# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**Washington, D.C. 20549**

# FORM 8-K/A
**(AMENDMENT NO. 1)**

**CURRENT REPORT**
**Pursuant to Section 13 OR 15(d) of the Securities Exchange Act of 1934**

**Date of Report (Date of earliest event reported): August 31, 2018**

# Ladenburg Thalmann Financial Services Inc.
(Exact name of registrant as specified in its charter)

| | | |
|---|---|---|
| **Florida** | **001-15799** | **65-0701248** |
| (State or other jurisdiction of incorporation) | (Commission File Number) | (IRS Employer Identification No.) |

| | |
|---|---|
| **4400 Biscayne Boulevard, 12th Floor**<br>**Miami, Florida** | **33137** |
| (Address of principal executive offices) | (Zip Code) |

Registrant’s telephone number, including area code: **(305) 572-4100**

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

[ ] Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

[ ] Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

[ ] Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

[ ] Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter).

Emerging growth company [ ]

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

**Introductory Note**

Ladenburg Thalmann Financial Services Inc. ("LTFS") previously filed a Current Report on Form 8-K dated August 31, 2018 (the "Current Report") with the Securities and Exchange Commission on September 7, 2018 to report the acquisition (the "LTAIS Kestler Acquisition") by Ladenburg Thalmann Annuity Insurance Services LLC ("LTAIS"), a wholly-owned subsidiary of LTFS, of certain assets of the insurance distribution business of Kestler Financial Group, Inc. ("Kestler"). On October 31, 2018 (the "Closing Date"), Securities America Financial Corporation ("SAFC"), a wholly-owned subsidiary of LTFS, acquired certain assets of Kestler's brokerage and advisory business (the "SAFC Kestler Acquisition" and, together with the LTAIS Kestler Acquisition, the "Kestler Acquisitions"). The purpose of this amendment to the Current Report is to include (i) the information required under Item 2.01, since the SAFC Kestler Acquisition may be deemed to be the acquisition of a business related to the assets acquired pursuant to the LTAIS Kestler Acquisition and (ii) the financial statements and pro forma financial information relating to the Kestler Acquisitions required under Item 9.01. Except for the foregoing, this Form 8-K/A No. 1 effects no other changes to the Current Report.

**Item 2.01. Completion of Acquisition or Disposition of Assets.**

On October 31, 2018, SAFC acquired certain assets of the brokerage and advisory business operated by Kestler in the SAFC Kestler Acquisition.

Pursuant to the SAFC Kestler Acquisition, certain registered representatives and investment advisor representatives transitioned from Kestler to subsidiaries of SAFC. In addition, certain client accounts and records and all goodwill related to the foregoing were acquired.

SAFC paid Kestler an initial payment of $266,000 in cash on the Closing Date, plus an additional $271,000 as a reimbursement for certain expenses. In addition, SAFC is required to make an additional payment of $266,000 on each anniversary of the Closing Date for the next three (3) years. SAFC may be required to make an additional cash payment to Kestler on the seventh day following the anniversary of the Closing Date for each of the next four (4) years based on the GDC generated during the previous 12 months by certain registered representatives and investment advisor representatives who become affiliated with SAFC or its affiliates on or within 90 days before or after the Closing Date ("T12 GDC Production"). Further, if the T12 GDC Production exceeds $10 million in any year during the four-year period following the Closing Date, SAFC shall pay as additional consideration an amount equal to 1% of GDC generated by the then current employees of the office of supervisory jurisdiction d/b/a/ Branch Development Partners.

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

(a) Financial statements of businesses acquired.

The audited balance sheets of Kestler at December 31, 2017 and 2016, and the audited statements of income, statements of stockholder's equity and statements of cash flows of Kestler for the years ended December 31, 2017 and 2016 are attached hereto as Exhibit 99.1 and are incorporated in their entirety herein by reference.

The balance sheets of Kestler at June 30, 2018 (unaudited) and December 31, 2017 (audited), the unaudited statement of stockholder's equity of Kestler for the six months ended June 30, 2018 and the unaudited statements of income and statements of cash flows of Kestler for the six months ended June 30, 2018 and 2017 are attached hereto as Exhibit 99.2 and are incorporated in their entirety herein by reference.

(b) Pro forma financial information.

The unaudited pro forma combined condensed balance sheet at June 30, 2018 and the unaudited pro forma combined condensed statements of operations for the six months ended June 30, 2018 and the twelve months ended December 31, 2017, relating to the Kestler Acquisitions, are attached hereto as Exhibit 99.3 and are incorporated in their entirety herein by reference.

(d) Exhibits.

| Exhibit No. | Description |
|---|---|
| 23.1 | Consent of Yount, Hyde & Barbour, P.C. |
| 99.1 | Audited balance sheets of Kestler at December 31, 2017 and 2016, and the audited statements of income, statements of stockholder's equity and statements of cash flows of Kestler for the years ended December 31, 2017 and 2016. |
| 99.2 | Balance sheets of Kestler at June 30, 2018 (unaudited) and December 31, 2017 (audited), the unaudited statement of stockholder's equity of Kestler for the six months ended June 30, 2018 and the unaudited statements of income and statements of cash flows of Kestler for the six months ended June 30, 2018 and 2017. |
| 99.3 | Unaudited pro forma combined condensed balance sheet at June 30, 2018 and the unaudited pro forma combined condensed statements of operations for the six months ended June 30, 2018 and the twelve months ended December 31, 2017, relating to the Kestler Acquisitions |

## 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 hereunto duly authorized.

| | |
|---|---|
| November 6, 2018 | LADENBURG THALMANN FINANCIAL SERVICES INC. |
| | By: */s/ Brett H. Kaufman* |
| | Name: Brett H. Kaufman |
| | Title: Senior Vice President and Chief Financial Officer |

Exhibit 23.1

**Consent of Independent Registered Public Accounting Firm**

We consent to the incorporation by reference in the Registration Statements of Ladenburg Thalmann Financial Services Inc. on Form S-8 (Nos. 333-82688, 333-101360, 333-101361, 333-124366, 333-130024, 333-139246, 333-139247, 333-139254, 333-147386, 333-163007, and 333-198056) and on Form S-3 (Nos. 333-37934, 333-71526, 333-81964, 333-88866, 333-117952, 333-122240, 333-130026, 333-130028, 333-139244, 333-141517, 333-150851, 333-153373, 333-187322, 333-192712 and 333-216733) of our report dated August 13, 2018 relating to the financial statements of Kestler Financial Group, Inc., which are included in the Current Report on Form 8-K/A of Ladenburg Thalmann Financial Services Inc. filed on November 6, 2018.

