to which all such beneficial owners in the aggregate otherwise would have been entitled had they been direct record holders of our common stock on the record date, provided that you, as a nominee record holder, make a proper showing to the subscription agent by submitting the form entitled "Nominee Holder Certification" which we will provide to you with

your offering materials.

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Revocation of subscriptions

You are not allowed to revoke or change your exercise of rights after you have sent in your subscription forms and payment. You should not exercise your subscription rights and over-subscription privilege unless you are certain that you wish to purchase shares of our common stock.

Transferability of rights

Except with our prior written consent, the subscription rights are not transferable. If you do not exercise your subscription rights by the expiration date, they will become null and void.

Extension, withdrawal and amendment of the rights offering

We reserve the right to withdraw or terminate this rights offering at any time for any reason. If the offering is withdrawn or terminated, all funds received from subscriptions will be returned.

We reserve the right to extend the expiration date of the rights offering or amend any of the other terms of the rights offering. If we make an amendment that we consider significant, we will:

- o mail notice of the amendment to all shareholders and all holders of options, warrants and senior convertible promissory notes as of the record date;
- o extend the expiration date by at least ten days; and
- o offer all subscribers no less than ten days to revoke any subscription already submitted.

The extension of the expiration date will not, in and of itself, be treated as a significant amendment for these purposes.

Exercise indication of certain parties

Certain of our officers, directors and principal shareholders have indicated that they will exercise their basic subscription rights and over-subscription privileges for up to a total of \$_____ of rights in the rights offering.

Additionally, New Valley has agreed to purchase up to _____ shares of common stock being offered in the rights offering if, after all other shareholders have been given the chance to purchase as many shares as they wish in the offering, there still remains shares left unsubscribed for. New Valley is the beneficial owner of approximately 8.6% of our common stock and certain directors of New Valley are also directors of ours and one executive officer of New Valley is an executive officer of ours.

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Under the terms of the agreement with New Valley, we have agreed to indemnify New Valley and its directors and officers against claims and liabilities arising out of or based upon material misstatements or omissions made in this prospectus and the registration statement of which it forms a part. We have also agreed to register for resale the shares of common stock that may be purchased by New Valley.

How procedural and other questions are resolved

We are entitled to resolve all questions concerning the timeliness, validity, form and eligibility of any exercise of subscription rights. Our determination will be final and binding. We may, in our sole discretion, waive any defect or irregularity, or permit a defect or irregularity to be corrected within such time as we may determine, or reject the purported exercise of any right because of any defect or irregularity.

Subscription rights certificates will not be considered received or accepted until all irregularities have been waived or cured within a time as we determine in our sole discretion. We do not have any duty to give notification of any defect or irregularity in connection with the submission of subscription rights certificates or any other required document and we are not liable for not giving you such notification.

We reserve the right to reject any exercise of rights if the exercise does not comply with the terms of this rights offering or is not in proper form or if the exercise of rights would be unlawful or materially burdensome.

We do not anticipate giving notice to you of any defects that may exist in your subscription but we reserve the right to do so, and to condition the

re-submission of your subscription upon any conditions as we deem necessary or appropriate under the circumstances. Under no circumstance, however, will we be obligated to give you notification of defects in your subscription. No exercise of rights will be accepted until all defects have been cured or waived. If your exercise is rejected, your payment of the exercise price will be promptly returned by the subscription agent.

Issuance of stock certificates

If your subscription is accepted, American Stock Transfer & Trust Company will issue stock certificates representing the common stock purchased through exercise of the rights promptly after the closing of the offering, and in any event within 30 days thereafter. Unless you instruct otherwise in your subscription rights certificate, shares purchased by the exercise of rights will be registered in the name of the person exercising the rights.

Questions and assistance concerning the rights

You should direct any questions, requests for assistance concerning the rights or requests for additional copies of this prospectus, forms of instructions or the Notice of Guaranteed Delivery to:

Ladenburg Thalmann Financial Services Inc.
590 Madison Avenue
34th Floor
New York, New York 10022
Attn: Joseph Giovannello Jr.
Telephone: (212) 409-2544

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MATERIAL FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of the material United States federal income tax consequences of the rights offering to the holders of common stock, options, warrants and senior convertible promissory notes.

This summary is based on the following resources as of the date of this prospectus:

- o provisions of the Internal Revenue Code of 1986, as amended;
- o existing and proposed Treasury regulations promulgated under the Code; and
- o administrative and judicial interpretations regarding the Code.

All of the above are subject to change, possibly on a retroactive basis.

This summary is limited to those who have held the common stock, and will hold the rights and any shares acquired upon the exercise of rights as "capital assets" within the meaning of section 1221 of the Code. This summary does not address all of the tax consequences that may be relevant to particular holders in light of their personal circumstances, or to holders who are subject to special rules such as a financial institution, insurance company, tax-exempt organization or a broker-dealer. This summary also does not address the effect of federal estate and gift tax laws nor any state, local or foreign tax laws that may be applicable to a particular holder.

You are urged to consult with your own tax advisors with respect to the particular U.S. federal income and estate tax consequences to you of this offering, as well as the tax consequences under state, local, foreign and other tax laws and the possible effects of changes in tax laws.

Distribution of rights

Holders of our common stock, warrants and stock options will not recognize taxable income for federal income tax purposes upon the distribution and receipt of the rights.

While there is no direct authority on the treatment to holders of our senior convertible promissory notes, we believe that the holders should not recognize taxable income for federal income tax purposes upon the distribution and receipt of the rights, but that the receipt of the rights by the holders should be treated as a return of an allocable portion of the basis in their notes (the basis in the notes being allocated between the notes and the distributed right in proportion to their relative fair market values). We cannot assure you, however, that the Internal Revenue Service may not take a different position.

Shareholder basis and holding period of the rights

Generally, the basis of the subscription rights received by holders of

common stock, warrants and options will be zero. However, the basis in the subscription rights may be different if:

- o the fair market value of a subscription right on the date of distribution is equal to or greater than 15% of the fair market value of one share of common stock, or
- o the holder makes a special irrevocable election under Section 307(b) of the Code.

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If either of these two situations occurs, the holders' basis in the subscription rights will be determined by allocating the adjusted basis in the shares on which the subscription rights are issued between such shares and the subscription rights in proportion to their relative fair market values on the date the subscription rights are distributed. This allocation, however, will only be effective if the holder exercises its subscription rights.

The holding period of rights received as a distribution on a shareholder's common stock or warrants or stock options will include that holder's holding period for the common stock, warrant or stock option prior to the distribution of the rights.

The basis of the rights received by a holder of senior convertible promissory notes will be equal to the allocated basis described above. The holding period in the rights for holders of the senior convertible promissory notes will probably begin on the day following the date the subscription rights are received.

Lapse of the rights

Holders of common stock, warrants and stock options who allow the rights received by them in this offering to lapse will not recognize any gain or loss, and no adjustment will be made to the basis of the common stock, warrants or stock options owned by the holder.

Holders of senior convertible promissory notes who allow the rights received in this offering to lapse will probably recognize a capital loss in an amount equal to the holder's basis in the subscription rights.

Exercise of the rights; Basis and holding period of the common stock received on exercises

Holders of common stock, warrants and senior convertible promissory notes will not recognize any gain or loss upon the exercise of rights. The basis of the shares acquired through exercise of the rights will be equal to the sum of the subscription price for the rights and the holder's basis in such rights, if any. The holding period for the shares acquired through exercise of the rights will begin on the date the rights are exercised.

Holders of stock options which have been granted in connection with services will recognize ordinary income upon the exercise of rights in an amount equal to the excess, if any, of the fair market value of the common stock at the time of exercise over the exercise price. The tax basis of the common stock acquired upon exercise will equal the fair market value of the common stock on the date of exercise and the holding period for the common stock generally will begin on the day following exercise.

Sale of shares received upon exercise of rights

The sale of any shares of common stock received as a result of exercising any subscription rights will result in the recognition of gain or loss to the holder in an amount equal to the difference between the amount realized and the holder's basis in the shares. Gain or loss upon the sale of the shares will be long-term capital gain or loss if the holding period, starting on the day after the date the right is exercised, is more than one year.

Information reporting and backup withholding

Information reporting may apply to a holder that is not a corporation or other exempt recipient with respect to any dividend payments on common stock received upon the exercise of the rights and to payments on the proceeds of sale of the common stock. A 30% backup withholding tax may apply to these payments unless the holder provides a correct taxpayer identification number and otherwise complies with the backup withholding requirements.

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DETERMINATION OF OFFERING PRICE

Our board of directors decided to set a \$___ per share subscription price after considering a variety of factors, including:

- o the desire to encourage full shareholder participation in the rights offering;
- o the historic and current market price of our common stock;
- o our business prospects;
- o our history of profits and losses; and
- o general conditions in the securities markets.

The \$___ per share price should not be considered by you as an indication of the actual value of our common stock. We cannot assure you that the market price of our common stock will not decline during or after the rights offering. We also cannot assure you that you will be able to sell the shares of common stock purchased during the rights offering at a price equal to or greater than the offering price. We have neither sought, nor obtained, any valuation opinion from outside financial advisors or investment bankers.

USE OF PROCEEDS

We estimate that the net proceeds of this offering will be between approximately \$___ and \$_____, after deducting the estimated offering expenses. We expect to use these proceeds for working capital and other general corporate expenses, including the repayment of a \$2.5 million promissory note that we issued to New Valley in March 2002 to supplement the liquidity of our broker-dealer operations. The promissory note bears interest at 1% above the prime rate and is repayable upon the earlier of (i) June 30, 2002 and (ii) the tenth business day following the consummation of one or more equity financings in which we receive at least \$5 million in total proceeds. Accordingly, we will be required to retire the note upon consummation of the rights offering.

PLAN OF DISTRIBUTION

On or about ___, 2002, we will distribute the rights, subscription certificates and copies of this prospectus to individuals who owned, or had the right to own, shares of common stock on _____, 2002. If you wish to exercise your rights and purchase shares of common stock, you should complete the subscription certificate and return it with the payment for the shares, to the subscription agent.

We are offering the shares of common stock directly to you on a "best efforts" basis, which means that there is no minimum number of shares of common stock that we must sell in order to complete the rights offering. We have not employed any brokers, dealers or underwriters in connection with the solicitation or exercise of subscription rights in this offering and no commissions, fees or discounts will be paid in connection with it.

We have agreed to pay the subscription agent a fee of \$7,500 plus certain expenses. We estimate that our total expenses in connection with the rights offering will be \$_____.

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LEGAL MATTERS

The legality of the common stock offered by this prospectus has been passed upon by Graubard Miller, New York, New York.

EXPERTS

Our consolidated financial statements as of December 31, 2001 and 2000 and for each of the three years in the period ended December 31, 2001, have been audited by PricewaterhouseCoopers LLP, independent accountants, to the extent indicated in their report dated March 22, 2002. Our consolidated financial statements are incorporated by reference in this prospectus in reliance upon the report of PricewaterhouseCoopers LLP given upon its authority as an expert in accounting and auditing.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the public reference room.

