

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

**FORM 10-Q**

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

For the Quarterly Period Ended March 31, 2011

OR

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

Commission File Number 001-15799

**Ladenburg Thalmann Financial Services Inc.**

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

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

**65-0701248**  
*(I.R.S. Employer  
Identification Number)*

**4400 Biscayne Boulevard, 12<sup>th</sup> Floor**  
**Miami, Florida**  
*(Address of principal executive offices)*

**33137**  
*(Zip Code)*

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

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

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

Yes  No

As of May 2, 2011, there were 183,516,576 shares of the registrant's common stock outstanding.

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**LADENBURG THALMANN FINANCIAL SERVICES INC.  
QUARTERLY REPORT ON FORM 10-Q  
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2011**

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**PART I. FINANCIAL INFORMATION**

**Item 1. Condensed Consolidated Financial Statements (Unaudited)**

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

	<b>March 31, 2011 (Unaudited)</b>	<b>December 31, 2010</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 8,275	\$ 6,927
Securities owned at fair value	1,874	2,662
Receivables from clearing broker	21,710	18,073
Receivables from other broker-dealers	2,044	1,364
Other receivables, net	9,036	9,162
Furniture, equipment and leasehold improvements, net	2,599	2,805
Restricted assets	150	200
Intangible assets, net	25,798	26,431
Goodwill	29,715	29,719
Unamortized debt issue cost	1,527	1,597
Other assets	<u>3,369</u>	<u>2,885</u>
<b>Total assets</b>	<b><u>\$ 106,097</u></b>	<b><u>\$ 101,825</u></b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Securities sold, but not yet purchased, at market value	\$ 49	\$ 10
Accrued compensation	5,727	5,328
Commissions and fees payable	8,989	9,264
Accounts payable and accrued liabilities	6,746	6,751
Deferred rent	2,779	2,928
Deferred income taxes	2,625	2,418
Accrued interest	479	328
Notes payable	<u>30,424</u>	<u>27,879</u>
<b>Total liabilities</b>	<b><u>57,818</u></b>	<b><u>54,906</u></b>
Commitments and contingencies (Note 6)		
Shareholders' equity:		
Preferred stock, \$.0001 par value; 2,000,000 shares authorized; none issued	—	—
Common stock, \$.0001 par value; 400,000,000 shares authorized; shares issued and outstanding, 183,516,576 in 2011 and 183,496,492 in 2010	18	18
Additional paid-in capital	192,375	191,424
Accumulated deficit	<u>(144,114)</u>	<u>(144,523)</u>
<b>Total shareholders' equity</b>	<b><u>48,279</u></b>	<b><u>46,919</u></b>
<b>Total liabilities and shareholders' equity</b>	<b><u>\$ 106,097</u></b>	<b><u>\$ 101,825</u></b>

See accompanying notes.

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>(Unaudited)</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Commissions	\$ 29,197	\$ 26,049
Advisory fees	15,758	10,990
Investment banking	10,649	4,586
Principal transactions	(424)	291
Interest and dividends	157	126
Other income	1,865	1,929
Total revenues	<u>57,202</u>	<u>43,971</u>
<b>Expenses:</b>		
Commissions and fees	33,872	26,926
Compensation and benefits	14,143	11,339
Non-cash compensation	957	1,760
Brokerage, communication and clearance fees	1,749	1,584
Rent and occupancy, net of sublease revenue	822	774
Professional services	1,031	1,112
Interest	828	956
Depreciation and amortization	893	1,016
Other	2,152	2,668
Total expenses	<u>56,447</u>	<u>48,135</u>
Income (loss) before income taxes	755	(4,164)
Income tax expense	346	239
Net income (loss)	<u>\$ 409</u>	<u>\$ (4,403)</u>
Net income (loss) per common share (basic and diluted)	<u>\$ 0.00</u>	<u>\$ (0.03)</u>
Weighted average common shares used in computation of per share data:		
Basic	<u>183,366,512</u>	<u>167,893,655</u>
Diluted	<u>186,327,158</u>	<u>167,893,655</u>

See accompanying notes.

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

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>			
Balance, December 31, 2010	183,496,492	\$ 18	\$ 191,424	\$ (144,523)	\$ 46,919
Issuance of common stock under employee stock purchase plan	20,160	—	22	—	22
Exercise of stock options	110,000	—	90	—	90
Stock options granted to members of former Advisory Board and consultants	—	—	(6)	—	(6)
Stock-based compensation to employees	—	—	903	—	903
Issuance of restricted stock (net of 59,537 shares forfeited)	—	—	60	—	60
Repurchase and retirement of common stock	(110,076)	—	(118)	—	(118)
Net income	<u>—</u>	<u>—</u>	<u>—</u>	<u>409</u>	<u>409</u>
Balance, March 31, 2011	<u>183,516,576</u>	<u>\$ 18</u>	<u>\$ 192,375</u>	<u>\$ (144,114)</u>	<u>\$ 48,279</u>

See accompanying notes.

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

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
	<b>(Unaudited)</b>	
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 409	\$ (4,403)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	260	259
Adjustment to deferred rent	(150)	(70)
Amortization of debt discount	21	114
Amortization of intangible assets	633	757
Amortization of debt issue cost	70	70
Deferred income taxes	207	170
Benefit attributable to reduction of goodwill	4	—
Non-cash compensation expense	957	1,760
Disposal of furniture, equipment, and leasehold improvements	—	3
<b>(Increase) decrease in operating assets:</b>		
Securities owned at fair value	788	(529)
Receivables from clearing broker	(3,637)	(301)
Receivables from other broker-dealers	(680)	(139)
Other receivables, net	126	438
Other assets	(501)	54
<b>Increase (decrease) in operating liabilities:</b>		
Securities sold, but not yet purchased	39	—
Accrued compensation	399	181
Accrued interest	151	174
Commissions and fees payable	(275)	191
Accounts payable and accrued liabilities	(5)	167
<b>Net cash used in operating activities</b>	<b>(1,184)</b>	<b>(1,104)</b>
<b>Cash flows from investing activities:</b>		
Purchases of furniture, equipment and leasehold improvements	(36)	(105)
Decrease in restricted assets	50	100
<b>Net cash provided by (used in) investing activities</b>	<b>14</b>	<b>(5)</b>
<b>Cash flows from financing activities:</b>		
Issuance of common stock under stock plans	112	48
Repurchases of common stock	(118)	(64)
Principal borrowings under revolving credit facility, net	3,000	3,000
Principal payments on other notes payable	(476)	(1,706)
<b>Net cash provided by financing activities</b>	<b>2,518</b>	<b>1,278</b>
Net increase in cash and cash equivalents	1,348	169
Cash and cash equivalents, beginning of period	6,927	5,702
<b>Cash and cash equivalents, end of period</b>	<b>\$ 8,275</b>	<b>\$ 5,871</b>
<b>Supplemental cash flow information:</b>		
Interest paid	\$ 580	\$ 590
Taxes paid	58	—

See accompanying notes.