*/s/ Yount, Hyde & Barbour, P.C.*

Winchester, Virginia
November 6, 2018

EXHIBIT 99.1

**Audited Financial Statements**

**Kestler Financial Group, Inc.**

**Leesburg, Virginia**

**December 31, 2017 and 2016**

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**AUDITED FINANCIAL STATEMENTS**

YHB CPAs & Consultants
50 South Cameron St.
Winchester, VA 22601
540.662.3417
YHBcpa.com
540.662.4211

**INDEPENDENT AUDITOR'S REPORT**

To the Chief Executive Officer
Kestler Financial Group, Inc.
Leesburg, Virginia

**Report on the Financial Statements**

We have audited the accompanying financial statements of Kestler Financial Group, Inc. (the Corporation), which comprise the balance sheets as of December 31, 2017 and 2016, the related statements of income, stockholder's equity and cash flows for the year s then ended, and the related notes to the financial statements.

**Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kestler Financial Group, Inc. as of December 31, 2017 and 2016, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
August 13, 2018

Dedicated to Trust and Excellence.

Culpeper Leesburg Middleburg Richmond Roanoke Winchester

**BALANCE SHEETS**
**as of December 31**

| | 2017 | 2016 |
|---|---|---|
| **CURRENT ASSETS** | | |
| Cash | $ 658,115 | $ 139,303 |
| Other receivables | 15,792 | 26,236 |
| Prepaid expenses | 126,951 | 66,763 |
| | **800,858** | **232,302** |
| **PROPERTY AND EQUIPMENT** | | |
| Buildout - not in service | 229,931 | 0 |
| Furniture and fixtures | 0 | 97,904 |
| Computers and equipment | 71,926 | 95,520 |
| Vehicles | 28,121 | 0 |
| Computer software | 13,673 | 13,673 |
| | **343,651** | **207,097** |
| Less: accumulated depreciation | (38,296) | (117,026) |
| | **305,355** | **90,071** |
| **OTHER ASSETS** | | |
| Investment | 50,000 | 50,000 |
| Security deposits | 11,709 | 11,709 |
| Notes receivable | 4,665 | 335,519 |
| | **66,374** | **397,228** |
| | **$ 1,172,587** | **$ 719,601** |
| **CURRENT LIABILITIES** | | |
| Accounts payable | 57,522 | 293,704 |
| Commissions and fees payable | 13,068 | 0 |
| Deferred income | 15,000 | 0 |
| Accrued compensation | 32,199 | 14,102 |
| Deferred rent | 271,271 | 23,029 |
| | **389,060** | **330,835** |
| **STOCKHOLDER'S EQUITY** | | |
| Common stock, $1 par value, 5,000 shares authorized, 1,000 shares issued and outstanding | 1,000 | 1,000 |
| Additional paid-in-capital | 272,250 | 272,250 |
| Retained earnings | 510,277 | 115,516 |
| | **783,527** | **388,766** |
| | **$ 1,172,587** | **$ 719,601** |

See independent auditor's report and notes to financial statements.

## STATEMENTS OF INCOME
## for Years Ended December 31

| | 2017 | 2016 |
|---|---|---|
| **REVENUE** | | |
| Commissions | $ 5,712,406 | $ 4,103,629 |
| Service fees | 0 | 59,329 |
| Other income | 792,412 | 1,319,919 |
| Interest and dividends | 5,403 | 1,978 |
| | **6,510,221** | **5,484,855** |
| **EXPENSES OF OPERATIONS** | | |
| Advertising | 5,171 | 6,339 |
| Commissions and fees | 86,492 | 315,682 |
| Communications | 63,239 | 99,585 |
| Compensation | 3,212,568 | 2,920,702 |
| Firm insurance | 74,799 | 45,866 |
| Travel / Entertainment | 147,519 | 111,510 |
| Subscriptions | 14,707 | 18,488 |
| Office expense | 1,215,367 | 1,020,703 |
| Professional services | 71,932 | 102,251 |
| Rent and occupancy | 189,438 | 141,286 |
| Depreciation and amortization | 28,751 | 24,155 |
| Interest expense | 760 | 0 |
| Loss on sale of fixed assets | 24,831 | 0 |
| Other expenses | 29,440 | 12,519 |
| **TOTAL EXPENSES** | **5,165,014** | **4,819,086** |
| **NET INCOME** | **$ 1,345,207** | **$ 665,769** |

See independent auditor's report and notes to financial statements.

**STATEMENTS OF STOCKHOLDER'S EQUITY**
**for Years Ended December 31**

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|
| **BALANCE, DECEMBER 31, 2015** | **$ 1,000** | **$ 272,250** | **$ 183,364** | **$ 456,614** |
| Net income, 2016 | 0 | 0 | 665,769 | 665,769 |
| Stockholder distributions | 0 | 0 | (733,617) | (733,617) |
| **BALANCE, DECEMBER 31, 2016** | **1,000** | **272,250** | **115,516** | **388,766** |
| Net income, 2017 | 0 | 0 | 1,345,207 | 1,345,207 |
| Stockholder distributions | 0 | 0 | (950,446) | (950,446) |
| **BALANCE, DECEMBER 31, 2017** | **$ 1,000** | **$ 272,250** | **$ 510,277** | **$ 783,527** |

See independent auditor's report and notes to financial statements.

## STATEMENTS OF CASH FLOWS
**for Years Ended December 31**

| | 2017 | 2016 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 1,345,207 | $ 665,769 |
| Charges to net income not affecting cash: | | |
| Depreciation and amortization expense | 28,751 | 24,155 |
| Loss on sale of fixed assets | 24,934 | 0 |
| Debt forgiveness | 0 | (435,600) |
| Adjustments to reconcile net income to net cash provided (used by) operating activities: | | |
| Other receivables | 10,444 | (5,419) |
| Prepaid expenses | (60,188) | 33,640 |
| Accounts payable | (236,182) | 230,773 |
| Commissions and fees payable | 13,068 | (10,250) |
| Deferred income | 15,000 | 0 |
| Accrued compensation | 18,097 | (3,619) |
| Deferred rent | 248,242 | (31,195) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | **1,407,373** | **468,254** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Purchase of property and equipment | (268,969) | (17,971) |
| **NET CASH USED BY INVESTING ACTIVITIES** | **(268,969)** | **(17,971)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Payments received (Advances on) notes receivable | 330,854 | (139,725) |
| Principal payments on long term debt | 0 | (8,750) |
| Stockholder distributions | (950,446) | (733,617) |
| **NET CASH USED BY FINANCING ACTIVITIES** | **(619,592)** | **(882,092)** |
| **NET CHANGE IN CASH** | **518,812** | **(431,809)** |
| Cash, beginning of the year | 139,303 | 571,112 |
| **CASH, END OF YEAR** | **$ 658,115** | **$ 139,303** |

See independent auditor’s report and notes to financial statements.