The SEC allows us to incorporate by reference the information we file with it, which means that we can disclose important information to you by referring you to those documents. Any statement contained in a document incorporated by reference in this prospectus will be deemed to be modified or

superseded for purposes of this prospectus to the extent that a statement contained in this prospectus modifies or supersedes the statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this prospectus. This prospectus incorporates by reference our documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act until all of the securities are sold:

- o our annual report on Form 10-K for the fiscal year ended December 31, 2001;
- o our current report on Form 8-K dated April 5, 2002 and filed with the SEC on April 8, 2002, as amended by Form 8-K/A filed with the SEC on April 22, 2002;
- o our quarterly report on Form 10-Q for the quarter ended March 31, 2002; and
- o the description of our common stock contained in our registration statement on Form 8-A (No. 1-15799) filed with the SEC pursuant to Section 12(b) of the Exchange Act.

Potential investors may obtain a copy of any of our SEC filings without charge by written or oral request directed to our corporate secretary, Joseph Giovanniello Jr., Ladenburg Thalmann Financial Services Inc., Attention: Investor Relations, 590 Madison Avenue, 34th Floor, New York, New York 10022, (212) 409-2544.

PART TWO

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The estimated expenses payable by us in connection with the distribution of the securities being registered are as follows:

SEC Registration and Filing Fee.....	\$
Legal Fees and Expenses.....	
Accounting Fees and Expenses.....	
Printing	
Miscellaneous.....	
TOTAL.....	\$

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

Section 607.0850 of the 1989 Business Corporation Act of the State of Florida empowers a Florida corporation to indemnify any person who was or is a party to any threatened, pending, or completed action, suit, or other type of proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal (other than an action by, or in the right of, the corporation) by reason of the fact that he or she is or was a director, officer, employee, or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise against liability including any obligation to pay a judgment, settlement, penalty, fine (including an excise tax assessed with respect to any employee benefit plan), and expenses (including counsel's fees) actually and reasonably incurred in connection with the proceeding and any subsequent appeals, if he or she acted in good faith and in a manner that he or she reasonably believed to be in, or not opposed to, the best interests of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe that his or her conduct was unlawful. The termination of any proceeding by judgment, order, settlement, or conviction or upon a plea of nolo contendere or its equivalent does not, of itself, create a presumption that the person did not act in good faith and in a manner which he or she reasonably believed to be in or not opposed to the best interests of the corporation or, with respect to any criminal action or proceeding, had reasonable cause to believe that his or her conduct was unlawful.

In the case of an action by or in the right of the corporation, Section 607.0850 empowers a corporation to indemnify any person who was or is a party to any threatened, pending, or completed action, suit, or other type of proceeding, whether civil, criminal, administrative, or investigative and whether formal or informal, in any of the capacities set forth above against expenses (including counsel's fees for the proceeding as well as for any appeal) and amounts paid in settlement not exceeding, in the judgment of the board of directors, the estimated expense of litigating the proceeding to conclusion, actually and reasonably incurred in connection with the defense or settlement of the proceeding or any subsequent appeals, if the person acted in good faith and in a manner that he or she reasonably believed to be in or not opposed to the best interests of the corporation. With respect to any claim, issue, or matter as to

which the person is adjudged to be liable to the corporation, indemnification is not permitted unless, and only to the extent that, the court in which the proceeding was brought, or any other court of competent jurisdiction, determines upon application that, despite the adjudication of liability but in view of all the circumstances of the case, the person is fairly and reasonably entitled to indemnity for expenses that the court deems proper.

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Section 607.0850 further provides that a Florida corporation is required to indemnify a director, officer, employee, or agent against expenses (including counsel's fees) actually and reasonably incurred by the person in connection with defending any type of proceeding referred to above or in defending any claim, issue, or matter involved in the proceeding as to which the person has been successful on the merits or otherwise.

Other than pursuant to a court order, a Florida corporation may provide indemnification only as authorized in the specific case upon a determination that indemnification of the director, officer, employee or agent is proper in the circumstances because he or she has met the applicable standard of conduct. The determination is to be made:

- o by the board of directors upon majority vote of a quorum consisting of directors who were not party to the proceeding;
- o if a quorum is not obtainable, or, even if obtainable, by majority vote of a committee consisting solely of two or more directors who are not parties to the proceeding at the time, duly designated by the board of directors (in which interested directors may participate);
- o by independent legal counsel selected by majority vote of the board of directors who were not party to the proceeding or a committee so designated by the board of directors; or
- o by shareholders upon majority vote of a quorum consisting of shareholders who were not parties to the proceeding or, if a quorum is not obtainable, by a majority vote of shareholders who were not parties to the proceeding.

Any indemnification provided for by Section 607.0850 shall not be deemed exclusive of any other rights to which the indemnified party may be entitled. A Florida corporation is entitled to make any other or further indemnification of any of its directors, officers, employees, or agents, under any bylaw, agreement, vote of shareholders or disinterested directors, or otherwise, both as to action in his or her official capacity and as to action in another capacity while holding his or her office. However, indemnification shall not be made to or on behalf of any director, officer, employee, or agent if a judgment or other final adjudication establishes that his or her actions, or omissions to act, were material to the cause of action so adjudicated and constitute:

- o a violation of criminal law, unless the director, officer, employee or agent had reasonable cause to believe his or her conduct was lawful or had no reasonable cause to believe his or her conduct was unlawful;
- o a transaction from which the director, officer, employee or agent derived an improper benefit;
- o in the case of a director, a circumstance under which he is liable for an unlawful distribution; or
- o a willful misconduct or a conscious disregard for the best interests of the corporation in a proceeding by or in the right of the corporation to procure a judgment in its favor or in a proceeding by or in the right of a shareholder.

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Indemnification provided for by Section 607.0850 shall, unless otherwise provided when authorized or ratified, continue as to a person who has ceased to be a director, officer, employee, or agent and shall inure to the benefit of the person's heirs, executors, and administrators.

A Florida corporation may also purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation or who is or was serving at the request of the corporation as a director, officer, employee, or agent of another corporation, partnership, joint venture, trust, or other enterprise, against any liability asserted against the person and incurred by him or her in any such capacity or arising out of his or her status as such, whether or not the corporation would have the power to indemnify the person against liability under Section 607.0850.

Article XI of our articles of incorporation, as amended, and Article

VII of our bylaws provide for indemnification of our directors and officers to the fullest extent permitted by law, as now in effect or later amended. Article VII of our bylaws provides that expenses incurred by a director or officer in defending a civil or criminal action, suit, or proceeding may be paid by us in advance of a final disposition upon receipt of an undertaking by or on behalf of the director or officer to repay the advanced amount if he or she is ultimately found not to be entitled to indemnification.

We may provide liability insurance for each of our directors and officers for certain losses arising from claims or charges made against them while acting in their capacities as directors or officers. We currently maintain this type of liability insurance.

Additionally, we have entered into indemnification agreements with all of our directors and executive officers whereby we have agreed to indemnify, and advance expenses to, each indemnitee to the fullest extent permitted by applicable law. The indemnification agreements will continue until and terminate upon the later of (i) ten years after the date that the indemnitee has ceased to serve as a director or officer for us or (ii) the final termination of all pending proceedings in respect of which the indemnitee is granted rights of indemnification or advancement of expenses or any proceeding commenced by the indemnitee.

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Item 16. EXHIBITS

<Table>

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Exhibit Number	Description	Incorporated By Reference from Document	No. in Document	Page
<S>	<C>	<C>	<C>	<C>
4.1	Form of Subscription Rights Certificate	--	--	Filed Herewith
5.1	Opinion of Graubard Miller	--	--	*
10.1	Form of Subscription Agent Agreement	--	--	Filed Herewith
10.2	Form of Standby Purchase Agreement	--	--	Filed Herewith
23.1	Consent of PricewaterhouseCoopers LLP	--	--	Filed Herewith
23.2	Consent of Graubard Miller (included in Exhibit 5.1)	--	--	--
24.1	Power of Attorney (included on signature page of this Registration Statement)	--	--	--
99.1	Form of Instructions to Shareholders as to Use of Subscription Rights Certificate	--	--	Filed Herewith
99.2	Form of Notice of Guaranteed Delivery	--	--	Filed Herewith
99.3	Form of Letter to be sent by Company to Holders of Record of Subscription Rights	--	--	Filed Herewith
99.4	Form of Letter to be sent by Beneficial Holders of Record to Shareholders	--	--	Filed Herewith
99.5	Form of Beneficial Owner Election Form	--	--	Filed Herewith
99.6	Form of Letter to Banks and Brokers	--	--	Filed Herewith
99.7	Form of Nominee Holder Certification	--	--	Filed Herewith

* To be filed by amendment.

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Item 17. UNDERTAKINGS

(a) The undersigned registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this registration statement to include any material information with respect to the plan of distribution not previously disclosed in the registration statement or any material change to such information in the registration statement;

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the SEC such indemnification is against public policy expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, hereunto duly authorized, in New York, New York on May 22, 2002.

LADENBURG THALMANN FINANCIAL SERVICES INC.
(Registrant)

By: /s/ Victor M. Rivas

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

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Howard M. Lorber, Richard J. Rosenstock, Victor M. Rivas and J. Bryant Kirkland III, and each of them, with full power to act without the other, such person's true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign this Registration Statement, any and all amendments thereto (including post-effective amendments), any subsequent Registration Statements filed by the Company pursuant to Rule 462(b) of the Securities Act of 1933, as amended, and any amendments thereto and to file the same, with exhibits and schedules thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing necessary or desirable to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or any of them, or their or his substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the dates indicated.

Signature	Title	Date
/s/Henry C. Beinstein ----- Henry C. Beinstein	Director	May 21, 2002

/s/ Robert J. Eide ----- Robert J. Eide	Director	May 22, 2002
----- Phillip Frost	Director	
/s/ J. Bryant Kirkland III ----- J. Bryant Kirkland III	Chief Financial Officer (and Principal Accounting Officer)	May 21, 2002
/s/ Richard J. Lampen ----- Richard J. Lampen	Director	May 21, 2002
/s/ Bennett S. LeBow ----- Bennett S. LeBow	Director	May 21, 2002
/s/ Howard M. Lorber ----- Howard M. Lorber	Director	May 21, 2002
/s/ Vincent A. Mangone ----- Vincent A. Mangone	Director	May 22, 2002
/s/ Victor M. Rivas ----- Victor M. Rivas	Director	May 22, 2002
/s/ Richard J. Rosenstock ----- Richard J. Rosenstock	Director	May 22, 2002
/s/ Mark Zeitchick ----- Mark Zeitchick	Director	May 22, 2002

No. _____

THE TERMS AND CONDITIONS OF THE RIGHTS OFFERING ARE SET FORTH IN THE COMPANY'S PROSPECTUS DATED, _____, 2002 (THE "PROSPECTUS") AND ARE INCORPORATED HEREIN BY REFERENCE. COPIES OF THE PROSPECTUS ARE AVAILABLE UPON REQUEST FROM AMERICAN STOCK TRANSFER & TRUST COMPANY AS THE SUBSCRIPTION AGENT.