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

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

**Description of Business**

Ladenburg Thalmann Financial Services Inc. (“the Company”) is a holding company. Its wholly-owned principal operating subsidiaries are Ladenburg Thalmann & Co. Inc. (“Ladenburg”), Investacorp, Inc. (collectively with related companies, “Investacorp”), Triad Advisors, Inc. (“Triad”), Ladenburg Thalmann Asset Management Inc. (“LTAM”) and Premier Trust, Inc. (“Premier”).

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

Investacorp and Triad are registered broker-dealers and investment advisors that have been serving the independent financial advisor community since 1978 and 1998, respectively. Investacorp’s and Triad’s independent financial advisors primarily serve retail clients. Investacorp and Triad derive revenue from advisory fees and commissions, primarily from the sale of mutual funds, variable annuity products and other financial products and services.

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

Premier, acquired on September 1, 2010, is a Nevada trust company formed in 2001. Premier provides wealth management services, including trust administration of personal and retirement accounts, estate and financial planning and custody services. Proforma results of operations as if Premier was acquired as of January 1, 2010 are not presented because they were not material.

Ladenburg, Investacorp and Triad customer transactions are cleared through a single clearing broker on a fully-disclosed basis. Each of Ladenburg, Investacorp and Triad is subject to regulation by, among others, the Securities and Exchange Commission (“SEC”), the Financial Industry Regulatory Authority and the Municipal Securities Rulemaking Board.

**Basis of Presentation**

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

The unaudited condensed consolidated financial statements do not include all information and notes required in annual audited financial statements in conformity with GAAP. The statement of financial condition at December 31, 2010 has been derived from the audited financial statements at that date, but does not include all of the information and notes required by GAAP for complete financial statement presentation. Please refer to the notes to the consolidated financial statements included in the Company’s annual report on Form 10-K for the year ended December 31, 2010, filed with the SEC, for additional disclosures and a description of accounting policies.

Certain prior year items have been reclassified to conform to the current period’s presentation. All significant intercompany balances and transactions have been eliminated.

The Company has evaluated all subsequent events through the date the financial statements were issued.

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

**2. Securities Owned and Securities Sold, But Not Yet Purchased**

The components of marketable securities owned and securities sold, but not yet purchased, at fair value at March 31, 2011 and December 31, 2010 were as follows:

	<b>Securities owned</b>	<b>Securities sold, but not yet purchased</b>
<b><u>March 31, 2011</u></b>		
Common stock and warrants	\$ 89	\$ 40
Restricted common stock and warrants	1,785	9
<b>Total</b>	<b>\$ 1,874</b>	<b>\$ 49</b>
<b><u>December 31, 2010</u></b>		
Common stock and warrants	\$ 577	\$ 10
Restricted common stock and warrants	2,085	—
<b>Total</b>	<b>\$ 2,662</b>	<b>\$ 10</b>

As of March 31, 2011 and December 31, 2010, approximately \$160 and \$666, respectively, of securities owned were deposited with the Company's subsidiaries' clearing broker. Under the clearing agreements with such clearing broker, the securities may be sold or hypothecated by such clearing broker.

Securities sold, but not yet purchased, at fair value represent obligations of the Company's subsidiaries to purchase the specified financial instrument at the then current market price. Accordingly, these transactions result in off-balance-sheet risk as the Company's subsidiaries' ultimate obligation to repurchase such securities may exceed the amount recognized in the condensed consolidated statements of financial condition.

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Inputs other than quoted prices in active markets, which are directly or indirectly observable for the asset or liability.
- Level 3 — Unobservable inputs for the asset or liability where there is little or no market data, which requires the reporting entity to develop its own assumptions.

Securities are carried at fair value and classified as follows:

As of March 31, 2011:

<b>Securities owned, at fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stock and warrants	\$ 89	\$ 1,785	\$ —	\$ 1,874
<b>Total</b>	<b>\$ 89</b>	<b>\$ 1,785</b>	<b>\$ —</b>	<b>\$ 1,874</b>
<b>Securities sold, but not yet purchased, at fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stock and warrants	\$ 40	\$ 9	\$ —	\$ 49
<b>Total</b>	<b>\$ 40</b>	<b>\$ 9</b>	<b>\$ —</b>	<b>\$ 49</b>



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

As of December 31, 2010:

<b>Securities owned, at fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stock and warrants	\$ 577	\$ 2,085	\$ —	\$ 2,662
Total	<u>\$ 577</u>	<u>\$ 2,085</u>	<u>\$ —</u>	<u>\$ 2,662</u>
<b>Securities sold, but not yet purchased, at fair value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Common stock and warrants	\$ —	\$ 10	\$ —	\$ 10
Total	<u>\$ —</u>	<u>\$ 10</u>	<u>\$ —</u>	<u>\$ 10</u>

Warrants are carried at a discount to fair value as determined by using the Black-Scholes option pricing model due to illiquidity. This model takes into account the underlying securities' current market value, the market volatility of the underlying securities, the term of the warrants, exercise price, and risk-free rate of return. As of March 31, 2011 and December 31, 2010, the fair value of the warrants was \$1,661 and \$1,907, respectively, and is included in common stock and warrants (level 2) above.

### 3. Net Capital Requirements

As a registered broker-dealer, Ladenburg is subject to the SEC's Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital. Ladenburg has elected to compute its net capital under the alternative method allowed by this rule. At March 31, 2011, Ladenburg had net capital, as defined by such rule, of \$6,742, which exceeded its minimum capital requirement, as defined, of \$250, by \$6,492.