## NOTE A - ORGANIZATION

Kestler Financial Group, Inc. (the Corporation) was incorporated in the Commonwealth of Virginia on January 4, 1993 and is engaged in the insurance sales business. The Corporation transacts business throughout the continental United States and is headquartered in Leesburg, VA.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Accounting***

The Corporation maintains their financial statements on the accrual basis of accounting, recognizing income when earned and expenses when incurred.

***Revenue Recognition***

The Corporation earns commissions on the sale of insurance policies. Commissions are generally paid each year as long as the client continues to use the product and maintains its broker of record relationship with the applicable business. Commissions paid by insurance companies are based on a percentage of the premium that the insurance company charges to the policyholder. First-year commissions are calculated as a percentage of the first twelve months' premium on the policy and earned in the year that the policy is originated. In many cases, the Corporation receives renewal commissions for a period following the first year, if the policy remains in force. Insurance commissions are recognized as revenue when the following criteria are met: (1) the policy application and other carrier delivery requirements are substantially complete, (2) the premium is paid and (3) the insured party is contractually committed to the purchase of the insurance policy. Carrier delivery requirements may include additional supporting documentation, signed amendments and premium payments. Commissions earned on renewal premiums are generally recognized upon receipt from the carrier, since that is typically when the Corporation is first notified that such commissions have been earned.

***Cash and Cash Equivalents***

The term cash and cash equivalents, as used in the accompanying financial statements, includes currency on hand and demand deposits with financial institutions. There were no restrictions on cash balances at December 31, 2017 and 2016. The Corporation considers all highly liquid debt instruments with an original maturity of three months or less to be cash equivalents.

***Property and Equipment***

Property and equipment is stated at cost. Individual purchases over $2,500 and improvements, which prolong the useful life of an asset, are capitalized, while expenditures for maintenance, small items, and minor repairs are expensed as incurred. Depreciation for financial statements is calculated on the straight-line method and is provided on a consistent basis, based upon the estimated useful life of the particular asset. Depreciation expense was $28,751 and $24,155 for the years ended December 31, 2017 and 2016, respectively.

***Deferred Rent***

The Corporation recognizes rent expense on a straight-line basis, and the deferred rent liability reflects the difference between rental payments and the discount received on the rent as a result of the tenant improvement allowance and rent abatement. The deferred rent liability is reduced over the life of the lease.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

***Income Taxes***

The Corporation reports income for income tax purposes on the cash basis method of accounting. Effective January 4,1993, the Corporation elected to be subject to the "S" Corporation provisions of the Internal Revenue Code. Accordingly, all income or losses are reported on the individual income tax returns of the stockholder. Therefore, no provision or liability for income taxes has been included in the financial statements for the Corporation.

Under the provisions of Statement of Financial Accounting Standards ASC Topic 740, Income Taxes (ASC 740), companies are required to disclose unrecognized tax benefits. The Corporation operates as a Subchapter S Corporation and is not subject to federal income taxes. Management considered the provisions regarding ASC 740 with respect to state income taxes and deemed there were no material unrecognized tax benefits for certain tax positions at December 31, 2017 and 2016. Generally, the Corporation's tax returns remain available for three years for federal and four years for state income tax examination purposes.

***Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Notes Receivable***

Notes receivable are stated at unpaid principal balances, less allowance for losses. No allowance for losses were recorded at December 31, 2017 and 2016.

***Advertising***

The Corporation's policy is to expense all advertising and promotion expenses when incurred. The Corporation had advertising and promotion expenses of $5,171 and $6,339 for the years ended December 31, 2017 and 2016, respectively.

***Recent Accounting Pronouncements Not Yet Adopted***

In May 2014, the FASB issued guidance that supersedes previously issued guidance on revenue recognition and will apply to the Corporation. The main principle of this new guidance focuses on the contract between a vendor and a customer for the provision of good and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration for which the vendor is entitled. To accomplish this objective, the standard requires five basis steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies the performance obligation. The new standard will be effective for nonpublic entities for annual reporting period beginning after December 15, 2018. The Corporation will evaluate the effect that adoption of this new standard will have on the financial statements.

**NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

In February 2016, the FASB issued guidance related to leasing for both the lessees and the lessors. The new standard establishes a right-of-use (ROU) model that requires a lessee to record the ROU asset and a lease liability on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. The new standard is effective for the fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Corporation will evaluate the effect that adoption of this new standard will have on the financial statements.

**NOTE C – NOTES RECEIVABLE**

On January 1, 2002 the Corporation loaned a related party $260,000 on a 5.05% interest bearing note. The note had a remaining balance of $271,190 as of December 31, 2016. The note was fully written off during the year December 31, 2017.

On June 25, 2015, the Corporation loaned an employee $25,000 on a 4% interest bearing note. The note had a remaining balance of $25,000 as of December 31, 2016. The note was paid in full during the year ended December 31, 2017.

On November 18, 2016 the Corporation loaned an employee $59,329 on a 0% interest bearing note to be repaid in 6 installments. The note had a remaining balance of $4,665 and $39,329 as of December 31, 2017 and 2016, respectively.

**NOTE D – DEBT FORGIVENESS**

On March 1, 2012 the Corporation borrowed $600,000 from a third party. The remaining loan balance of $435,600 was forgiven in full during the year ended December 31, 2016.

**NOTE E - FAIR VALUE MEASUREMENTS**

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). The three levels of the fair value hierarchy under FASB ASC 820 are described below:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that management has the ability to access.

**NOTE E - FAIR VALUE MEASUREMENTS (continued)**

Level 2: Inputs to the valuation methodology include (a) quoted prices for similar assets or liabilities in active markets; (b) quoted prices for identical or similar assets or liabilities in inactive markets; (c) inputs other than quoted prices that are observable for the asset or liability; and (d) inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2017 and 2016.

***Ownership in Privately Held Businesses***

Alternative investments, including investments in limited partnerships, do not have readily available market values. These estimated fair values may differ significantly from the values that would have been used had a ready market for these investments existed, and such differences could be material. Limited partnership interests and other investments not having an established market are valued at net asset values as determined by the investment managers, which management has determined approximates fair value. Private equity investments are often valued initially based upon cost; however, valuations are reviewed utilizing available market data to determine if the carrying value of these investments should be adjusted. Such market data primarily includes observations of the trading multiples of public companies considered comparable to the private companies being valued.