LADENBURG THALMANN FINANCIAL SERVICES INC.

SUBSCRIPTION RIGHTS CERTIFICATE

Evidencing _____ Non-Transferable Rights to Purchase Shares of Common Stock

Subscription Price: \$____ per Share

VOID IF NOT EXERCISED ON OR BEFORE
THE EXPIRATION DATE (AS DEFINED IN THE PROSPECTUS)

REGISTERED OWNER:

THIS CERTIFIES THAT _____, or his, her or its registered assigns, having an address at _____, is the owner of the number of Rights set forth above, each of which entitles the owner to subscribe for and purchase one share of common stock, par value \$.0001 per share, of Ladenburg Thalmann Financial Services Inc., a Florida corporation, on the terms and subject to the conditions set forth in the Prospectus and instructions relating hereto on the reverse side hereof. The Rights represented by this Subscription Certificate may be exercised by duly completing Section 1 hereof. Special delivery instructions may be specified by completing Section 2 of this Subscription Rights Certificate. THE RIGHTS EVIDENCED BY THIS SUBSCRIPTION RIGHTS CERTIFICATE MAY NOT BE EXERCISED UNLESS SECTION 1 IS COMPLETED AND SIGNED, WITH ANY SPECIAL DELIVERY INSTRUCTIONS SET FORTH IN SECTION 2, ALONG WITH A SIGNATURE GUARANTEE, IF APPLICABLE. ANY SIGNATURE GUARANTEE MUST BE IN ACCORDANCE WITH THE MEDALLION SIGNATURE GUARANTEE PROGRAM.

Dated: _____, 2002

Victor M. Rivas, President and
Chief Executive Officer

Richard J. Rosenstock, Vice Chairman
and Chief Operating Officer

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FORM OF ELECTION TO EXERCISE SUBSCRIPTION RIGHTS
(to be executed if holder desires
to exercise the Subscription Rights Certificate)

DELIVERY OPTIONS FOR SUBSCRIPTION CERTIFICATE

BY FIRST CLASS MAIL OR REGISTERED MAIL, BY HAND AND BY OVERNIGHT DELIVERY

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038

Delivery to an address other than the address listed above will not constitute valid delivery. Delivery by facsimile will not constitute valid delivery.

Please Print All Information Clearly And Legibly.

SECTION 1

Basic Subscription Right

The undersigned hereby elects to exercise Rights represented by this Subscription Rights Certificate and irrevocably subscribes to purchase the following number of Shares pursuant to the Basic Subscription Right described in the prospectus.

I subscribe for _____ Shares x \$ _____ = \$ _____
(no. of Shares) (Subscription Price) (amount enclosed)

Over-Subscription Privilege

(available only if you exercise the basic subscription right in full)

The undersigned hereby elects to irrevocably subscribe to purchase the following number of additional Shares pursuant to the Over-Subscription Privilege described in the prospectus.

I subscribe for _____ Shares x \$__ (U.S.) = \$ _____ (U.S.)
(no. of Shares) (amount enclosed)

Total Subscription = _____ Shares x \$__ (U.S.) = \$ _____ (U.S.)
(no. of Shares) (amount enclosed)

Method of Payment (Check and Complete Appropriate Boxes)

personal check, certified or cashier's check, bank draft or a postal, telegraphic or express money order payable to "American Stock Transfer & Trust Company, as Subscription Agent";

wire transfer of immediately available funds directed to the escrow account maintained by American Stock Transfer & Trust Company, as Subscription Agent, at Chase Manhattan Bank, 55 Water Street, New York, New York 10005, ABA#021-000021, Account # _____; or

in the case of persons acquiring more than _____ Shares, an alternative payment method arranged with the Subscription Agent and approved by the Company.

TO SUBSCRIBE: I acknowledge that I have received the prospectus for this offer and I hereby irrevocably subscribe for the number of shares indicated above on the terms and conditions specified in the prospectus. I hereby agree that if I fail to pay for the shares of Common Stock for which I have subscribed, Ladenburg Thalmann Financial Services Inc. may exercise its legal remedies against me.

Signature(s) of Subscriber(s)

IMPORTANT: THE SIGNATURE(S) MUST CORRESPOND IN EVERY PARTICULAR, WITHOUT ALTERATION, WITH THE NAME(S) AS PRINTED ON THE REVERSE OF THIS SUBSCRIPTION RIGHTS CERTIFICATE.

If signature is by trustee(s), executor(s), administrator(s), guardian(s), attorney(s)-in-fact, agent(s), officer(s) of a corporation or another acting in a fiduciary or representative capacity, please provide the following information (please print). See the instructions.

Name(s) : _____

Capacity (Full Title) : _____

Taxpayer ID # or Social Security #: _____

SECTION 2

SPECIAL ISSUANCE OR DELIVERY INSTRUCTIONS FOR SUBSCRIPTION RIGHTS HOLDERS:

(a) To be completed ONLY if the certificate representing the Common Stock is to be issued in a name other than that of the registered holder. (See the Instructions.) DO NOT FORGET TO COMPLETE THE GUARANTEE OF SIGNATURE(S) SECTION BELOW.

ISSUE COMMON STOCK TO:

(Please Print Name)

(Print Full Address)

(Social Security # or Tax ID #)

(b) To be completed ONLY if the certificate representing the Common Stock is to be sent to an address other than that shown on the front of this certificate. (See the Instructions.) DO NOT FORGET TO COMPLETE THE GUARANTEE OF SIGNATURE(S) SECTION BELOW.

(Please Print Name)

(Print Full Address)

(Social Security # or Tax ID #)

Guarantee Of Signature(s)

All Registered Holders who ask to have Shares delivered to an address other than their own or to a shareholder other than the Registered Holder must have their signatures guaranteed by an Eligible Institutions. An "Eligible Institution" for this purpose is a bank, stockbroker, savings and loan association and credit union with membership in an approved signature guaranteed medallion program, pursuant to Rule 17Ad-15 of the Securities Exchange Act of 1934.

Authorized Signature: _____ Name of Firm: _____

Name: _____ Address: _____

Title: _____ Area Code and Telephone: _____

The signature(s) must correspond in every particular, without alteration, with the name(s) as printed on the reverse of this Subscription Rights Certificate.

This form of election must be accompanied by check, bank check, or money order, payable to "American Stock Transfer & Trust Company, as Subscription Agent" or by wire transfer of immediately available funds for the number of Shares subscribed for multiplied by \$__ (purchase price per Share).

If you have questions on the use of this Subscription Rights Certificate, please contact Joseph Giovanniello Jr., Secretary of Ladenburg Thalmann Financial Services Inc., at (212) 409-2544 or your bank or broker with questions.

SUBSCRIPTION AGENT AGREEMENT

_____, 2002

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

Ladies and Gentlemen:

In connection with your appointment as Subscription Agent in the transaction described herein, Ladenburg Thalmann Financial Services Inc., a Florida corporation (the "Company"), hereby confirms its arrangements with you as follows:

1. Rights Offering. The Company has declared a dividend to the holders of shares of its common stock, par value \$0.0001 per share ("Common Stock"), and offered to holders of its outstanding options, warrants and senior convertible promissory notes (the "Rights Offering"), on _____, 2002 (the "Record Date"), the right to subscribe for additional shares of Common Stock, at a subscription price of \$___ per share of Common Stock ("Rights"). The Common Stock along with the Company's outstanding options, warrants and senior convertible promissory notes shall hereafter be referred to as the "Securities." One Right is being issued for every _____ shares of Common Stock held on the Record Date. Each holder of the Company's options, warrants and senior convertible promissory notes will be deemed to hold that number of shares of Common Stock that they would hold if they exercised or converted their securities on the Record Date. One Right is required to subscribe for one share of Common Stock. Except as set forth herein, Rights shall cease to be exercisable at 5:00 p.m., New York City time, on _____, 2002 (the "Expiration Date"). Rights are evidenced by non-transferable subscription rights certificates in registered form ("Subscription Certificates"). Each holder of a Subscription Certificate who exercises the right to subscribe for all shares that can be subscribed for with the Rights evidenced by such Subscription Certificate (the "Basic Subscription Right") may have the right to subscribe for additional shares, if any, available as a result of any unexercised Rights (such additional subscription right being referred to hereafter as the "Over-subscription Privilege"). The Rights Offering will be conducted in the manner and upon the terms set forth in the Company's Prospectus dated _____, 2002 (the "Prospectus"), which is incorporated herein by reference and made a part hereof as if set forth in full herein.

2. Appointment of Subscription Agent. You are hereby appointed as Subscription Agent to effect the Rights Offering in accordance with the Prospectus. Each reference to you in this letter is to you in your capacity as Subscription Agent unless the context indicates otherwise.

3. Delivery of Documents. Enclosed herewith are the following, the receipt of which you acknowledge by your execution hereof:

- (a) a copy of the Prospectus;
- (b) the form of Subscription Certificate;
- (c) the form of Letter from the Company to its Shareholders;
- (d) the Instructions for Use of the Company's Subscription Certificates;

- (e) the Form of Notice of Guaranteed Delivery; and
- (f) a return envelope addressed to American Stock Transfer & Trust, as Subscription Agent.

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On or before _____, 2002, you shall mail or cause to be mailed to each holder of Securities at the close of business on the Record Date a Subscription Certificate evidencing the Rights to which such holder is entitled, a Prospectus, a Notice of Guaranteed Delivery (as defined in paragraph 7 hereof) and an envelope addressed to you. Prior to mailing, the Company will provide you with blank Subscription Certificates which you will prepare and issue in the names of holders of record of the Securities at the close of business on the Record Date and for the number of Rights to which they are entitled. The Company will also provide you with a sufficient number of copies of each of the documents to be mailed with the Subscription Certificates.

4. Subscription Procedure. (a) Upon your receipt prior to 5:00 p.m., New York City time, on the Expiration Date (by mail, facsimile or delivery) as Subscription Agent of (i) any Subscription Certificate completed and endorsed for exercise, as provided in the Subscription Certificate (except as provided in paragraph 6 hereof), and (ii) payment in full of the subscription price set forth on the cover page of the Prospectus for the shares of Common Stock subscribed for (the "Subscription Price") in U.S. funds (i) by personal check, certified or cashier's check, bank draft or a postal, telegraphic or express money order payable at par (without deduction for bank service charges or otherwise) to you, "AS SUBSCRIPTION AGENT"; (ii) or wire transfer of immediately available funds; or (iii) an alternative payment method arranged by you and approved by the Company, you shall as soon as practicable after the Expiration Date but after performing the procedures described in subparagraphs (b) and (c) below (which is anticipated to be the twelfth business day thereafter) mail to the subscriber's registered addresses on the books of the Company the shares of Common Stock for the Rights duly exercised (pursuant to the Basic Subscription Privilege and the Over-subscription Privilege) and furnish a list of all such information to the Company.