Investacorp and Triad are also subject to the SEC's Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital and requires that the ratio of aggregate indebtedness to net capital, both as defined in such rule, shall not exceed 15 to 1. At March 31, 2011, Investacorp had net capital of \$1,751, which was \$1,469 in excess of its required net capital of \$282. Investacorp's net capital ratio was 2.42 to 1. At March 31, 2011, Triad had net capital of \$3,469, which was \$2,934 in excess of its required net capital of \$535. Triad's net capital ratio was 2.31 to 1.

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

Premier, chartered by the state of Nevada, is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division. Under Nevada law, Premier must maintain minimum stockholder's equity of at least \$1,000. At March 31, 2011, Premier had stockholder's equity of \$2,156.

### 4. Income Taxes

Income tax expense for the three months ended March 31, 2011 and 2010 primarily represents deferred income taxes relating to amortization of goodwill for tax purposes. The tax rate for the 2011 period represents the actual effective tax rate for such period, which the Company believes represents the best estimate of the annual effective tax rate. The rate reflects the utilization of net operating loss carryforwards to offset taxable income and a \$207,000 deferred tax provision related to goodwill which is amortized for tax purposes. The balance of the tax provision principally represents state income taxes. The income tax rate for the 2010 period did not bear a customary relationship to the effective tax rate, primarily as a result of the increase in the valuation allowance in the 2010 period.

### 5. Notes Payable

Notes payable consisted of the following:

	<b>March 31, 2011</b>	<b>December 31, 2010</b>
Note payable to affiliate of the Company's principal shareholder	\$ 19,950	\$ 16,950
Note payable to former Triad shareholders, net of \$17 and \$39 of unamortized discount at March 31, 2011 and December 31, 2010, respectively	842	1,247
Notes payable to clearing firm under forgivable loan	8,571	8,571

Note payable to a subsidiary of Premier's former shareholder	1,061	1,111
Total	<u>\$ 30,424</u>	<u>\$ 27,879</u>

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

The Company estimates that the fair value of notes payable was \$30,546 at March 31, 2011 and \$28,625 at December 31, 2010 based on then current interest rates at which similar amounts of debt could currently be borrowed. As of March 31, 2011, the Company was in compliance with all debt covenants in its debt agreements.

**6. Commitments and Contingencies**

**Litigation and Regulatory Matters**

In May 2003, a suit was filed in the U.S. District Court for the Southern District of New York by Sedona Corporation against Ladenburg, former employees of Ladenburg and a number of other firms and individuals. The plaintiff alleged, among other things, that certain defendants (not Ladenburg) purchased convertible securities from plaintiff and then allegedly manipulated the market to obtain an increased number of shares from the conversion of those securities. Ladenburg acted as placement agent and not as principal in those transactions. Plaintiff's original complaint alleged that Ladenburg and the other defendants violated federal securities laws and various state laws. In August 2005, Ladenburg's motion to dismiss was granted in part and denied in part. On May 27, 2009, the Court granted in part and denied in part motions to dismiss the Second Amended Complaint, and granted plaintiff leave to replead. On July 9, 2009, plaintiff filed its Third Amended Complaint, which contains no claims under the federal securities laws, leaving only common law claims; the plaintiff seeks compensatory damages from the defendants of at least \$660,000 and punitive damages of \$400,000. Ladenburg's motion to dismiss the Third Amended Complaint, filed on August 17, 2009, is currently pending. The Company believes the plaintiff's claims are without merit and intends to vigorously defend against them.

In July 2004, a suit was filed in the U.S. District Court for the Eastern District of Arkansas by Pet Quarters, Inc. against Ladenburg, a former employee of Ladenburg and a number of other firms and individuals. The plaintiff alleged, among other things, that certain defendants (not Ladenburg) purchased convertible securities from the plaintiff and then allegedly manipulated the market to obtain an increased number of shares from the conversion of those securities. Ladenburg acted as placement agent and not as principal in those transactions. Plaintiff has alleged that Ladenburg and the other defendants violated federal securities laws and various state laws. The plaintiff seeks compensatory damages from the defendants of at least \$400,000. In April 2006, Ladenburg's motion to dismiss was granted in part and denied in part. On July 23, 2010, the plaintiff dismissed its claims against all defendants other than Ladenburg and the former Ladenburg employee. In March 2011, the Court denied Ladenburg's motion for reconsideration of the motion to dismiss as to the remaining claims. The Company believes that the plaintiff's claims are without merit and intends to vigorously defend against them.

In July 2008, a suit was filed by BankAtlantic and BankAtlantic Bancorp, Inc. against Ladenburg and a former Ladenburg research analyst. The plaintiffs alleged, among other things, that research reports issued by defendants were false and defamatory, and that defendants were liable for defamation per se and negligence; the amount of the alleged damages was unspecified. In February 2010, the plaintiffs entered into a settlement agreement with Ladenburg resolving all claims against Ladenburg. On July 1, 2010, the plaintiffs and the former research analyst dismissed the remaining claims with prejudice. The former research analyst has commenced an arbitration claim against Ladenburg, the Company, and two Company directors for, among other things, indemnification and breach of contract, seeking reimbursement of expenses and other purported damages incurred in defending the suit. The Company believes the claims are without merit and intends to vigorously defend against them.

In January 2011, two former clients of Triad filed an arbitration claim concerning their U.S Internal Revenue Code Section 1031 like-kind exchange investments made in 2006. The customers have asserted claims for breach of contract, constructive fraud, breach of fiduciary duty, unsuitability, and failure to supervise, and are seeking approximately \$1,800 in compensatory damages. The Company believes the plaintiff's claims are without merit and intends to vigorously defend against them.

In January 2011, two former clients of Triad filed an arbitration claim concerning variable annuities purchased in 2008. The customers have asserted claims for breach of contract, fraud, negligence, misrepresentation, breach of fiduciary duty, unsuitability, negligent supervision, and violations of state securities statutes, and they are seeking approximately \$442 in compensatory damages. The Company believes the plaintiff's claims are without merit and intends to vigorously defend against them.

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

Eight arbitration claims have been filed against Triad in 2010 and 2011 by customers asserting that a former registered representative of Triad sold them, not through Triad, guaranteed investments that were fraudulent. The customers have asserted, among other claims, claims for fraud, negligence, theft, conversion, §10(b) violations, failure to supervise, respondeat superior, and breach of fiduciary and other duties, and are seeking a total of \$660 in compensatory damages. The Company believes the plaintiff's claims are without merit and intends to vigorously defend against them.