The following table set forth by level, within the fair value hierarchy, the Corporation's assets at fair value as of December 31, 2017.

| | Fair Value | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Ownership in privately held business | 50,000 | 0 | 0 | 50,000 |
| **Totals** | **$ 50,000** | **$ 0** | **$ 0** | **$ 50,000** |

See independent auditor's report.

## NOTE E - FAIR VALUE MEASUREMENTS (continued)

The following table set forth by level, within the fair value hierarchy, the Corporation's assets at fair value as of December 31, 2016.

| | Fair Value | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Ownership in privately held business | 50,000 | 0 | 0 | 50,000 |
| **Totals** | **$ 50,000** | **$ 0** | **$ 0** | **$ 50,000** |

A reconciliation of the beginning and ending balances of ownership in privately held businesses for the year ended December 31, 2017 of the net assets whose fair value has been determined using significant unobservable inputs (Level 3) is as follows:

| | |
|---|---|
| Balance, December 31, 2016 | $ 50,000 |
| Net income | 8,050 |
| Transfer out | (8,050) |
| **Balance, December 31, 2017** | **$ 50,000** |

A reconciliation of the beginning and ending balances of ownership in privately held businesses for the year ended December 31, 2016 of the net assets whose fair value has been determined using significant unobservable inputs (Level 3) is as follows:

| | |
|---|---|
| Balance, December 31, 2015 | $ 50,000 |
| Net Income | 10,000 |
| Transfer out | (10,000) |
| **Balance, December 31, 2016** | **$ 50,000** |

To assess the appropriate classification of investments within the fair value hierarchy, the availability of market data is monitored. Changes in economic conditions or valuation techniques may require the transfer of investments from one fair value level to another. In such instances, the transfer is reported at the end of the reporting period.

Management evaluates the significance of transfers between levels based upon the nature of the investment and size of the transfer relative to total net assets available for benefits. For the years ended December 31, 2017 and 2016, there were no significant transfers into or out of Levels 1, 2, or 3.

## NOTE F - RELATED PARTY TRANSACTIONS

The Corporation has entered into contracts with a related party. During 2017 and 2016, the Corporation received payments related to the contracts of $779,074 and $750,313, respectively. $15,792 and $18,065 were due from the related party and are included in other receivables on the balance sheets as of December 31, 2017 and 2016, respectively. The Corporation paid commissions on these contracts to the related party of $86,492 and $315,682.

## NOTE G - OPERATING LEASES

The Corporation leases office space in Leesburg, VA. The original lease commenced on November 9, 2012 with an expiration date of April 9, 2019. This lease was amended effective May 19, 2017 to relocate the office to a larger space and extended the term of the original lease to May 19, 2025.

Rent is payable with a base amount in 2017 and 2016 of $102,337 and $150,158, respectively.

Rent expense for the years ended December 31, 2017 and 2016 totaled $189,438 and $141,286, respectively.

Future minimum payments required under the operating lease agreement are as follows:

| For Year Ending December 31, | | |
|---|---|---|
| 2018 | $ | 101,250 |
| 2019 | | 219,145 |
| 2020 | | 253,270 |
| 2021 | | 318,282 |
| Thereafter | | 1,309,023 |
| | **$** | **2,200,970** |

## NOTE H - 401(k) RETIREMENT PLAN AND PROFIT SHARING PLAN

The Corporation has a defined contribution profit sharing plan and a 401(k) retirement plan covering all eligible employees. The defined contribution profit sharing plan is a qualified plan under the Internal Revenue Code. The Corporation matches employee contributions to its 401(k) plan up to 4% of their salary. The matching contributions for 2017 and 2016 were $60,056 and $59,864, respectively.

## NOTE I - CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist primarily of cash, short-term investments, and trade accounts receivable.

The Corporation maintains its cash in several commercial institutions. Cash balances are insured by the Federal Deposit Insurance Corporation. At December 31, 2017 and 2016, the cash balances exceeded federally insured limits. Management does not believe this results in any significant credit risk.

The Corporation is engaged primarily in the sale of annuities and life insurance through a network of independent agents, registered representatives, and investment advisor representatives nationwide. The Corporation performs ongoing credit evaluations of its customers' financial condition, and, generally, requires no collateral from its customers.

## NOTE J - CASH FLOW INFORMATION

Cash payments for interest for the years ended December 31, 2017 and 2016 totaled $760 and $0, respectively.

## NOTE K – CHANGE IN OWNERSHIP

On November 29, 2016 the majority shareholder entered into an agreement to sell all of his remaining stock of the Corporation to the minority shareholder, making the minority shareholder the sole shareholder of the Corporation. The financing for the stock sale is between the two individual shareholders, and outside of the Corporation.

## NOTE L - SUBSEQUENT EVENTS

Subsequent to year-end, the Corporation and its shareholder plan to enter into an Asset Purchase Agreement that outlines the basic terms to sell all of the assets of the Corporation to Ladenburg Thalmann Financial Services, Inc. a publically traded company registered with the Securities and Exchange Commission.

The Corporation has evaluated events and transactions for potential recognition or disclosure through August 13, 2018 which is the date that financial statements were available to be issued.

Exhibit 99.2

**Unaudited Financial Statements**

**KESTLER FINANCIAL GROUP, INC.**

**Leesburg, Virginia**

**June 30, 2018**

**Kestler Financial Group, Inc.**

## TABLE OF CONTENTS

**UNAUDITED FINANCIAL STATEMENTS**

**Kestler Financial Group, Inc.**

**BALANCE SHEETS- ASSETS**

| | June 30, 2018 (Unaudited) | December 31, 2017 (Audited) |
|---|---|---|
| **CURRENT ASSET** | | |
| Cash | $ 441,518 | $ 658,115 |
| Other receivables | 34,282 | 15,792 |
| Prepaid expenses | 78,819 | 126,951 |
| | **554,619** | **800,858** |
| **PROPERTY AND EQUIPMENT** | | |
| Buildout | 294,795 | 229,931 |
| Furniture and fixtures | 8,049 | 0 |
| Computers and equipment | 75,446 | 71,926 |
| Vehicles | 28,121 | 28,121 |
| Computer software | 13,673 | 13,673 |
| | **420,084** | **343,651** |
| Less: accumulated depreciation | (62,283) | (38,296) |
| | **357,801** | **305,355** |
| **OTHER ASSETS** | | |
| Investment | 0 | 50,000 |
| Security deposits | 28,112 | 11,709 |
| Note receivable | 4,665 | 4,665 |
| | **32,777** | **66,374** |
| | **$ 945,197** | **$ 1,172,587** |

See notes to financial statements.