(b) As soon as practicable after the Expiration Date you shall calculate the number of shares to which each subscriber is entitled to receive pursuant to the Over-subscription Privilege. The Over-subscription Privilege may only be exercised by holders who subscribe to all the shares of Common Stock that can be subscribed for by them under the Basic Subscription Right. The shares of Common Stock available for additional subscriptions will be those that have not been subscribed and paid for pursuant to the Basic Subscription Right (the "Remaining Shares"). Where there are sufficient Remaining Shares to satisfy all additional subscriptions by holders exercising their rights under the Over-subscription Privilege, each holder shall be allotted the number of additional shares subscribed for. If the aggregate number of shares subscribed for under the Over-subscription Privilege exceeds the number of Remaining Shares, the number of Remaining Shares initially allotted to each participant in the Over-subscription Privilege shall be the lesser of (i) the number of shares which that participant has subscribed for under the Over-subscription Privilege and (ii) the product (disregarding fractions) obtained by multiplying the number of Remaining Shares by a fraction of which the numerator is the number of shares subscribed for by the participant under the Basic Subscription Right and the denominator is the aggregate number of shares subscribed for under the Basic Subscription Privilege. If after the initial allotment there are still Remaining Shares and holders of Rights whose exercise of the Over-subscription Privilege has not been fully satisfied, such Remaining Shares shall be allocated (one or more time as necessary) in accordance with the foregoing principal until all available Remaining Shares have been allocated. Any fractional share to which persons exercising their Over-subscription Privilege would otherwise be entitled pursuant to such allocation shall be rounded up to the next whole share.

(c) Upon calculating the number of shares to which each subscriber is entitled pursuant to the Over-subscription Privilege and the amount overpaid, if any, by each subscriber, you shall, as soon as practicable, (i) furnish a list of all such information to the Company and (ii) inform holders of Subscription Certificates who participated in the Over-subscription Privilege of the number of additional shares, if any, allotted to them.

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(d) Upon calculating the number of shares to which each subscriber is entitled pursuant to the Over-subscription Privilege and assuming payment for the additional shares subscribed for has been delivered, you shall mail to the subscriber's registered address on the books of the Company the additional shares the subscriber has been allotted as contemplated in subparagraph (a) above. If a lesser number of shares is allotted to a subscriber under the Over-subscription Privilege than the subscriber has tendered payment for, you shall remit the difference to the subscriber without interest or deduction at the same time as certificates representing the shares allotted pursuant to the Over-subscription Privilege are mailed.

(e) You shall promptly remit, after expiration of the Rights Offering and issuance of certificates for the shares subscribed for, all funds received in payment of the Subscription Price under the Basic Subscription Right to the Company. Funds received by you pursuant to the Over-subscription Privilege shall be held by you in a segregated interest-bearing account pending allocation of shares issued pursuant to the Over-subscription Privilege. Upon mailing certificates representing the shares and refunding subscribers' funds for additional shares subscribed for but not allotted, if any, you shall promptly remit all funds received in payment of the Subscription Price under the Over-subscription Privilege to the Company.

5. Defective Exercise of Rights; Lost Subscription Certificates. The Company shall have the absolute right to reject any defective exercise of Rights or to waive any defect in exercise. Unless requested to do so by the Company, you shall not be under any duty to give notification to holders of Subscription Certificates of any defects or irregularities in subscriptions. Such subscriptions will not be deemed to have been made until any such defects or irregularities have been cured or waived within such time as the Company shall determine. You shall as soon as practicable return Subscription Certificates with defects or irregularities which have not been cured or waived to the holder of the Rights. If any Subscription Certificate is alleged to have been lost, stolen or destroyed, you should follow the same procedures followed for lost stock certificates representing shares of Common Stock you use in your capacity as transfer agent for the Company's Common Stock.

6. Late Delivery. If prior to 5:00 p.m., New York City time, on the Expiration Date, you receive (i) payment in full of the Subscription Price for the shares of Common Stock being subscribed for and (ii) a guarantee notice (a "Notice of Guaranteed Delivery") substantially in the form delivered with the Subscription Certificate, from a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States or some other acceptable eligible guarantor institution qualified under a guarantee program stating the certificate number of the Subscription Certificate relating to the Rights, the name and address of the exercising shareholder, the number of Rights represented by the Subscription Certificate held by such exercising shareholder, the number of shares of Common Stock being subscribed for pursuant to the Basic Subscription Right, the number of shares of Common Stock, if any, being subscribed for pursuant to the Over-subscription Privilege, and guaranteeing the delivery to you of the Subscription Certificate evidencing such Rights within three trading days on the American Stock Exchange ("Amex") following the date of the Notice of Guaranteed Delivery, then the

Rights may be exercised even though the Subscription Certificate was not delivered to you prior to 5:00 p.m., New York City time, on the Expiration Date, provided that within three Amex trading days following the date of the Notice of Guaranteed Delivery you receive the properly completed and duly executed Subscription Certificate evidencing the Rights being exercised, with signature guaranteed if required.

7. Delivery. You shall deliver to the Company the exercised Subscription Certificates in accordance with written directions received from the Company and shall deliver the shares of Common Stock to the subscribers who have duly exercised Rights at their registered addresses as instructed in the the Subscription Certificates.

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8. Reports. You shall notify the Company by telephone on or before the close of business on each business day during the period commencing with the mailing of the Rights and ending at the Expiration Date (and in the case of guaranteed deliveries ending three business days after the Expiration Date) (a "daily notice"), which notice shall thereafter be confirmed in writing of (i) the number of Rights exercised on the day covered by such daily notice, (ii) the number of Rights subject to guaranteed delivery on the day covered by such daily notice, (iii) the number of Rights for which defective exercises have been received on the day covered by such daily notice, (iv) the number of shares requested under the Over-subscription Privilege and (v) the cumulative total of the information set forth in clauses (i) through (iv) above. At or before 5:00 p.m., New York City time on the first business day following the Expiration Date, you shall certify in writing to the Company the cumulative total through the Expiration Date of all the information set forth in clauses (i) through (iii) above. You shall maintain and update a listing of holders who have fully or partially exercised their Rights, and holders who have not exercised their Rights. You shall provide the Company or its designee with such information compiled by you pursuant to this paragraph 8 as any of them shall request.

9. Future Instructions. With respect to notices or instructions to be provided by the Company hereunder, you may rely and act on any written instruction signed by (a) any one or more of the following authorized officers or employees of the Company: Howard M. Lorber, Chairman of the Board of Directors of the Company, Victor M. Rivas, President and Chief Executive Officer of the Company, Richard J. Rosenstock, Vice Chairman of the Board of Directors and Chief Operating Officer of the Company or J. Bryant Kirkland III, Chief Financial Officer of the Company; or (b) David Alan Miller or Jeffrey M. Gallant of Graubard Miller, counsel for the Company.

10. Payment of Compensation and Expenses. The Company will pay you compensation for acting in your capacity as Subscription Agent hereunder as set forth on Schedule 1 attached hereto.

11. Counsel. You may consult with counsel satisfactory to you, which may be counsel to the Company, and the written advice or opinion of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by you hereunder in good faith and in accordance with such advice or opinion of such counsel.

12. Indemnification. The Company covenants and agrees to indemnify and hold you harmless against any costs, expenses (including reasonable fees for legal counsel), losses or damages, which may be paid, incurred or suffered by or to which you may become subject, arising from or out of, directly or indirectly, any claim or liability resulting from your actions as Subscription Agent pursuant hereto; provided that such covenant and agreement does not extend to such costs, expenses, losses and damages incurred or suffered by you as a result of, or arising out of, your own negligence, misconduct or bad faith or that of any employees, agents or independent contractors used by you in connection with performance of your duties as Subscription Agent hereunder, or your breaching

any of your obligations under this Agreement.

13. Notices. Unless otherwise provided herein, all reports, notices and other communications required or permitted to be given hereunder shall be in writing and delivered by hand or confirmed telecopy or by first class mail, postage prepaid, as follows:

(a) If to the Company, to:

Ladenburg Thalmann Financial Services Inc.
590 Madison Avenue, 34th Floor
New York, New York 10022
Attention: Victor M. Rivas
Telephone: (212) 409-2000
Telecopy: (212) 409-2174

with a copy to:

David Alan Miller, Esq.
Graubard Miller
600 Third Avenue
New York, New York 10016-2097
Telephone: (212) 818-8800
Telecopy: (212-818-8881

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(b) If to you, to:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038
Attention: Herbert Lemmer
Telephone: (718) 921-8200
Telecopy: (718) 234-5001

14. Assignment, Delegation. (a) Neither this Agreement nor any rights or obligations hereunder may be assigned or delegated by either party without the written consent of the other party.

(b) This Agreement shall inure to the benefit of and be binding upon the parties and their respective permitted successors and assigns. Nothing in this Agreement is intended or shall be construed to confer upon any other person any right, remedy or claim or to impose upon any other person any duty, liability or obligation.

15. Governing Law. The validity, interpretation and performance of this Agreement shall be governed by the law of the State of New York.

16. Severability. If any provision of this Agreement shall be held invalid, unlawful, or unenforceable, the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired.

17. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original and all of which together shall be considered one and the same agreement.

18. Captions. The captions and descriptive headings herein are for convenience of the parties only. They do not in any way modify, amplify, alter or give full notice of the provisions hereof.

19. Confidentiality. The Subscription Agent and the Company agree that all books, records, information and data pertaining to the business of the other

party which are exchanged or received pursuant to the negotiation or the carrying out of this Agreement including the fees for services set forth in the attached schedule shall remain confidential, and shall not be voluntarily disclosed to any other person, except as may be required by law.

20. Term. This Agreement shall remain in effect until 30 days' written notice has been provided by either party to the other. Upon termination of the Agreement, the Subscription Agent shall retain all cancelled Subscription Certificates and related documentation as required by applicable law.

21. Merger of Agreement. This Agreement constitutes the entire agreement between the parties hereto and supercedes any prior agreement with respect to the subject matter hereof whether oral or written.

If the foregoing is in accordance with your understanding of our arrangements, please sign and return the enclosed duplicate of this letter.

Very truly yours,

LADENBURG THALMANN FINANCIAL SERVICES INC.

By: _____

Name: Victor M. Rivas

Title: President and Chief Executive Officer

The foregoing is in accordance with our understanding and is hereby confirmed and accepted.