During the fourth quarter of 2009, one of the Company's broker-dealer subsidiaries had a short-term net-capital deficiency, discovered during a routine regulatory review, which was not disclosed properly on a monthly FOCUS report. The Company has taken corrective actions, including reporting the deficiency to governmental and self-regulatory organizations, filing amended FOCUS reports for historical periods, reviewing net capital compliance for historical periods, implementing new procedures to monitor net capital compliance, and terminating the employees who had primary responsibility for monitoring and reporting its net capital. The Company is unable to determine whether and to what extent any governmental and/or self-regulatory organizations may seek to discipline the subsidiary concerning this matter. Such disciplinary actions could include fines, a suspension of such subsidiary's operations and/or rescission of revenues relating to the period of non-compliance, any of which could have a material adverse effect on the subsidiary's results of operations and financial condition.

In the ordinary course of business, the Company's subsidiaries are defendants in litigation and arbitration proceedings and may be subject to unasserted claims or arbitrations primarily in connection with their activities as securities broker-dealers or as a result of services provided in connection with securities offerings. Such litigation and claims may involve substantial or indeterminate amounts and are in varying stages of legal proceedings. When the Company believes that it is probable that a liability has been incurred and the amount of loss can be reasonably estimated, the Company includes an estimate of such amount in accounts payable and accrued liabilities.

Upon final resolution, amounts payable may differ materially from amounts accrued. The Company had accrued liabilities in the amount of approximately \$15 at March 31, 2011 and \$286 at December 31, 2010 for these matters. For other pending matters, the Company is unable to estimate a range of possible loss; however, in the opinion of management, after consultation with counsel, the ultimate resolution of these matters should not have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

**7. Off-Balance-Sheet Risk and Concentration of Credit Risk**

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

The clearing operations for the Ladenburg, Investacorp and Triad securities transactions are provided by one clearing broker, a large financial institution. At March 31, 2011, a significant percentage of securities owned and amounts due from clearing brokers reflected in the consolidated statements of financial condition are positions held at, and amounts due from, this one clearing broker. The Company is subject to credit risk should this clearing broker be unable to fulfill its obligations.

In the normal course of its business, Ladenburg, Investacorp and Triad may enter into transactions in financial instruments with off-balance sheet risk. These financial instruments consist of financial futures contracts, written equity index option contracts and securities sold, but not yet purchased. As of March 31, 2011, Ladenburg, Investacorp and Triad were not contractually obligated for any equity index or financial futures contracts; however, Ladenburg and Triad sold securities that they do not own and will therefore be obligated to purchase such securities at a future date. These obligations have been recorded in the statements of financial condition at market values of the related securities and Ladenburg and Triad will incur a loss if the market value of the securities increases subsequent to March 31, 2011.

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

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

**8. Shareholders' Equity**

**Repurchase Program**

In March 2007, the Company's board of directors authorized the repurchase of up to 2,500,000 shares of the Company's common stock from time to time on the open market or in privately negotiated transactions, depending on market conditions. The repurchase program is funded using approximately 15% of the Company's EBITDA, as adjusted. As of March 31, 2011, 1,123,270 shares had been repurchased for \$1,871 under the program, including 110,076 shares repurchased in March 2011.

**Stock Compensation Plans**

On March 2, 2011, the Company granted to employees and directors options to purchase an aggregate of 3,300,000 shares of the Company's common stock at an exercise price of \$1.28 per share. The options, which expire on March 2, 2021, vest in four equal annual installments beginning on the first anniversary of the grant date. The Company valued the options at \$3,131 using the Black-Scholes option pricing model.

As of March 31, 2011, there was \$6,733 of unrecognized compensation cost for stock-based compensation, of which \$3,065 related to the 2011 grants described above. This cost is expected to be recognized over the vesting periods of the options, which on a weighted-average basis are approximately 1.65 years for all grants and approximately 3.73 years for the 2011 grants.

The total intrinsic value of options exercised during the three months ended March 31, 2011 and 2010 was \$36 and \$21, respectively.

**9. Per Share Data**

Basic net income (loss) per share is computed using the weighted-average number of common shares outstanding. The dilutive effect of common shares potentially issuable under outstanding options, warrants and restricted shares is included in diluted earnings per share. The computations of basic and diluted per share data were as follows:

	<u>2011</u>	<u>2010</u>
Net income (loss)	\$ 409	\$ (4,403)
Basic weighted-average shares	183,366,512	167,893,655
Effect of dilutive securities:		
Common stock options	1,561,907	—
Warrants to purchase common stock	1,261,515	—
Restricted shares	137,224	—
Dilutive potential common shares	<u>2,960,646</u>	<u>—</u>
Weighted average common shares outstanding and dilutive potential common shares	<u>186,327,158</u>	<u>167,893,655</u>
Net income (loss) per share:		
Basic and diluted	<u>\$ 0.00</u>	<u>\$ (0.03)</u>

For the three months ended March 31, 2011 and 2010, options and warrants to purchase 20,568,165 and 31,473,790 common shares, respectively, were not included in the computation of diluted income (loss) per share as the effect would have been anti-dilutive.

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

**10. Segment Information**

The Company has three operating segments. The Ladenburg segment includes the investment banking, sales and trading and asset management services and investment activities conducted by Ladenburg and LTAM. The independent brokerage and advisory services segment includes the broker-dealer and investment advisory services provided by Investacorp and Triad to their independent contractor financial advisors. The Premier segment includes the trust services provided by Premier.