**BALANCE SHEETS - LIABILITIES AND STOCKHOLDER'S EQUITY**

| | June 30, 2018 (Unaudited) | December 31, 2017 Audited |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| Accounts payable | $ 168,995 | $ 57,522 |
| Commissions and fees payable | 70,144 | 13,068 |
| Deferred Income | 0 | 15,000 |
| Accrued compensation | 43,012 | 32,199 |
| Deferred rent | 400,956 | 271,271 |
| | **683,107** | **389,060** |
| **STOCKHOLDER.S EQUITY** | | |
| Common stock, $1 par value, 15,000 shares authorized, 1,500 shares issued and outstanding | 1,000 | 1,000 |
| Additional paid-in-capital | 272,250 | 272,250 |
| Retained earnings | (11,160) | 510,277 |
| | 262,090 | **783,527** |
| | **$ 945,197** | **$ 1,172,587** |

See notes to financial statements.

**STATEMENTS OF INCOME**
**for Six Months Ended June 30**

| | 2018 | 2017 |
|---|---|---|
| **REVENUE** | | |
| Commissions | $ 9,825,481 | $ 9,238,925 |
| Service fees | 15,000 | 0 |
| Other income | 391,902 | 376,048 |
| Interest and dividends | 1,123 | 2,839 |
| | **10,233,506** | **9,617,812** |
| **EXPENSES OF OPERATIONS** | | |
| Advertising | 19,442 | 3,303 |
| Commissions and fees | 6,846,685 | 6,271,871 |
| Communications | 21,629 | 40,281 |
| Compensation | 1,714,931 | 1,576,799 |
| Firm insurance | 50,262 | 32,489 |
| Travel / Entertainment | 151,802 | 75,716 |
| Subscriptions | 756 | 4,719 |
| Office expense | 1,020,423 | 610,093 |
| Professional services | 50,494 | 56,284 |
| Rent and occupancy | 146,425 | 67,133 |
| Depreciation and amortization | 23,987 | 12,527 |
| Interest expense | 2,460 | 760 |
| Other expenses | 13,705 | 26,434 |
| **TOTAL EXPENSES** | **10,063,001** | **8,778,409** |
| **Net income** | **$ 170,505** | **$ 839,403** |

See notes to financial statements.

**Kestler Financial Group, Inc.**

**STATEMENT OF STOCKHOLDER'S EQUITY**
**for Six Months Ended June 30**

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|
| **BALANCE, DECEMBER 31, 2017** | **1,000** | **272,250** | **510,277** | **783,527** |
| Net income for 6 months ended June 30, 2018 | 0 | 0 | 170,505 | 170,505 |
| Stockholder distribution | 0 | 0 | (691,942) | (691,942) |
| **BALANCE, JUNE 30, 2018** | **$ 1,000** | **$ 272,250** | **$ (11,160)** | **$ 262,090** |

See notes to financial statements.

## STATEMENTS OF CASH FLOWS
**for Six Months Ended June 30**

| | | 2018 | | 2017 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | $ | 170,505 | $ | 839,402 |
| Net income | | | | |
| Charges to net income not affecting cash: | | 23,987 | | 12,527 |
| Depreciation and amortization expense | | | | |
| Adjustments to reconcile net income to net cash provided (used by) operating activities: | | | | |
| Other receivables | | (18,490) | | 11,227 |
| Prepaid expenses | | 48,132 | | (2,899) |
| Security deposit | | (16,403) | | 0 |
| Accounts payable | | 111,473 | | (115,899) |
| Commissions and fees payable | | 57,076 | | 36,404 |
| Deferred income | | (15,000) | | 0 |
| Accrued compensation | | 10,813 | | 27,986 |
| Deferred rent | | 129,685 | | (17,272) |
| **NET CASH PROVIDED BY OPERATING ACTIVITIES** | | **501,778** | | **791,476** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Purchase of property and equipment | | (76,433) | | (107,212) |
| **NET CASH USED BY INVESTING ACTIVITIES** | | **(76,433)** | | **(107,212)** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Payments received (Advances on) notes receivable | | 0 | | 315,854 |
| Stockholder distributions | | (641,942) | | (590,153) |
| **NET CASH USED BY FINANCING ACTIVITIES** | | **(641,942)** | | **(274,299)** |
| **NET CHANGE IN CASH** | | **(216,597)** | | 409,965 |
| Cash, beginning of the period | | 658,115 | | 139,303 |
| **CASH, END OF PERIOD** | **$** | **441,518** | **$** | **549,268** |

See notes to financial statements.

## NOTE A - ORGANIZATION

Kestler Financial Group, Inc. (the Corporation) was incorporated in the Commonwealth of Virginia on January 4, 1993 and is engaged in the insurance sales business. The Corporation transacts business throughout the continental United States and is headquartered in Leesburg, Virginia.

## NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Accounting***

The Corporation maintains their financial statements on the accrual basis of accounting, recognizing income when earned and expenses when incurred.

***Basis of Presentation***

The 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. 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 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, 2017 has been derived from the audited financial statement at that date, but does not include all of the information and notes required by GAAP for complete financial statement presentation. Please refer to the notes to the audited consolidated financial statements for the year ended December 31, 2017 for additional disclosures and description of accounting policies.

***New Accounting Standards Adopted***

On January 1, 2018, the Corporation adopted ASU 2014-09 and all related amendments (ASC 606) and applied its provisions to all uncompleted contracts using the modified retrospective method. Prior to the adoption of ASC 606, commissions on insurance policies were recognized on a net basis based on how the commissions were received from the insurance carrier. With the adoption of ASC 606, we report all insurance commission revenue on a gross basis, regardless of the method of payment by the carrier. The comparative information for prior periods has not been adjusted and continues to be reported under the accounting standards in effect for those periods.

***Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

## NOTE C – NOTES RECEIVABLE

Notes receivable are stated at unpaid principal balances, less allowance for losses. No allowance for losses were recorded at June 30, 2018 and December 31, 2017.

On November 18, 2016 the Corporation loaned an employee $59,329 on a 0% interest bearing note to be repaid in 6 installments. The note had a remaining balance of $4,665 and $4,665 as of June 30, 2018 and December 31, 2017, respectively.