AMERICAN STOCK TRANSFER &
TRUST COMPANY

By: _____

Name: Herbert Lemmer

Title: Vice President and General Counsel

Dated: _____, 2002

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SCHEDULE 1

Compensation and Expenses

The Subscription Agent shall submit an invoice to the Company upon completion of the Rights Offering. The Company shall submit payment of such invoice within 10 business days of receipt of the invoice.

Compensation and Expenses: \$7,500 plus reasonable out-of-pocket expenses incurred

FORM OF STANDBY PURCHASE AGREEMENT

THIS STANDBY PURCHASE AGREEMENT (the "Agreement") is made and entered into as of _____, 2002 by and between Ladenburg Thalmann Financial Services Inc., a Florida corporation (the "Company"), and New Valley Corporation, a Delaware corporation (the "Purchaser").

WHEREAS, the Company anticipates issuing to the holders (the "Holders") of its issued and outstanding shares of common stock, \$.001 par value per share (the "Common Stock"), and stock options, warrants and senior convertible promissory notes of record at the close of business on _____, 2002 (the "Record Date") certain subscription rights (the "Basic Subscription Rights"), with over-subscription privileges ("Over-subscription Privileges", together with the Basic Subscription Rights, the "Rights"), to subscribe for and purchase additional shares of Common Stock at a per share price of \$____ (the "Subscription Price"), on the basis of ____ Rights for each share of Common Stock held, or deemed held, of record on such date (such transaction generally being herein referred to as the "Rights Offering");

WHEREAS, the Purchaser is the holder of senior convertible promissory notes of the Company as of the Record Date; and, as such, will receive Rights in the Rights Offering; and

WHEREAS, the Purchaser desires to serve as a Standby Purchaser for a specified amount of shares of Common Stock at the Subscription Price (the "Standby Shares") that have not been subscribed for by holders of Rights prior to the expiration of the Rights Offering at 5:00 p.m., New York city time, on _____, 2002 (the "Expiration Time");

NOW, THEREFORE, in and for consideration of the premises, and other good and valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Purchase and Delivery of Standby Shares.

(a) Concurrently with the execution of this Agreement, the Company is commencing the Rights Offering in which the Company is offering _____ shares of Common Stock to the Holders for purchase on or before the Expiration Time. If the Holders other than the Purchaser do not subscribe for and purchase all _____ shares of Common Stock offered in the Rights Offering through the exercise of their Basic Subscription Rights and Over-subscription Privileges (the "Unsubscribed Shares") on or before the Expiration Time, subject to the terms and conditions herein set forth, the Company agrees to issue and sell to the Purchaser and the Purchaser hereby agrees to subscribe for and purchase from the Company, a number of shares equal to _____ less the number of shares subscribed for and purchased by Holders other than the Purchaser in the Rights Offering, up to a maximum of _____ shares.

(b) The Purchaser shall fulfill its standby purchase commitment under this Section by executing and delivering to the Company prior to the Expiration Time an executed subscription rights certificate in the form attached to the Registration Statement (as defined in Section 3(a)(v) below) as Exhibit 4.1 thereto (the "Purchaser Subscription Certificate"). The Company acknowledges and agrees that the Purchaser shall not be required (i) to exercise its basic subscription right notwithstanding the provisions of Section 1 of the Purchase Subscription Certificate and (ii) to tender payment for the Standby Shares at the time of its delivery of the Purchaser Subscription Certificate to the Company, notwithstanding the provisions of Section 1 of the "Instructions for Use of Ladenburg Thalmann Financial Services Inc. Subscription Rights Certificates" adopted by the Company for the Rights Offering (the "Subscription

Instructions"). In the event of any inconsistency between the terms of (i) the Purchaser Subscription Certificate and the Subscription Instructions and (ii) the terms of this Agreement, the terms of this Agreement shall govern.

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(c) The Company will not extend the closing date of the Rights Offering beyond _____, 2002 without the prior written consent of the Purchaser.

2. The Closing. As soon as practicable following its determination of the number of Unsubscribed Shares, the Company shall notify the Purchaser of the number of Standby Shares, if any, to be purchased by the Purchaser pursuant to Section 1 of the Agreement ("Purchased Shares"). The delivery of the payment for the Standby Shares shall take place at the office of American Stock Transfer & Trust Company, the Company's Subscription Agent, in connection with the consummation of the Rights Offering, which shall be designated by the Company by oral communication or written notice to the Purchaser (such time and date being referred to as the "Closing Time," the date of the Closing Time being referred to as the "Closing Date" and the consummation of the transaction being referred to as the "Closing").

3. Representation and Warranties.

(a) The Company hereby represents and warrants to the Purchaser as follows:

(i) The Company has been duly incorporated and is validly existing as a corporation in good standing under the laws of the State of Florida.

(ii) The execution, delivery and performance of this Agreement by the Company and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action of the Company, and this Agreement, when duly executed and delivered by the Purchaser, will constitute a valid and legally binding instrument of the Company enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(iii) The Standby Shares have been duly authorized by all necessary corporate action of the Company, and when issued in accordance with such authorization and delivered by the Company against payment therefor will be validly issued, fully paid and nonassessable; and the Holders have no preemptive rights with respect to the Standby Shares. The Rights have been duly authorized by all necessary corporate action of the Company, and when issued in accordance with such authorization and delivered by the Company, will constitute legal, valid, binding and enforceable obligations of the Company, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(iv) The execution and delivery of this Agreement, the consummation by the Company of the transactions herein contemplated and the compliance by the Company with the terms hereof do not and will not conflict with, or result in a breach or violation of any of the terms or provisions of, or constitute a default under, the certificate of incorporation or bylaws of the Company, or any indenture, mortgage, deed or trust, loan agreement or other agreement or instrument to which the Company is a party or by which any of its properties or assets are bound, with such exceptions as would not have a material adverse effect on the financial condition of the Company, or any applicable law, rule, regulation, judgment, order or decree of any government, governmental instrumentality or court having jurisdiction over the Company or any of its properties or assets; and no consent, approval, authorization, order,

registration or qualification of or with any such governmental instrumentality or court is required for the valid authorization, execution, delivery and performance by the Company of this Agreement, the issuance of the Rights, the issuance of the shares of Common Stock upon the exercise of the Rights, except such as have been obtained under the rules and regulations of the Securities and Exchange Commission (the "Commission") and such consents, approvals, authorizations, registrations or qualifications as may be required under state securities or "blue sky" laws.

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(v) A registration statement, including a prospectus, relating to the Common Stock of the Company has been filed with the Commission and may be amended. Such registration statement, as it may be amended at the time when it becomes effective is hereinafter referred to as the "Registration Statement," and such prospectus, as then amended, including all material incorporated by reference therein, as the "Prospectus." When the Registration Statement becomes effective (the "Effective Time"), the Registration Statement and Prospectus will conform in all respects to the requirements of the Securities Act of 1933 (the "Act") and the rules and regulations of the Commission, and neither of such documents will include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading, except that the foregoing does not apply to statements or omissions in either of such documents based upon written information furnished to the Company by the Purchaser specifically for use therein.

(b) The Purchaser hereby represents and warrants to the Company as follows:

(i) The Purchaser has been duly organized and exists in good standing as a limited liability company under the laws of the State of Delaware.

(ii) The execution, delivery and performance of this Agreement by the Purchaser and the consummation by the Purchaser of the transactions contemplated hereby have been duly authorized by all necessary action of the Purchaser, and this Agreement, when duly executed and delivered by the Purchaser, will constitute a valid and legally binding instrument, enforceable in accordance with its terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

(iii) The Purchaser has sufficient cash resources on hand to purchase the Standby Shares on the terms and conditions contained in this Agreement.

(iv) No state, federal or foreign regulatory approvals, permits, licenses, or consents or other contractual or legal obligations are required in order for the Purchaser to enter into this Agreement or purchase the Standby Shares.

(v) The execution and delivery of this Agreement, the consummation by the Purchaser of the transactions herein contemplated and the compliance by the Purchaser with the terms hereof do not and will not conflict with, or result in a breach or violation of any of the terms or provisions of, or constitute a default under, the constituent documents of the Purchaser or any indenture, mortgage, deed of trust, loan agreement or other agreement or instrument to which the Purchaser is a party or by which any of the Purchaser's properties or assets are bound, or any applicable law, rule, regulation, judgment, order or decree of any government, governmental jurisdiction over the Purchaser or any of Purchaser's properties or assets; and no consent, approval, authorization, government, governmental instrumentality or court, domestic or foreign, is required for the valid authorization, execution, delivery and

performance by the Purchaser of this Agreement or the consummation by the Purchaser of the transactions contemplated by this Agreement.

(vi) The Purchaser understands that its commitment under this Agreement is not contingent on the commitment of any other Holder or on any minimum number of shares being issued in the Rights Offering.

(vii) At the Effective Time, the information furnished to the Company by the Purchaser specifically for use in the Registration Statement and Prospectus will not include any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

(viii) The Purchaser has reviewed a copy of the Registration Statement and Prospectus.

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4. Closing Conditions. The respective obligations of the Purchaser and the Company to consummate the purchase and sale of the Standby Shares shall be subject, in the discretion of the Company or the Purchaser, as the case may be, to the conditions that (i) all representations and warranties and other statements of the other party are, at and as of the Closing Time, true and correct in all material respects, (ii) the other party shall have performed all of its obligations hereunder theretofore to be performed in all material respects, and (iii) that the Effective Time of the Registration Statement shall be no later than 5:30 p.m., New York time, on the date of this Agreement or such later date as shall have been consented to by the Purchaser; and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or, to the knowledge of the Company or the Purchaser, shall be contemplated by the Commission.

5. Registration Statement.

(a) The Company shall use best efforts to file promptly with the Commission, and use commercially reasonable efforts to cause to be declared effective by the Commission, a registration statement ("Purchase Registration Statement") to register the Purchased Shares for resale pursuant to the Act. The Company shall use best efforts to keep such Purchaser Registration Statement continuously effective and usable until the date on which all of the Purchased Shares are sold or such earlier date as the Purchased Shares may be resold by Purchaser without registration under Rule 144(k) under the (the "Final Date"). The Company shall deliver copies of the prospectus included within the Purchaser Registration Statement ("Purchaser Prospectus") to the American Stock Exchange pursuant to Rule 153 under the Act and to Purchaser on reasonable request.

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(b) Upon the occurrence of any event that would cause the Purchaser Registration Statement (i) to contain a material misstatement or to omit a material fact required to be stated therein or necessary to make the statements made not misleading or (ii) not to be effective and usable for resale of the Purchased Shares until the Final Date, the Company shall notify Purchaser as soon as reasonably practicable thereafter and, within two Business Days of the occurrence of such event, file a supplement to the Purchaser Prospectus included in (if a supplement is appropriate for such purpose) or, within four Business Days of the occurrence of such event, file an amendment to the Purchaser Registration Statement, in the case of clause (i) immediately above correcting any such misstatement or omission, and in the case of either clause (i) or (ii) immediately above use best efforts to cause such amendment to be declared effective and such Purchaser Registration Statement to become usable as soon as reasonably practicable thereafter.