Segment information for the three months ended March 31, 2011 and 2010 was as follows:

	<b>Independent Brokerage and Advisory Services</b>				<b>Total</b>
	<b>Ladenburg</b>	<b>Advisory Services</b>	<b>Premier</b>	<b>Corporate</b>	<b>Total</b>
<b>2011</b>					
Revenues	\$ 15,266	\$ 41,409	\$ 697	\$ (170) <sup>(1)</sup>	\$ 57,202
Pre-tax income (loss)	1,576	1,192	55	(2,068) <sup>(2)</sup>	755
Identifiable assets	24,432	77,182	2,625	1,858	106,097
Depreciation and amortization	266	571	39	17	893
Interest	81	6	—	741	828
Capital expenditures	9	23	4	—	36
Non-cash compensation	255	110	25	567	957
<b>2010</b>					
Revenues	\$ 10,622	\$ 33,389	—	\$ (40) <sup>(1)</sup>	\$ 43,971
Pre-tax loss	(1,783)	(157)	—	(2,224) <sup>(2)</sup>	(4,164)
Identifiable assets	21,445	72,034	—	720	94,199
Depreciation and amortization	443	556	—	17	1,016
Interest	4	10	—	942	956
Capital expenditures	82	23	—	—	105
Non-cash compensation	471	602	—	687	1,760

(1) Includes consolidation and elimination entries.

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

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

**Overview**

We are engaged in investment banking, equity research, institutional sales and trading, independent brokerage and advisory services, asset management services and trust services through our principal subsidiaries, Ladenburg Thalmann & Co. Inc. ("Ladenburg"), Investacorp Inc. (collectively with related companies, "Investacorp"), Triad Advisors, Inc. ("Triad"), Ladenburg Thalmann Asset Management Inc. ("LTAM") and Premier Trust, Inc. ("Premier"). We are committed to establishing a significant presence in the financial services industry by meeting the varying investment needs of our corporate, institutional and retail clients.

Ladenburg is a full service broker-dealer that has been a member of the New York Stock Exchange since 1879. It provides its services principally for middle market and emerging growth companies and high net worth individuals through a coordinated effort among corporate finance, capital markets, asset management, brokerage and trading professionals.

Investacorp is an independent broker-dealer and registered investment advisor that has been serving the independent financial advisor community since 1978. Investacorp's national network of independent contractor financial advisors primarily serves retail clients. We acquired Investacorp in October 2007. Investacorp's independent financial advisors are located in approximately 286 offices in 42 states.

Triad is an independent broker-dealer and registered investment advisor that offers a broad range of products, services and total wealth management solutions to independent contractor financial advisors located nationwide. Triad's independent financial advisors primarily serve retail clients. Triad was founded in 1998, and we acquired Triad in August 2008. Triad's independent financial advisors are located in approximately 250 offices in 38 states.

LTAM is a registered investment advisor. LTAM offers various asset management products utilized by Ladenburg clients as well as clients of Investacorp's and Triad's financial advisors.

Premier, a Nevada trust company, provides wealth management services, including trust administration, estate and financial planning and custody services. We acquired Premier in September 2010.

Through our acquisition of Investacorp and Triad, we have become a significant presence in the independent broker-dealer space. During the past decade, this has been one of the fastest growing segments of the financial services industry. With combined revenues of approximately \$41 million for the first quarter of 2011 and approximately 1,030 financial advisors for Investacorp and Triad, we have become one of the approximately 25 largest independent broker-dealers in the U.S. We believe that we have the opportunity through acquisition and recruiting to significantly expand our market share in this segment over the next several years. Our goal remains as a public financial services company to marry the more recurring and predictable revenue and cash flows of the independent broker-dealer business with Ladenburg's traditional investment banking, capital markets, institutional equity and related businesses. Ladenburg's businesses are generally more volatile and subject to the cycles of the capital markets than our independent broker-dealer subsidiaries, but historically have enjoyed strong operating margins in good market conditions.

Each of Ladenburg, Investacorp and Triad is subject to regulation by, among others, the Securities and Exchange Commission ("SEC"), the Financial Industry Regulatory Authority ("FINRA"), and the Municipal Securities Rulemaking Board and is a member of the Securities Investor Protection Corporation. Premier is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division.

Ladenburg's private client services and institutional sales departments serve approximately 11,000 accounts nationwide and LTAM provides investment management services to numerous individuals and institutions. At March 31, 2011, Investacorp's approximately 434 financial advisors served approximately 153,000 accounts nationwide and Investacorp had approximately \$8.2 billion in client assets. Triad's approximately 597 financial advisors served approximately 125,000 accounts nationwide and had approximately \$13.2 billion in client assets at March 31, 2011. On a consolidated basis, total client assets exceeded \$22.0 billion at March 31, 2011.

## Acquisition Strategy

We continue to explore opportunities to grow our businesses, including through potential acquisitions of other securities and investment banking firms, both domestically and internationally. These acquisitions may involve payments of material amounts of cash, the incurrence of material amounts of debt, which may increase our leverage, or the issuance of significant amounts of our equity securities, which may be dilutive to our existing shareholders. We cannot assure you that we will be able to complete any such potential acquisitions on acceptable terms or at all or, if we do, that any acquired business will be profitable. We also may not be able to integrate successfully acquired businesses into our existing business and operations.

## Critical Accounting Policies

There have been no material changes from the critical accounting policies set forth in Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations," of our annual report on Form 10-K for the year ended December 31, 2010. Please refer to those sections for disclosures regarding the critical accounting policies related to our business.

## Results of Operations

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

	Three months ended March 31,	
	2011	2010
Total revenues	\$ 57,202	\$ 43,971
Total expenses	56,447	48,135
Pre-tax income (loss)	755	(4,164)
Net income (loss)	409	(4,403)
Reconciliation of EBITDA, as adjusted, to net income (loss):		
EBITDA, as adjusted	\$ 3,418	\$ (102)
Add:		
Interest income	15	(31)
Less:		
Interest expense	(828)	(956)
Income tax expense	(346)	(239)
Depreciation and amortization	(893)	(1,016)
Non-cash compensation	(957)	(1,760)
Clearing conversion expense	—	(299)
Net income (loss)	\$ 409	\$ (4,403)

Earnings before interest, taxes, depreciation and amortization, or EBITDA, adjusted for gains or losses on sales of assets, non-cash compensation expense, and clearing conversion expense is a key metric we use in evaluating our financial performance. EBITDA is considered a non-GAAP financial measure as defined by Regulation G promulgated by the SEC under the Securities Act of 1933, as amended. We consider EBITDA, as adjusted, important in evaluating our financial performance on a consistent basis across various periods. Due to the significance of non-cash and non-recurring items, the use of EBITDA, as adjusted, enables our Board of Directors and management to monitor and evaluate our business on a consistent basis. We use EBITDA, as adjusted, as a primary measure, among others, to analyze and evaluate financial and strategic planning decisions regarding future operating investments and potential acquisitions. We believe that EBITDA, as adjusted, eliminates items that are not indicative of our core operating performance, such as expenses related to Investacorp's conversion to a single clearing firm as part of a new seven-year clearing agreement, or do not involve a cash outlay, such as stock-related compensation. Our presentation of EBITDA, as adjusted, should not be construed as an inference that our future results will be unaffected by unusual or non-recurring items or by non-cash items, such as non-cash compensation, which is expected to remain a key element in our long-term incentive compensation program. EBITDA, as adjusted, should be considered in addition to, rather than as a substitute for, pre-tax income, net



income and cash flows from operating activities.