## NOTE D - RELATED PARTY TRANSACTIONS

The Corporation has entered into contracts with a related party. During 2018 and 2017, the Corporation received payments related to the contracts of $376,954 and $376,048, respectively. $34,282 and $15,792 were due from the related party and are included in other receivables on the balance sheets as of June 30, 2018 and December 31, 2017, respectively. The Corporation paid commissions on these contracts to the related party of $28,643 and $56,728.

## NOTE E - OPERATING LEASES

The Corporation leased office space in Leesburg, VA commencing on November 9, 2012 with an expiration date of April 9, 2019. However, this lease was amended effective May 19, 2017 to relocate the office space to a different location. This amendment also extended the expiration date of the lease to May 19, 2025.

Rent is payable with a base amount from January - June 2018 and 2017 of $0 and $76,753, respectively.

Rent expense for the six months ended June 30, 2018 and 2017 totaled $140,487 and $59,481, respectively.

Future minimum payments required under the operating lease agreement are as follows:

| For Year Ending June 30, | | |
|---|---|---|
| 2019 | $ | 202,500 |
| 2020 | | 235,790 |
| 2021 | | 270,750 |
| 2022 | | 365,814 |
| Thereafter | | 1,216,115 |
| | **$** | **2,290,969** |

## NOTE F - 401(k) RETIREMENT PLAN AND PROFIT SHARING PLAN

The Corporation has a defined contribution profit sharing plan and a 401(k) retirement plan covering all eligible employees. The defined contribution profit sharing plan is a qualified plan under the Internal Revenue Code. The Corporation matches employee contributions to its 401(k) plan up to 4% of their salary. Management was unable to provide matching contributions for June 30, 2018. The matching contributions for December 31, 2017 was $60,056.

## NOTE G - CONCENTRATIONS OF CREDIT RISK

Financial instruments, which potentially subject the Corporation to concentrations of credit risk, consist primarily of cash, short-term investments, and trade accounts receivable.

The Corporation maintains its cash in several commercial institutions. Cash balances are insured by the Federal Deposit Insurance Corporation. At June 30, 2018 and December 31, 2017, the cash balances exceeded federally insured limits. Management does not believe this results in any significant credit risk.

The Corporation is engaged primarily in the sale of annuities and life insurance products to customers, all of which are located in the United States. The Corporation performs ongoing credit evaluations of its customers' financial condition, and, generally, requires no collateral from its customers.

## NOTE H - CASH FLOW INFORMATION

Cash payments for interest and state income taxes for the six months ended June 30, 2018 and 2017 totaled $0 and $760, respectively. Non-cash financing activities include a $50,000 corporate investment distributed to the stockholder.

## NOTE I - SUBSEQUENT EVENTS

On August 31, 2018, the Corporation and its shareholder entered into an Asset Purchase Agreement that sold substantially all of the assets of the Corporation to Ladenburg Thalmann Financial Services Inc. a publicly traded company registered with the Securities and Exchange Commission.

The Corporation has evaluated events and transactions for potential recognition or disclosure through October 30, 2018 which is the date that financial statements were available to be issued.

EXHIBIT 99.3

**LADENBURG THALMANN FINANCIAL SERVICES INC.**

**UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS**

The following unaudited pro forma combined condensed financial statements are based on the historical financial statements of Ladenburg Thalmann Financial Services Inc. (“LTS”) and Kestler Financial Group, Inc. (“KFG”), after giving effect to the acquisition of KFG by LTS using the purchase method of accounting and applying the assumptions and adjustments described in the accompanying notes.

The unaudited pro forma combined condensed statements of operations for the six months ended June 30, 2018 and the twelve months ended December 31, 2017 are presented as if the acquisition had occurred on January 1, 2017. The unaudited pro forma combined condensed balance sheet is presented as if the acquisition had occurred on June 30, 2018. You should read this information in conjunction with the:

- accompanying notes to the unaudited pro forma combined condensed financial statements;
- separate unaudited historical financial statements of LTS as of, and for the six month period ended June 30, 2018, included in the LTS’ quarterly report on Form 10-Q for the three months ended June 30, 2018;
- separate historical financial statements of LTS as of, and for the fiscal year ended December 31, 2017, included in LTS’ annual report on Form 10-K for the fiscal year ended December 31, 2017; and
- separate historical financial statements of KFG as of June 30, 2018, for the six months ended June 30, 2018 and 2017and for the fiscal years ended December 31, 2017 and 2016 included in Items 99.1 and 99.2 of this report.

The pro forma information presented is for illustrative purposes only and is not necessarily indicative of the financial position or results of operations that would have been realized if the acquisition had been completed on the dates indicated, nor is it indicative of future operating results or financial position. The pro forma adjustments are based upon available information and certain assumptions that LTS believes are reasonable.

The unaudited pro forma combined condensed financial statements do not include the effects of any operating efficiencies or cost savings expected from the acquisition.

The unaudited pro forma combined condensed balance sheet as of June 30, 2018 has been derived from:

- the unaudited historical condensed consolidated balance sheet of LTS as of June 30, 2018; and
- the unaudited historical balance sheet of KFG as of June 30, 2018.

The unaudited pro forma combined condensed statement of operations for the six month period ended June 30, 2018 has been derived from:

- the unaudited historical condensed consolidated statement of operations of LTS for the six month period ended June 30, 2018; and
- the unaudited historical statement of operations of KFG for the six month period ended June 30, 2018.

The unaudited pro forma combined condensed statement of operations for the twelve months ended December 31, 2017 has been derived from:

- the audited historical consolidated statement of operations of LTS for the twelve months ended December 31, 2017; and
- the audited historical statement of operations of KFG for the twelve months ended December 31, 2017.