(c) The Company and Purchaser agree that Purchaser shall be entitled to enforce specifically the obligations under Section 5 in any court of competent jurisdiction (this being in addition to any other remedy to which it is entitled at law or equity).

(d) All fees and expenses incidental to the performance of or compliance with this Section 5 shall be borne by the Company whether or not the Purchaser Registration Statement is filed or becomes effective, other than Purchaser's professional fees and expenses, if any, and underwriting discounts and commissions and transfer taxes, if any, in respect of the Purchased Shares, which shall be payable by Purchaser.

6. Indemnification.

(a) The Company will indemnify and hold harmless the Purchaser and each person, if any, who controls the Purchaser within the meaning of the Act against any losses, claims, damages or liabilities, joint or several, to which such Purchaser or such controlling person may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, the Prospectus, the Purchaser Registration Statement, the Purchaser Prospectus, any amendment or supplement thereto, any related preliminary prospectus or any document incorporated by reference in any of the foregoing, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading; and will reimburse the Purchaser and each such controlling person for any legal or other expenses reasonably incurred by the Purchaser or such controlling person in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any of such documents in reliance upon and in conformity with information furnished to the Company by the Purchaser specifically for use therein. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

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Insofar as the foregoing indemnity agreement, or the representations and warranties contained in this Agreement, may permit indemnification for liabilities under the Act of the Purchaser or a member or controlling person of the Purchaser within the meaning of Section 15 of the Act and who, at the date of this Agreement, is a director, officer or controlling person of the Company, the Company has been advised that in the opinion of the Commission such provisions may be broad enough to contravene Federal public policy as expressed in the Act and may therefore be unenforceable. In the event that a claim for indemnification under such agreement or such representations and warranties for any such liabilities (except insofar as such agreement provides for the payment by the Company of expenses incurred or paid by a director, officer or controlling person in the successful defense of any action, suit or proceeding) is asserted by such a person, the Company will submit to a court of appropriate jurisdiction (unless in the opinion of counsel for the Company the matter has already been settled by controlling precedent) the question of whether or not indemnification by it for such liabilities is against public policy as expressed in the Act and therefore unenforceable, and the Company will be governed by the final adjudication of such issue.

(b) The Purchaser will indemnify and hold harmless the Company, each of its directors, each of its officers who have signed the Registration Statement and who will sign the Purchaser Registration Statement and each person, if any, who controls the Company within the meaning of the Act, against any losses,

claims, damages or liabilities to which the Company or any such director, officer or controlling person may become subject, under the Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of any material fact contained in the Registration Statement, the Prospectus, the Purchaser Registration Statement, the Purchaser Prospectus or any amendment or supplement thereto, or any related preliminary prospectus, or arise out of or are based upon the omission or the alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by the Purchaser specifically for use therein; and will reimburse any legal or other expenses reasonably incurred by the Company or any such director, officer or controlling person in connection with investigating or defending any such loss, claim, damage, liability or action. This indemnity agreement will be in addition to any liability which the Purchaser may otherwise have.

(c) Promptly after receipt by an indemnified party under this Section of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section, notify the indemnifying party of the commencement thereof; but the omission so to notify the indemnifying party will not relieve it from any liability which it may have to any indemnified party otherwise than under this Section. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party be counsel to the indemnifying party), and after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, the indemnifying party will not be liable to such indemnified party under this Section for any legal or other expenses subsequently incurred by such indemnified party in connection with the defense thereof other than reasonable costs of investigation.

(d) If recovery is not available under the foregoing indemnification provisions of this Section, for any reason other than as specified therein, the parties entitled to indemnification by the terms thereof shall be entitled to contribution to liabilities and expenses, except to the extent that contribution is not permitted under Section 11(f) of the Act. In determining the amount of contribution to which the respective parties are entitled, there shall be considered the relative benefits received by each party from the transactions contemplated by this Agreement, the parties' relative knowledge and access to information concerning the matter with respect to which the claim was asserted, the opportunity to correct and prevent any statement or omission, and any other equitable considerations appropriate under the circumstances. The Company and the Purchaser agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation. Neither the Purchaser or nor any person controlling the Purchaser shall be obligated to make contribution hereunder which in the aggregate exceeds the total Subscription Price of the Common Stock purchased by the Purchaser pursuant to this Agreement, less the aggregate amount of any damages which the Purchaser and its controlling persons have otherwise been required to pay in respect of the same claim or any substantially similar claim.

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7. Termination.

(a) Either of the parties hereto may terminate this Agreement (i) if the transactions contemplated hereby are not consummated by _____, 2002

through no fault of the Purchaser or (ii) in the event that the Company is unable to obtain any required approvals for the transactions contemplated hereby to be undertaken by it on conditions reasonably satisfactory to it despite its reasonable efforts to obtain such approvals. In addition, this Agreement shall terminate upon mutual consent of the parties hereto.

(b) The Company and the Purchaser hereby agree that any termination of this Agreement pursuant to Section 6(a), or the termination of the Rights Offering for any reason whatsoever by the Company (other than termination in the event of a breach of this Agreement by the Purchaser or misrepresentation of any of the statements made herein by the Purchaser) shall be without liability of the Company or the Purchaser.

8. Notices. All communications hereunder shall be in writing and, if to the Company, shall be mailed, delivered or telecopied and confirmed to it at:

Ladenburg Thalmann Financial Services Inc.
590 Madison Avenue, 34th Floor
New York, New York 10022
Attention: Victor M. Rivas
Facsimile No.: (212) 317-8192

If to the Purchaser, shall be mailed, delivered or telecopied and confirm to it at:

New Valley Corporation
100 S.E. Second Street
Miami, Florida 33131
Attention: Richard J. Lampen
Facsimile: (305) 579-8009

In either case, with a copy to:

Graubard Miller
600 Third Avenue, 32nd Floor
New York, New York 10016
Attention: David Alan Miller
Facsimile: (212) 818-8881

9. Binding Effects. This Agreement shall be binding upon, and shall inure solely to the benefit of, each of the parties hereto, and each of their respective heirs, executors, administrators, successors and permitted assigns, and no other Person shall acquire or have any right under or by virtue of this Agreement. The Purchaser may not assign its rights and obligations hereunder.

10. Governing Law. This Agreement shall be governed by, and construed in accordance with, the laws of the State of New York in effect at the time of the execution hereof.

11. Entire Agreement. This Agreement represents the entire understanding of the parties with respect to the matters addressed herein and supersedes all prior written and oral understandings concerning the subject matter herein.

12. Execution in Counterparts. This Agreement may be executed in any number of counterparts, each of which counterparts when so executed and delivered shall be deemed to be an original, but all such respective counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, and intending to be legally bound thereby, each of the Purchaser and the Company has signed or caused to be signed its name as of the day and year first above written.

LADENBURG THALMANN FINANCIAL SERVICES INC.

By: _____
Name:
Title:

NEW VALLEY CORPORATION

By: _____
Name:
Title:

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in this Registration Statement on Form S-3 of our report dated March 22, 2002 relating to the consolidated financial statements of Ladenburg Thalmann Financial Services Inc. which appears in Ladenburg Thalmann Financial Services Inc.'s Annual Report on Form 10-K for the year ended December 31, 2001. We also consent to the reference to us under the heading "Experts" in such Registration Statement.

/s/ PricewaterhouseCoopers LLP
PricewaterhouseCoopers LLP
New York, New York
May 23, 2002

INSTRUCTIONS FOR USE OF
LADENBURG THALMANN FINANCIAL SERVICES INC.
SUBSCRIPTION RIGHTS CERTIFICATES

The following instructions relate to the rights offering (the "Rights Offering") by Ladenburg Thalmann Financial Services Inc., a Florida corporation (the "Company"), to the holders of its common stock, par value \$0.0001 per share (the "Common Stock"), and the holders of its outstanding options, warrants and senior convertible promissory notes as described in the Company's prospectus dated _____, 2002 (the "Prospectus"). Holders of record at the close of business on _____, 2002 (the "Record Date") will receive one (1) subscription right (the "Subscription Rights") for every ____ shares of Common Stock owned, or deemed owned, by them as of the close of business on the Record Date. An aggregate of _____ Subscription Rights are being distributed in connection with the Rights Offering. The Company will accept the exercise of up to _____ shares of Common Stock. Each Subscription Right is exercisable, upon payment of \$____ (the "Subscription Price"), to purchase one share of Common Stock (the "Basic Subscription Right"). In addition, subject to the allocation described below, each Subscription Right also carries the right to subscribe at the Subscription Price for an unlimited number of additional shares of Common Stock (the "Over-subscription Privilege") (to the extent available, and subject to proration). See "Procedures of the Rights Offering - Basic and over-subscription privileges" in the Prospectus for more information.

The Subscription Rights will expire at 5:00 p.m., New York City time, on _____, 2002 (as it may be extended, the "Expiration Date").

You should indicate your wishes with regard to the exercise of your Subscription Rights by completing the appropriate section of your Subscription Rights Certificate and returning the Subscription Rights Certificate to the Subscription Agent in the envelope provided.

Your Subscription Rights Certificate must be received by the Subscription Agent, or guaranteed delivery requirements with respect to your Subscription Rights Certificates must be complied with, on or before the Expiration Date. Payment of the Subscription Price of all Subscription Rights exercised, including Over-subscription Privileges, including final clearance of any checks, must be received by the Subscription Agent on or before the Expiration Date. Once the Subscription Rights have been exercised, they may not be revoked.

1. Subscription Privileges. To exercise Subscription Rights, complete and execute your Subscription Rights Certificate and send it, together with payment in full of the Subscription Price for each share of Common Stock subscribed for pursuant to the Basic Subscription Right and the Over-subscription Privilege, to the Subscription Agent. Delivery of the Subscription Rights Certificate must be made by mail or by overnight delivery. Facsimile delivery of the Subscription Rights Certificate will not constitute valid delivery. All payments must be made in United States dollars by:

- o by personal check, certified or cashier's check, bank draft or a postal, telegraphic or express money order payable to "American Stock Transfer & Trust Company, as Subscription Agent"; or
- o wire transfer of immediately available funds directed to the escrow account maintained by American Stock Transfer & Trust

Company, as Subscription Agent, at Chase Manhattan Bank, 55 Water Street, New York, New York 10005, ABA#021-000021, Account #_____; or

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- o in the case of persons acquiring more than _____ Shares, an alternative payment method arranged with the Subscription Agent and approved by the Company.

1.1 Acceptance Of Payments. Payments will be deemed to have been received by the Subscription Agent only upon:

- o the clearance of any uncertified check;
- o receipt by the Subscription Agent of any certified check or bank draft drawn upon a United States bank or postal, telegraphic or express money order, or funds transferred through a wire transfer; or
- o receipt of funds by the Subscription Agent through an agreed upon alternative payment method.