First quarter 2011 EBITDA, as adjusted, was \$3,418, an increase of \$3,520 from first quarter 2010 EBITDA, as adjusted, of (\$102), primarily because of increased revenue for the 2011 period.

### *Segment Description*

We have three operating segments:

- Ladenburg – includes the investment banking, sales and trading and asset management services and investment activities conducted by Ladenburg and LTAM.
- Independent brokerage and advisory services – includes the broker-dealer and investment advisory services provided by Investacorp and Triad to their independent contractor registered representatives.
- Premier – includes the trust services provided by Premier.

	<b>Three months ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenues:</b>		
Ladenburg	\$ 15,266	\$ 10,622
Independent brokerage and advisory services	41,409	33,389
Premier	697	—
Corporate	(170)	(40)
Total revenues	<u>\$ 57,202</u>	<u>\$ 43,971</u>
<b>Pre-tax income (loss):</b>		
Ladenburg	\$ 1,576	\$ (1,783)
Independent brokerage and advisory services	1,192	(157)
Premier	55	—
Corporate	(2,068)	(2,224)
Total pre-tax income (loss)	<u>\$ 755</u>	<u>\$ (4,164)</u>

In our independent brokerage and advisory services segment, Triad and Investacorp had revenues of \$25,452 and \$15,957, respectively, for the three months ended March 31, 2011 as compared to \$18,849 and \$14,540, respectively, for the three months ended March 31, 2010. For fiscal 2010, Triad and Investacorp had revenues of \$90,782 and \$59,627, respectively.

### **Three months ended March 31, 2011 versus three months ended March 31, 2010**

For the quarter ended March 31, 2011, we had net income of \$409 compared to a net loss of \$4,403 for the quarter ended March 31, 2010, primarily due to increased revenue and reduced non-cash compensation expense in the 2011 period. The 2011 period included \$957 of non-cash compensation expense as compared to \$1,760 of non-cash compensation expense for the 2010 period.

Our total revenues for the three months ended March 31, 2011 increased \$13,231 (30%) from the 2010 period, primarily as a result of increased commissions of \$3,148, increased advisory fees of \$4,768, and increased investment banking revenue of \$6,063, partially offset by decreased principal transactions of \$715. Improved market conditions benefited our businesses.

Our total expenses for the three months ended March 31, 2011 increased by \$8,312 (17%) from the 2010 period, primarily as a result of an increase in commissions and fees expense of \$6,946 and an increase in compensation and benefits expense of \$2,804, partially offset by a decrease in other expenses of \$515 and a decrease in non-cash compensation expense of \$804.

The \$3,148 (12%) increase in commissions revenue for the three months ended March 31, 2011 as compared to the 2010 period is primarily attributable to improved market conditions and recruitment of higher-producing financial advisors in our independent brokerage and advisory services segment.

The \$4,768 (43%) increase in advisory fee revenue for the three months ended March 31, 2011 as compared to the 2010 period was due to higher average assets under management resulting from the addition of new accounts and appreciation in total assets due to improved market conditions, and improved margins. Total average assets under management increased 29% at March 31, 2011 as compared to the 2010 period. We expect asset management revenue to increase in the first half of 2011 due to recent improvement in market conditions and newly-added advisory assets.

The \$6,063 (132%) increase in investment banking revenue for the three months ended March 31, 2011 was primarily due to an increase in capital raising fees of \$6,905, resulting from an increase in yield-based equities offerings and PIPE offerings. Our investment banking revenue for the three months ended March 31, 2011 was derived from Ladenburg's capital raising activities, including underwritten public offerings and private placements, and strategic advisory services. Revenue from underwritten public offerings was \$8,497 for the 2011 period, as compared to \$2,619 for the 2010 period. Private placement revenue was \$1,950 for the first quarter of 2011, including \$736 in warrants received as investment banking fees, as compared to \$840 for the 2010 period, including \$166 in warrants received as investment banking fees. We expect investment banking revenue during the first half of 2011 to exceed prior-year levels due to expected improved capital markets activity.

The \$715 (246%) decrease in principal transactions for the three months ended March 31, 2011 as compared to the 2010 period was primarily attributable to losses in the fair value of securities received as underwriting consideration.

The \$31 (25%) increase in interest and dividends for the three months ended March 31, 2011 as compared to the 2010 period was primarily attributable to an increase in account balances.

The \$64 (3%) decrease in other income for the three months ended March 31, 2011 as compared to the 2010 period was primarily attributable to a decrease in Ladenburg customer charges.

The \$6,946 (26%) increase in commissions and fees expense for the three months ended March 31, 2011 as compared to the 2010 period was directly correlated to the increase in commissions and advisory fees revenue in our independent brokerage and advisory services segment. Commissions and fees expense comprises compensation payments earned by the registered representatives who serve as independent contractors in our independent brokerage and advisory services segment. These payments to the independent contractor registered representatives are calculated based on a percentage of revenues and vary by product. Accordingly, when the independent contractor registered representatives increase their business, both our revenues and expenses increase since they earn additional compensation based on the revenue produced.

The \$2,804 (25%) increase in compensation and benefits expense for the three months ended March 31, 2011 as compared to the 2010 period was primarily due to a \$2,095 increase in Ladenburg's bonus expense which is directly related to the increase in investment banking revenue, a \$193 increase in producers' compensation, which is directly correlated to revenue production by such persons, a \$396 increase from the addition of Premier, and a \$120 increase in bonus and salary expense in our independent brokerage and advisory services segment.