**LADENBURG THALMANN FINANCIAL SERVICES INC.**

**UNAUDITED PRO FORMA COMBINED CONDENSED BALANCE SHEET**

**June 30, 2018**
**(In thousands, except share and per share amounts)**

| | Historical LTS | Historical KFG | Pro Forma Adjustments | | Pro Forma Combined |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Cash and cash equivalents | $ 204,847 | $ 442 | $ (2,662) | (e)(j) | $ 202,627 |
| Securities owned, at fair value | 6,548 | — | — | | 6,548 |
| Receivables from clearing brokers | 45,013 | — | — | | 45,013 |
| Receivables from other broker-dealers | 2,520 | — | — | | 2,520 |
| Notes receivable from financial advisors, net | 5,893 | 5 | (5) | (j) | 5,893 |
| Other receivables, net | 129,182 | 34 | (34) | (j) | 129,182 |
| Fixed assets, net | 26,307 | 358 | (10) | (j) | 26,655 |
| Restricted assets | 6,589 | — | — | | 6,589 |
| Intangible assets, net | 72,296 | — | 6,735 | (g) | 79,031 |
| Goodwill | 124,210 | — | 2,169 | (g) | 126,379 |
| Contract acquisition costs, net | 76,972 | — | — | | 76,972 |
| Cash surrender value of life insurance | 12,907 | — | — | | 12,907 |
| Deferred income taxes | - | — | — | | - |
| Other assets | 34,606 | 107 | (107) | (j) | 34,606 |
| Total assets | $ 747,890 | $ 945 | $ 6,087 | | $ 754,922 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | | | | |
| Securities sold, but not yet purchased, at market value | $ 4,920 | $ — | $ — | | $ 4,920 |
| Accrued compensation | 27,418 | 43 | (43) | (j) | 27,418 |
| Commissions and fees payable | 105,194 | 70 | (70) | (j) | 105,194 |
| Accounts payable and accrued liabilities | 54,169 | 169 | 1,413 | (h)(j) | 55,751 |
| Deferred rent | 2,772 | 401 | (401) | (j) | 2,772 |
| Deferred income taxes | 6,558 | — | — | | 6,558 |
| Deferred compensation liability | 19,999 | — | — | | 19,999 |
| Accrued interest | 191 | — | — | | 191 |
| Notes payable, net | 136,171 | — | 5,450 | (h) | 141,621 |
| | | - | | | |
| Total liabilities | 357,392 | 683 | 6,349 | | 364,424 |
| Shareholders' equity: | | | | | |
| Preferred stock, $.0001 par value; authorized 50,000,000 shares: 8% Series A cumulative redeemable preferred stock; designated 23,844,916 shares in 2018 and 2017; shares issued and outstanding 17,012,075 in 2018 and 2017 (liquidation preference $425,302 in 2018 and 2017) | 2 | — | — | | 2 |
| Common stock, $.0001 par value; authorized 1,000,000,000 shares in 2018 and 2017; shares issued and outstanding, 201,271,034 in 2018 and 198,583,941 in 2017 | 20 | 1 | (1) | (i) | 20 |
| Additional paid-in capital | 501,348 | 272 | (272) | (i) | 501,348 |
| Retained earnings (accumulated deficit) | (110,904) | (11) | 11 | (i) | (110,904) |
| Total shareholders' equity | 390,466 | 262 | (262) | | 390,466 |
| Noncontrolling interest | $ 32 | $ — | $ — | | $ 32 |
| Total liabilities and shareholders' equity | $ 747,890 | $ 945 | $ 6,087 | | $ 754,922 |

SEE NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

**LADENBURG THALMANN FINANCIAL SERVICES INC.**

**UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS**

**For the six months ended June 30, 2018**
**(In thousands, except share and per share amounts)**

| | Historical | | | |
|---|---|---|---|---|
| | LTS | KFG | Pro Forma Adjustments | Pro Forma Combined |
| Revenues: | | | | |
| Commissions and fees | $ 343,667 | $ 9,825 | $ — | $ 353,492 |
| Advisory fees | 237,021 | — | — | 237,021 |
| Investment banking | 28,219 | — | — | 28,219 |
| Principal transactions | 400 | — | — | 400 |
| Interest and dividends | 1,867 | 1 | — | 1,868 |
| Service fees | 52,487 | 15 | — | 52,502 |
| Other income | 23,479 | 392 | — | 23,871 |
| Total revenues | 687,140 | 10,233 | — | 697,373 |
| Expenses: | | | | |
| Commissions and fees | 485,716 | 6,847 | — | 492,563 |
| Compensation and benefits | 95,822 | 1,715 | — | 97,537 |
| Non-cash compensation | 3,062 | — | — | 3,062 |
| Brokerage, communication and clearance fees | 8,260 | 22 | — | 8,282 |
| Rent and occupancy, net of sublease revenue | 4,880 | 146 | — | 5,026 |
| Professional services | 10,329 | 50 | — | 10,379 |
| Interest | 4,020 | 2 | 104 (b) | 4,126 |
| Depreciation and amortization | 11,571 | 24 | 518 (c) | 12,113 |
| Acquisition-related expense | 913 | — | — | 913 |
| Amortization of retention and forgivable loans | 183 | — | — | 183 |
| Amortization of financial acquisition costs | 4,571 | — | — | 4,571 |
| Other | 36,182 | 1,256 | — | 37,438 |
| Total expenses | 665,509 | 10,062 | 622 | 676,193 |
| Income (loss) before item shown below | 21,631 | 171 | (622) | 21,180 |
| Change in fair value of contingent consideration | (111) | — | — | (111) |
| Income (loss) before income taxes | 21,250 | 171 | (622) | 21,069 |
| Income tax (benefit) expense | 6,746 | — | — | 6,746 |
| Net income (loss) | $ 14,774 | $ 171 | $ (622) | $ 14,323 |
| Net income attributable to noncontrolling interest | 9 | — | — | 9 |
| Net income (loss) attributable to the Company | 14,765 | 171 | (622) | 14,314 |
| Dividends declared on preferred stock | (17,016) | — | — | (17,016) |
| Net income (loss) available to common shareholders | $ (2,251) | $ 171 | $ (622) | $ (2,702) |
| Net loss per share available to common shareholders (basic and diluted) | $ (0.01) | | | $ (0.01) |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 196,230,136 | | | 196,230,136 |