If paying by uncertified personal check, please note that the funds paid thereby may take at least five business days to clear. Accordingly, holders of Subscription Rights who wish to pay the Subscription Price by means of uncertified personal check are urged to make payment sufficiently in advance of the Expiration Date to ensure that such payment is received and clears by such date. You are urged to consider payment by means of certified or cashier's check or money order.

1.2 Procedures For Guaranteed Delivery. You may cause a written guarantee substantially in the form available from the Subscription Agent (the "Notice of Guaranteed Delivery") from a member firm of a registered national securities exchange or a member of the National Association of Securities Dealers, Inc., or a commercial bank or trust company having an office or correspondent in the United States or some other acceptable eligible guarantor institution qualified under a guarantee program, to be received by the Subscription Agent on or prior to the Expiration Date guaranteeing delivery of your properly completed and executed Subscription Rights Certificate within three trading days following the date of the Notice of Guaranteed Delivery. If this procedure is followed, your Subscription Rights Certificates must be received by the Subscription Agent within three trading days of the Notice of Guaranteed Delivery. Additional copies of the Notice of Guaranteed Delivery may be obtained upon written request from the Subscription Agent at the address, or by calling the telephone number, indicated below.

1.3 Requirements for Nominee Holders. Banks, brokers and other nominee holders of Subscription Rights who exercise the Basic Subscription Right and the Over-subscription Privilege on behalf of beneficial owners of Subscription Rights will be required to certify to the Subscription Agent and the Company as to the aggregate number of Subscription Rights that have been exercised, and the number of shares of Common Stock that are being subscribed for pursuant to the Over-subscription Privilege, by each beneficial owner of Subscription Rights (including such nominee itself) on whose behalf such nominee holder is acting. If such certification is not delivered in respect of a Subscription Rights Certificate, the Subscription Agent shall for all purposes (including for purposes of any allocation in connection with the Over-subscription Privilege) be entitled to assume that such certificate is exercised on behalf of a single beneficial owner. If more shares are subscribed for pursuant to the Over-subscription Privilege than are available for sale, shares will be allocated among beneficial owners exercising the Over-subscription Privilege in proportion to such owner's exercise of Subscription Rights pursuant to the Basic

Subscription Right.

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1.4 Contacting The Subscription Agent. The address and facsimile number of the Subscription Agent are as follows:

BY FIRST CLASS MAIL OR REGISTERED MAIL:

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038

BY HAND:

American Stock Transfer & Trust Co.
59 Maiden Lane New
York, NY 10038

BY OVERNIGHT DELIVERY:

American Stock Transfer & Trust Co.
59 Maiden Lane
New York, NY 10038

The Subscription Agent's telephone number is (718) 921-8200 and their facsimile number is (718) 234-5001.

1.5 Partial Exercises; Effect Of Over- And Underpayments. If you exercise less than all of the Subscription Rights evidenced by your Subscription Rights Certificate, the Subscription Agent will issue to you a new Subscription Rights Certificate evidencing the unexercised Subscription Rights. However, if you choose to have a new Subscription Rights Certificate sent to you, you may not receive it in sufficient time to permit exercise of the Subscription Rights evidenced by the new certificate. If you have not indicated the number of Subscription Rights being exercised, or if the dollar amount you have forwarded is not sufficient to purchase (or exceeds the amount necessary to purchase) the number of Shares subscribed for, you will be deemed to have exercised the Basic Subscription Right with respect to the maximum number of whole Subscription Rights which may be exercised for the Subscription Price payment delivered by you. To the extent that the Subscription Price payment delivered by you exceeds the product of the Subscription Price multiplied by the number of Subscription Rights evidenced by the Subscription Rights Certificates delivered by you (such excess being the "Subscription Excess"), you will be deemed to have exercised your Over-subscription Privilege to purchase, to the extent available, that number of whole shares of Common Stock equal to the quotient obtained by dividing the Subscription Excess by the Subscription Price.

2. Delivery Of Stock Certificates, Etc. The following deliveries and payments to you will be made to the address shown on your Subscription Rights Certificate unless you provide instructions to the contrary.

(a) Basic Subscription Right. As soon as practicable after the valid exercise of Subscription Rights and the Expiration Date, the Subscription Agent will mail to each exercising Subscription Rights holder certificates representing shares of Common Stock purchased pursuant to the Basic Subscription Right.

(b) Over-subscription Privilege. As soon as practicable after the Expiration Date and after all prorations and adjustments contemplated by the terms of the Rights Offering have been effected and taking into account any delays or extensions in closing the over-subscription purchases, the Subscription Agent will mail to each Subscription Rights holder who validly

exercises the Over-subscription Privilege the number of certificates representing shares of Common Stock purchased pursuant to the Over-subscription Privilege.

(c) Excess Payments. As soon as practicable after the Expiration Date and after all prorations and adjustments contemplated by the terms of the Rights Offering have been effected, the Subscription Agent will mail to each Subscription Rights holder any excess payment submitted by such holder (without interest or deduction) in payment of the Subscription Price for Shares that are subscribed for but not allocated to such Subscription Rights holder pursuant to the Basic Subscription Right or Over-subscription Privilege.

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3. Signatures.

(a) By Registered Holders. The signature on the Subscription Rights Certificate must correspond with the name of the registered holder exactly as it appears on the face of the Subscription Rights Certificate without any alteration or change whatsoever. Persons who sign the Subscription Rights Certificate in a representative or other fiduciary capacity must indicate their capacity when signing and, unless waived by the Subscription Agent in its sole and absolute discretion, must present to the Subscription Agent satisfactory evidence of their authority to so act.

(b) By Persons Other Than Registered Holders. If the Subscription Rights Certificate is executed by a person other than the registered holder named on the face of the Subscription Rights Certificate, proper evidence of authority of the person executing the Subscription Rights Certificate must accompany the same unless the Subscription Agent, in its discretion, dispenses with proof of authority.

(c) Signature Guarantees. Your signature must be guaranteed by an Eligible Guarantor Institution if you specify special issuance or delivery instructions.

4. Method Of Delivery. The method of delivery of Subscription Rights Certificates and payment of the Subscription Price to the Subscription Agent will be at the election and risk of the Subscription Rights holder. If sent by mail, it is recommended that they be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the Subscription Agent prior to the Expiration Date.

5. Special Provisions Relating To The Delivery Of Subscription Rights Through Depository Facility Participants. In the case of holders of Subscription Rights that are held of record through the Depository Trust Company ("DTC"), exercises of the Basic Subscription Rights and the Over-subscription Privilege may be effected by instructing DTC to transfer Subscription Rights (such Subscription Rights hereafter referred to as "Depository Rights") from the DTC account of such holder to the DTC account of the Subscription Agent, together with payment of the Subscription Price for each share of Common Stock subscribed for pursuant to the Basic Subscription Rights and the Over-subscription Privilege.

NOTICE OF GUARANTEED DELIVERY
For
SUBSCRIPTION RIGHTS CERTIFICATES
Of
LADENBURG THALMANN FINANCIAL SERVICES INC.

This form, or one substantially equivalent to this form, must be used to exercise Subscription Rights pursuant to the Rights Offering described in the prospectus, dated _____, 2002 (the "Prospectus"), of Ladenburg Thalmann Financial Services Inc., a Florida corporation ("Company"), if a holder of Subscription Rights cannot deliver the Subscription Rights Certificate(s) evidencing the Subscription Rights (the "Subscription Certificate(s)"), to the Subscription Agent listed below (the "Subscription Agent") at or prior to 5:00 p.m., New York City time, on _____, 2002 (as it may be extended, the "Expiration Date"). Such form must be delivered by hand or sent by facsimile transmission or mailed to the Subscription Agent, and must be received by the Subscription Agent on or prior to the Expiration Date. See "Procedures of the Rights Offering - Notice of guaranteed delivery" in the Prospectus.

Payment of the Subscription Price of \$__ per share of common stock subscribed for ("Shares") upon exercise of such Subscription Rights must be received by the Subscription Agent in the manner specified in the Prospectus at or prior to 5:00 p.m., New York City time, on the Expiration Date, even if the Subscription Rights Certificate evidencing such Subscription Rights is being delivered pursuant to the procedure for guaranteed delivery thereof. The Subscription Rights Certificate evidencing such Subscription Rights must be received by the Subscription Agent within three (3) trading days after the date of execution of the Notice of Guaranteed Delivery.

The Subscription Agent is:

American Stock Transfer & Trust Company

By Mail:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

By Facsimile
Transmission:

(718) 234-5001

By Hand:

American Stock Transfer & Trust Company
59 Maiden Lane
New York, New York 10038

To Confirm Receipt of
Facsimile and
For General Information:
(718) 921-8200

DELIVERY OF THIS INSTRUMENT TO AN ADDRESS OTHER THAN AS SET FORTH ABOVE OR TRANSMISSION OF INSTRUCTIONS VIA A FACSIMILE OTHER THAN AS SET FORTH ABOVE DOES NOT CONSTITUTE A VALID DELIVERY.

Ladies and Gentlemen:

The undersigned hereby represents that he or she is the holder of Subscription Rights Certificate(s) representing Subscription Rights issued by the Company and that such Subscription Rights Certificate(s) cannot be delivered to the Subscription Agent at or before 5:00 p.m., New York City time, on the Expiration Date. Upon the terms and subject to the conditions set forth in the Prospectus, receipt of which is hereby acknowledged, the undersigned hereby elects to exercise the Subscription Right to subscribe for Shares per Subscription Right represented by such Subscription Rights Certificate and Shares set forth below pursuant to the Over-subscription Privilege described in the Prospectus:

No. of Shares subscribed for pursuant to Basic Subscription Rights:

PLUS

No. of Shares subscribed for pursuant to Over-subscription Privilege:

TOTAL:

Multiplied by the Subscription Price of \$___ per share: _____

TOTAL PAYMENT DUE:

=====

The undersigned understands that the payment of the Subscription Price of \$___ per share for each Share subscribed for pursuant to the Basic Subscription Right and the Over-subscription Privilege must be received by the Subscription Agent at or before 5:00 p.m., New York City time, on the Expiration Date and represents that such payment, in the aggregate amount set forth above, either (check appropriate box):

is being delivered to the Subscription Agent herewith; or

has been delivered separately to the Subscription Agent; and

is or was delivered in the manner set forth below (check appropriate box and complete information relating thereto):

uncertified check (NOTE: Payment by uncertified check will not be deemed to have been received by the Subscription Agent until such check has been cleared. Holders paying by such means are urged to make payment sufficiently in advance of the Expiration Date to ensure that such payment clears by such date.);

certified check;

bank draft (cashier's check);

postal, telegraphic or express money order; or

wire transfer of immediately available funds.