The \$803 (46%) decrease in non-cash compensation expense for the three months ended March 31, 2011 as compared to the 2010 period was primarily attributable to a number of large stock option grants made in 2006 that fully vested in the latter part of 2010. The resulting decrease in expense related to these grants was \$696. Also, a \$276 adjustment was incurred in the 2010 period as a result of a decreased forfeiture rate used in the calculation of compensation expense.

The \$165 (10%) increase in brokerage, communication and clearance fees expense for the three months ended March 31, 2011 as compared to the 2010 period was primarily attributable to increases in brokerage and clearance fees in our independent brokerage and advisory services segment. While brokerage, communication and clearance fee expense is directly correlated with brokerage activity, we have benefited and expect to continue to benefit from reduced clearing and execution expenses under our clearing agreements.

The \$48 (6%) increase in rent and occupancy, net of sublease revenue for the three months ended March 31, 2011 as compared to the 2010 period was primarily attributable to an increase in Investacorp expense of \$42 due to the relocation of its headquarters, and \$18 from the addition of Premier, partially offset by a decrease in Ladenburg expense due to the closing of two offices.

The \$81 (7%) decrease in professional services expense for the three months ended March 31, 2011 was primarily due to a decrease of \$80 in legal, audit, tax and consulting expense at Investacorp, Ladenburg and Triad. We expect similar levels of professional services expense in the first half of 2011.

The \$128 (13%) decrease in interest expense for the three months ended March 31, 2011 as compared to the 2010 period was a result of reduced average loan balances and average interest rates. An approximate \$32,365 average debt balance was outstanding for the first quarter of 2011, as compared to an average debt balance outstanding of approximately \$36,769 for the 2010 period. The average interest rate was 9.8% for the first quarter of 2011 as compared to 10.2% for the 2010 period.

The \$123 (12%) decrease in depreciation and amortization expense for the three months ended March 31, 2011 as compared to the 2010 period was primarily due to the decrease in intangible assets related to Ladenburg and Triad of \$155, partially offset by the addition of Premier expense of \$32.

The \$515 (19%) decrease in other expense for the three months ended March 31, 2011 as compared to the 2010 period is primarily attributable to decreases in our independent brokerage and advisory services segment of \$423 for expenses related to the conversion of client accounts to one clearing firm in 2010 and \$73 for fees related to transitioning new independent registered representatives in 2010.

We incurred income tax expense of \$346 for the three months ended March 31, 2011 as compared to \$239 for the 2010 period. After consideration of all the evidence, both positive and negative, management has determined that a valuation allowance at March 31, 2011 was necessary to fully offset the deferred tax assets based on the likelihood of future realization. The tax rate for the 2011 period represents the actual effective tax rate for such period, which the Company believes represents the best estimate of the annual effective tax rate. The rate reflects the utilization of net operating loss carryforwards to offset taxable income and a \$207,000 deferred tax provision related to goodwill which is amortized for tax purposes. The balance of the tax provision principally represents state income taxes. The income tax rate for the 2010 period did not bear a customary relationship to the effective tax rate, primarily as a result of the increase in the valuation allowance in the 2010 period.

### **Liquidity and Capital Resources**

Approximately 32% and 29% of our total assets at March 31, 2011 and December 31, 2010, respectively, consisted of cash and cash equivalents, securities owned and receivables from our clearing broker and other broker-dealers, all of which fluctuate, depending upon the levels of customer business and trading activity. Receivables from broker-dealers, which are primarily from clearing brokers, turn over rapidly. The total assets or the individual components of total assets may vary significantly from period to period because of changes relating to economic and market conditions, and proprietary trading strategies.

Each of Ladenburg, Investacorp and Triad is subject to the SEC's net capital rules. Therefore, they are subject to certain restrictions on their respective use of capital and their related liquidity. At March 31, 2011, Ladenburg's regulatory net capital, as defined, of \$6,742 exceeded minimum capital requirements of \$250, by \$6,492. At March 31, 2011, Investacorp's regulatory net capital, as defined, of \$1,751, exceeded minimum capital requirements of \$282, by \$1,469. At March 31, 2011, Triad's regulatory net capital, as defined, of \$3,469 exceeded minimum net capital requirements of \$535 by \$2,934. Failure to maintain the required net capital may subject Ladenburg, Investacorp and Triad to suspension or expulsion by FINRA, the SEC and other regulatory bodies and ultimately may require their liquidation. The net capital rule also prohibits the payment of dividends, redemption of stock and prepayment or payment of principal of subordinated indebtedness if net capital, after giving effect to the payment, redemption or prepayment, would be less than specified percentages of the minimum net capital requirement. Compliance with the net capital rule could limit Ladenburg's operations that require the intensive use of capital, such as underwriting and trading activities, and also could restrict our ability to withdraw capital from our subsidiaries, which in turn, could limit our ability to pay dividends and repay debt.

Premier, chartered by the state of Nevada, is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division. Under Nevada law, Premier must maintain stockholder's equity of at least \$1,000. At March 31, 2011, Premier had stockholder's equity of \$2,156.

Our primary sources of liquidity include cash flows from operations and borrowings under our \$30,000 revolving credit agreement with an affiliate of Dr. Phillip Frost, our chairman and principal shareholder. Borrowings under the \$30,000 revolving credit agreement bear interest at a rate of 11% per annum, payable quarterly. At March 31, 2011, \$19,950 was outstanding under the revolving credit agreement. During the first quarter of 2011, we borrowed a net amount of \$3,000 under the revolving credit agreement. We may repay outstanding amounts or re-borrow amounts under our revolving credit facility at any time prior to the amended maturity date of August 25, 2016, without penalty. We believe our existing assets and funds available under our \$30,000 revolving credit facility provide adequate funds for continuing operations at current activity levels. We are currently in compliance with all debt covenants in our debt agreements.

Cash used in operating activities for the three months ended March 31, 2011 was \$1,184, which primarily consisted of increases in receivables from our clearing broker, and other receivables, net, partially offset by our net income of \$409 adjusted for non-cash expenses, decrease in securities owned and increases in accrued compensation. For the three months ended March 31, 2010, cash used in operating activities was \$1,104, primarily due to our net loss, an increase in securities owned at fair value, and receivables from clearing brokers and other broker-dealers, partially offset by a decrease in other receivables, net, other assets, and increase in accrued compensation, commissions and fees payable and accrued liabilities.

Investing activities provided \$14 for the three months ended March 31, 2011, primarily due to a decrease in restricted assets related to returned escrowed deposits from arrangements with Investacorp's former clearing brokers, partially offset by the purchase of furniture, equipment and leasehold improvements. For the three months ended March 31, 2010, investing activities used \$5, primarily due to the purchase of furniture, equipment and leasehold improvements, partially offset by a decrease in restricted assets due to Investacorp's receipt of an escrowed deposit upon the termination of a clearing agreement with one of its clearing brokers.

Financing activities provided \$2,518 for the first quarter of 2011, from \$3,000 borrowed under our revolving credit facility and the issuance of common stock upon option exercises and under our employee stock purchase plan, partially offset by repayments of notes payable and common stock repurchases. For the first quarter of 2010, financing activities provided \$1,278 primarily due to borrowings under our revolving credit facility, and the issuance of common stock upon option exercises and under our employee stock purchase plan, partially offset by repayments of notes payable and common stock repurchases.

At March 31, 2011, we were obligated under several non-cancelable lease agreements for office space, which provide for future minimum lease payments aggregating approximately \$26,431 through 2016, exclusive of escalation charges. We have subleased vacant space under subleases which entitle us to receive rents aggregating approximately \$20,033 through such date.

In connection with the Triad acquisition, we issued a \$5,000 promissory note to Triad's former shareholders. The note bears interest at a rate of 2.51% per annum, payable quarterly, and matures in August 2011. The outstanding balance of this note at March 31, 2011 was \$842.

In connection with the Premier acquisition, we issued a \$1,161 promissory note to a subsidiary of Premier's former shareholder. The note bears interest at 6.5% per annum, payable quarterly, and matures in September 2015. The outstanding balance of this note at March 31, 2011 was \$1,061.

In March 2007, our board of directors authorized the repurchase of up to 2,500,000 shares of our common stock from time to time on the open market or in privately negotiated transactions depending on market conditions. The repurchase program is being funded using approximately 15% of our EBITDA, as adjusted. As of March 31, 2011, 1,123,270 shares had been repurchased for \$1,871 under the program, including 110,076 shares repurchased in March 2011.

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

Each of Ladenburg, Investacorp and Triad, as guarantor of its customer accounts to its clearing broker, is exposed to off-balance-sheet risk in the event that its customers do not fulfill their obligations to the clearing broker. Also, to the extent Ladenburg, Investacorp or Triad maintain a short position in any securities, they are exposed to off-balance-sheet market risk, since their ultimate obligation to repurchase securities to close their short positions may exceed the amount recognized in the financial statements.

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

## **Market Risk**

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

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

We maintain inventories of trading securities. At March 31, 2011, the fair market value of our inventories was \$1,874 in long positions and \$49 in short positions. We performed an entity-wide analysis of our financial instruments and assessed the related market risk. Based on this analysis, we do not expect that the market risk associated with our financial instruments at March 31, 2011 will have a material adverse effect on our consolidated financial position or results of operations.

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

We and our representatives may from time to time make oral or written “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, including any statements that may be contained in the foregoing discussion in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in this report and in other filings with the SEC and in our reports to shareholders, which reflect our expectations or beliefs with respect to future events and financial performance. These forward-looking statements are subject to certain risks and uncertainties and, in connection with the “safe-harbor” provisions of the Private Securities Litigation Reform Act, we have identified under “Risk Factors” in our annual report on Form 10-K for the year ended December 31, 2010, important factors that could cause actual results to differ materially from those contained in any forward-looking statement made by or on behalf of us.

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

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

The information under the caption “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Market Risk” is incorporated herein by reference.

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

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

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

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

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## **PART II. OTHER INFORMATION**

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

Please see Note 6 to our unaudited condensed consolidated financial statements elsewhere in this quarterly report on Form 10-Q.

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

There have been no material changes from the risk factors previously disclosed in Part 1, Item 1A of our annual report on Form 10-K for the year ended December 31, 2010.

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

#### **Issuer Purchases of Equity Securities**

This table shows information regarding our purchases of our common stock during the first quarter of 2011.

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs</b>	<b>Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs(1)</b>
January 1 to January 31, 2011	—	\$ —	—	1,486,806
February 1 to February 28, 2011	—	—	—	1,486,806
March 1 to March 31, 2011	110,076	1.07	110,076	1,376,730
Total	<u>110,076</u>	<u>\$ 1.07</u>	<u>110,076</u>	

- (1) In March 2007, our board of directors authorized the repurchase of up to 2,500,000 shares of our common stock from time to time on the open market or in privately negotiated transactions depending on market conditions. The repurchase program is funded using approximately 15% of our EBITDA, as adjusted. Since inception through March 31, 2011, 1,123,270 shares have been repurchased under the program.

### **Item 6. EXHIBITS**

#### **Exhibit Index**

<b>Exhibit No.</b>	<b>Description</b>
10.1	Letter Agreement dated as of January 19, 2011 between Ladenburg Thalmann Financial Services Inc. and Mark Zeitchick (incorporated by reference to Exhibit 10.1 of the registrant's current report on Form 8-K filed with the SEC on January 25, 2011)#
31.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

\*Filed herewith

#Management Compensation Contract





## SIGNATURES

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

LADENBURG THALMANN FINANCIAL  
SERVICES INC.

(Registrant)

Date: May 5, 2011

By: /s/ Brett H. Kaufman

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



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

I, Richard J. Lampen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ladenburg Thalmann Financial Services Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

/s/ Richard J. Lampen

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

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

I, Brett H. Kaufman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Ladenburg Thalmann Financial Services Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 5, 2011

/s/ Brett H. Kaufman

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Brett H. Kaufman

Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)



**SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

In connection with the Quarterly Report of Ladenburg Thalmann Financial Services Inc. (the "Company") on Form 10-Q for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Richard J. Lampen, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: May 5, 2011

/s/ Richard J. Lampen

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

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

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**SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER**

In connection with the Quarterly Report of Ladenburg Thalmann Financial Services Inc. (the "Company") on Form 10-Q for the period ended March 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Brett H. Kaufman, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

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

Date: May 5, 2011

/s/ Brett H. Kaufman

Brett H. Kaufman

Senior Vice President and Chief Financial Officer  
(Principal Financial Officer)

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

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