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If by certified check, bank or express money order, please provide the following

information:

Name of maker: _____

Date of check, draft or money order: _____

Bank on which check is drawn or issuer of money order: _____

Signature(s): _____ Address: _____

Name(s): _____
(please type or print)

Telephone: _____

Subscription Certificate No.(s): _____

THE GUARANTEE SET FORTH BELOW MUST BE COMPLETED

GUARANTEE OF DELIVERY

(NOT TO BE USED FOR SUBSCRIPTION RIGHTS CERTIFICATE SIGNATURE GUARANTEE)

The undersigned, a member firm of a registered national securities exchange or member of the National Association of Securities Dealers, Inc., commercial bank or trust company having an office or correspondent in the United States, or another "Eligible Guarantor Institution" as defined in Rule 17Ad-15 under the Securities Exchange Act of 1934, as amended, hereby guarantees that within three trading days after the date set forth below, the undersigned will deliver to the Subscription Agent the Subscription Rights Certificates representing the Subscription Rights being exercised hereby, with any required signature guarantees and any other required documents.

Name of Firm: _____

Address: _____

Area Code and Telephone No.: _____

Authorized Signature: _____

Name: _____
(please type or print)

Title: _____

Date: _____

The institution which completes this form must communicate the guarantee to the Subscription Agent and must deliver the Subscription Rights Certificates to the Subscription Agent within the time period shown herein. Failure to do so could result in a financial loss to such institution.

LADENBURG THALMANN FINANCIAL SERVICES INC.
 590 Madison Avenue, 34th Floor
 New York, New York 10022

_____, 2002

Dear Holder of Record of Subscription Rights:

Enclosed are a prospectus and other materials relating to the rights offering by Ladenburg Thalmann Financial Services Inc. If your shares are held in your name, a Subscription Rights Certificate is also enclosed. If your shares are otherwise held in the name of your bank or broker, you must contact your bank or broker if you wish to participate in this offering.

Please carefully review the prospectus which describes how you can participate in the rights offering. You will be able to exercise your subscription rights to purchase shares of Ladenburg's common stock only during a limited period. You will find a description of the rights offering beginning on page 19 of the prospectus. You should also refer to the detailed instructions for use of Ladenburg's Subscription Rights Certificates included in this letter. The exercise of subscription rights is irrevocable.

Summary of the terms of the Rights Offering

- o You will receive one non-transferable subscription right for every ___ shares of Ladenburg common stock you own, or are deemed to own, on _____, 2002.
- o You may purchase one share of common for each subscription right you receive at the subscription price of \$___ per share.
- o If you fully exercise the basic subscription rights issued to you, you may subscribe for additional shares of common stock through the over-subscription privilege.
- o We will accept subscriptions for up to a maximum of _____ shares of common stock.
- o If we receive basic subscriptions for the full _____ shares, then no over-subscriptions will be accepted and the subscribing shareholders will only receive the total number of shares exercised under the basic subscription rights.
- o If we receive basic subscriptions for less than the full _____ shares, then over-subscriptions will be accepted up to the number of shares available, after satisfying the basic subscription rights.
- o The rights offering expires at 5:00 p.m., New York City time, on _____, 2002. If you do not exercise your subscription rights before that time, they will expire and will not be exercisable for shares.

If you do not exercise your subscription rights, your ownership in Ladenburg Thalmann Financial Services Inc. may be diluted. Please see page 9 of the prospectus for a discussion of dilution and other risk factors.

If you have any questions concerning the rights offering, please feel free to contact Joseph Giovanniello Jr., Secretary of Ladenburg Thalmann

Financial Services Inc., at (212) 409-2544.

Sincerely,

Victor M. Rivas, President and
Chief Executive Officer

Ladenburg Thalmann Financial Services Inc.

Rights Offering

To Our Clients:

Enclosed for your consideration is a prospectus, dated _____, 2002 (the "Prospectus"), and an instruction form (the "Instruction Form") relating to the rights offering by Ladenburg Thalmann Financial Services Inc. (the "Company") of non-transferable rights to purchase shares of its common stock, par value \$0.0001 per share ("Common Stock"), to holders of its Common Stock, as well as holders of its outstanding options, warrants and senior convertible promissory notes (collectively, the "Holders"), on _____, 2002 (the "Record Date").

Pursuant to the rights offering, each Holder is entitled to purchase one share of Common Stock for every ___ shares of Common Stock owned, or deemed owned, by such Holder on the Record Date at the subscription price of \$_____ per share (the "Subscription Rights"). Holders are entitled to subscribe for all or any portion of the shares underlying their Subscription Rights.

The materials enclosed are being forwarded to you as the beneficial owner of shares of Common Stock carried by us in your account but not registered in your name. Exercises of the Subscription Rights may only be made by us as the Holder of record and pursuant to your instructions.

Accordingly, we request instructions as to whether you wish us to subscribe for any shares of Common Stock for which you are entitled to subscribe for pursuant to the terms and conditions set forth in the enclosed Prospectus. However, we urge you to read these documents carefully before instructing us to exercise any subscription rights.

Your instructions to us should be forwarded as promptly as possible in order to permit us to exercise the Subscription Rights on your behalf in accordance with the provisions of the rights offering. The rights offering will expire at 5:00 p.m., New York City time, on _____, 2002, unless extended by the Company in its sole discretion. Once you have exercised your subscription rights, you may not revoke your election for any reason.

If you wish to have us exercise, on your behalf, your right to purchase shares of Common Stock for which you are entitled to subscribe, please so instruct us by completing, executing, detaching and returning to us, and not the Subscription Agent, the attached Instruction Form along with proper payment for the number of shares for which you are subscribing at the subscription price.

Any questions or requests for assistance concerning the offering should be directed to Joseph Giovanniello Jr., Secretary of Ladenburg Thalmann Financial Services Inc., at (212) 409-2544.

BENEFICIAL OWNER ELECTION FORM

I acknowledge receipt of your letter and the enclosed materials relating to the offering of subscription rights (the "Subscription Rights") to purchase shares of common stock, par value \$0.0001 per share ("Common Stock"), of Ladenburg Thalmann Financial Services Inc. (the "Company").

This will instruct you on whether to exercise Subscription Rights distributed with respect to the Common Stock held by you for my account, pursuant to the terms and subject to the conditions set forth in the prospectus dated _____, 2002 (the "Prospectus").

Please do not exercise my Subscription Rights to purchase shares of Common Stock.

Please exercise my Subscription Rights to purchase shares of the Common Stock as set forth below.

	Number of Shares		Subscription Price		Payment
Basic Subscription Right	_____	x	\$_____	=	_____
Over-subscription Privilege	_____	x	\$_____	=	_____

By exercising the over-subscription privilege, I represent and certify that I have fully exercised the basic subscription rights received in respect of shares of Common Stock held in the below-described capacity.

Payment in the following amount is enclosed: \$_____

Please deduct \$_____ from the following account maintained by you as follows: _____ (Type of Account and Account No.)

Signature(s) of Beneficial Owner:

Date: _____, 2002

Signature

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

_____, 2002

To: Securities Dealers, Commercial Banks, Trust Companies and Other
Nominees

This letter is being distributed to securities dealers, commercial banks, trust companies and other nominees in connection with the offering by Ladenburg Thalmann Financial Services Inc., a Florida corporation (the "Company"), of non-transferable subscription rights (the "Subscription Rights") to purchase an aggregate of _____ shares of common stock, par value \$0.0001 per share (the "Common Stock"), at a subscription price of \$___ per share of Common Stock (the "Subscription Price"). The Subscription Rights were initially distributed on _____, 2002 (the "Subscription Rights"), to all holders of record of shares of the Company's Common Stock, as well as holders of its options, warrants and senior convertible promissory notes, as of the close of business on _____, 2002 (the "Record Date"). Each Subscription Right also carries the right to over-subscribe at the Subscription Price for an unlimited number of additional Shares (to the extent available, subject to proration). The Subscription Rights are described in the enclosed prospectus and evidenced by a Subscription Rights Certificate registered in your name or in the name of your nominee.

Each beneficial owner of shares of Common Stock registered in your name or the name of your nominee is entitled to one (1) Subscription Right for every ___ shares of Common Stock owned, or deemed owned, by such beneficial owner.

We are asking you to contact your clients for whom you hold shares of Common Stock registered in your name or in the name of your nominee to obtain instructions with respect to the Subscription Rights.

Enclosed are copies of the following documents for you to use:

1. a prospectus;
2. instructions for use of the Company's Subscription Rights Certificates;
3. a form of letter from the Company to its shareholders;
4. a notice of guaranteed delivery;
5. a form of letter which may be sent to your clients for whose accounts you hold the Company's Common Stock registered in your name or in the name of your nominee;
6. a beneficial owner election form, on which you may obtain your clients' instructions with regard to the Subscription Rights;
7. a nominee holder certification form; and
8. a return envelope addressed to American Stock Transfer & Trust Company, as subscription agent.

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Your prompt action is requested. The Subscription Rights will expire at 5 p.m. New York City time on _____, 2002 (the "Expiration Date").

To exercise Subscription Rights, properly completed and executed Subscription Rights Certificates and payment in full for all Subscription Rights exercised must be delivered to the subscription agent as indicated in the prospectus prior to the Expiration Date, unless the guaranteed delivery procedures described in the prospectus are followed in lieu of delivery of a Subscription Rights Certificate prior to the Expiration Date.

Additional copies of the enclosed materials may be obtained by contacting Joseph Giovanniello Jr., Secretary of Ladenburg Thalmann Financial Services Inc., at (212) 409-2544.

Sincerely,

Victor M. Rivas
President and
Chief Executive Officer

Nominee Holder Certification

The undersigned, a bank, broker, trustee, depository or other nominee holder of subscription rights ("Subscription Rights") to purchase shares of common stock, par value \$0.0001 per share ("Common Stock"), of Ladenburg Thalmann Financial Services Inc. (the "Company") pursuant to the Rights Offering described and provided for in the Company's prospectus dated _____, 2002 ("Prospectus"), hereby certifies to the Company and to American Stock Transfer & Trust Company (the "Subscription Agent") that:

- o the undersigned has subscribed for the number of shares of Common Stock specified below pursuant to the Basic Subscription Right (as described in the Prospectus) and the Over-subscription Privilege (as described in the Prospectus) on behalf of beneficial owners of Subscription Rights who have exercised the Subscription Rights, listing separately below each such exercised Basic Subscription Right and the corresponding Over-subscription Privilege (without identifying any such beneficial owner); and
- o each such beneficial owner exercising its Over-subscription Privilege has exercised its Basic Subscription Right in full.

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	Number of Shares Owned, or Deemed Owned, on the Record Date	Number of Shares Subscribed for Pursuant to Basic Subscription Right	Number of Shares Subscribed for Pursuant to Over-subscription Privilege
<S>	<C>	<C>	<C>
1.			
2.			
3.			
4.			
5.			

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Name of Bank, Broker, Trustee, Depository or Other Nominee

By: _____
Authorized Signature

Name: _____
(Please type or print)