SEE NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

**LADENBURG THALMANN FINANCIAL SERVICES INC.**

**UNAUDITED PRO FORMA COMBINED CONDENSED STATEMENT OF OPERATIONS**

**For the twelve months ended December 31, 2017**
**(In thousands, except share and per share amounts)**

| | Historical | | | |
|---|---|---|---|---|
| | LTS | KFG | Pro Forma Adjustments | Pro Forma Combined |
| Revenues: | | | | |
| Commissions | $ 536,028 | $ 5,712 | $ — | $ 541,740 |
| Advisory fees | 560,930 | — | — | 560,930 |
| Investment banking | 46,453 | — | — | 46,453 |
| Principal transactions | 857 | — | — | 857 |
| Interest and dividends | 2,550 | 5 | — | 2,555 |
| Service fees | 85,330 | — | | 85,330 |
| Other income | 36,004 | 792 | — | 36,796 |
| Total revenues | 1,268,152 | 6,509 | — | 1,274,661 |
| Expenses: | | | | |
| Commissions and fees | 928,430 | 86 | — | 928,516 |
| Compensation and benefits | 171,344 | 3,213 | — | 174,557 |
| Non-cash compensation | 5,539 | — | — | 5,539 |
| Brokerage, communication and clearance fees | 18,124 | 63 | — | 18,187 |
| Rent and occupancy, net of sublease revenue | 9,356 | 189 | — | 9,545 |
| Professional services | 19,588 | 72 | — | 19,660 |
| Interest | 2,710 | 1 | 215 (b) | 2,926 |
| Depreciation and amortization | 28,835 | 29 | 1028 (c) | 29,892 |
| Acquisition-related expense | 3,469 | — | — | 3,469 |
| Amortization of retention and forgivable loans | 7,396 | — | | 7,396 |
| Amortization of financial advisor acquisition costs | — | — | | — |
| Loss on extinguishment of debt | — | — | — | — |
| Other | 72,200 | 1,512 | — | 73,712 |
| Total expenses | 1,266,991 | 5,165 | 1,243 | 1,273,399 |
| Income (loss) before item shown below | 1,161 | 1,344 | (1,243) | 1,262 |
| Change in fair value of contingent consideration | 19 | — | — | 19 |
| Income (loss) before income taxes | 1,180 | 1,344 | (1,243) | 1,281 |
| Income tax expense (benefit) | (6,502) | — | — | (6,502) |
| Net income (loss) | $ 7,682 | $ 1,344 | $ (1,243) | $ 7,783 |
| Net loss attributable to noncontrolling interest | (15) | — | — | (15) |
| Net income (loss) attributable to the Company | 7,697 | 1,344 | (1,243) | 7,798 |
| Dividends declared on preferred stock | (32,482) | — | — | (32,482) |
| Net income (loss) available to common shareholders | $ (24,785) | $ 1,344 | $ (1,243) | $ (24,684) |
| Net loss per share available to common shareholders (basic and diluted) | $ (0.13) | | | $ (0.13) |
| Weighted average common shares outstanding: | | | | |
| Basic and diluted | 193,064,550 | | | 193,064,550 |

SEE NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS

**NOTES TO UNAUDITED PRO FORMA COMBINED CONDENSED FINANCIAL STATEMENTS**
**(in thousands, except share amounts)**

**1. Basis of Presentation**

In August 2018, LTAIS purchased certain assets of the insurance distribution business operated by Kestler Financial Group, Inc. ("KFG"), an independent insurance distribution company, located in Leesburg, Virginia. This asset purchase was deemed to be an asset acquisition. Under the terms of an asset purchase agreement, LTAIS purchased certain KFG assets, including the rights to the "Kestler Financial Group" name and brand, as part of an ongoing strategy for LTAIS to reinforce its position as a distributor of annuity solutions for independent financial advisors throughout the country. The acquisition is expected to generate important benefits for the Ladenburg insurance and annuity platform, which consists of LTAIS and Highland, a leading independent brokerage of life insurance solutions nationwide. In October 2018, Securities America purchased certain assets of the brokerage business operated by KFG.

The consideration for the KFG insurance distribution transaction was $7,917, consisting of cash of $1,683 paid at closing, a $165 cash payment to be made on the first anniversary of the closing date, a promissory note in the original principal amount of $5,450 and contingent consideration having a fair value of $619, for which a liability was recognized based on estimated acquisition-date fair value of the potential earn-out. The consideration for the KFG brokerage business transaction, which closed in October, was $1,335, consisting of cash of $537 paid at closing (including $271 of reimbursable expenses), a $266 cash payment to be made on each anniversary of the closing date for the next three years and contingent consideration having a fair value of $0.

The liability was valued using an income-based approach of the earn-out's probability-weighted expected payout using three earn-out scenarios. The measurement of the earn-out, which relates to a five-year period, is based on unobservable inputs (Level 3) and reflects the Company's own assumptions. The purchase price for the KFG transactions was allocated (preliminary) $7,083 to identifiable intangibles and other assets and $2,169 to goodwill.

*Purchase Price and Related Preliminary Allocation*

The purchase price is as follows:

| | | |
|---|---|---|
| Cash paid | $ | 2,220 |
| Promissory note, net of discount | | 5,450 |
| Additional deferred payments to selling shareholders made on the one, two and three year anniversary of close | | 963 |
| Contingent consideration | | 619 |
| | $ | 9,252 |

The allocation of the purchase price to KFG's tangible and intangible assets acquired and liabilities assumed was based on their estimated fair values. The valuation of these tangible and identifiable intangible assets and liabilities is preliminary and is subject to further management review and may change materially. The excess of the purchase price over the tangible and identifiable intangible assets acquired and liabilities assumed has been allocated to goodwill.

The following table summarizes the aggregate preliminary estimates of the fair values of identifiable assets acquired and liabilities assumed in the acquisition and the resulting goodwill as of June 30, 2018.

| | | |
|---|---|---|
| Net working capital and tangible assets | $ | 348 |
| Identifiable intangible assets (a) | | 6,735 |
| Goodwill | | 2,169 |
| Total estimated purchase price | $ | 9,252 |

(a) Identifiable intangible assets as of the acquisition date consist of:

| | | | Estimated Useful Life (years) |
|---|---|---|---|
| Relationships with independent contractor financial advisors | | 5,482 | 7.0 |
| Relationships with independent contractor financial advisors | | 922 | 10.0 |
| Non-solicitation agreement | | 331 | 3.0 |
| Total identifiable intangible assets | $ | 6,735 | |

**2. Pro forma adjustments**

The following pro forma adjustments are included in the unaudited pro forma combined condensed statements of operations and the unaudited pro forma combined condensed balance sheet:

(b) To record interest expense on notes and amortization of debt discount entered into in connection with acquisition:

| | | Six months ended June 30, 2018 | | Twelve months ended December 31, 2017 |
|---|---|---|---|---|
| To record interest expense on note | $ | 104 | $ | 215 |

(c) Adjustments to amortization and depreciation of purchased intangible assets and fixed assets:

| | Six months ended June 30, 2018 | Twelve months ended December 31, 2017 |
|---|---|---|
| Amortization of intangible assets | 493 | 986 |
| Depreciation of fixed assets | 25 | 42 |
| **Total** | $ 518 | $ 1,028 |

(e) Adjustments to cash:

| | As of June 30, 2018 |
|---|---|
| To record $2,220 cash paid in acquisition | $ (2,220) |

(g) Adjustments to reflect allocation of purchase price:

| | As of June 30, 2018 |
|---|---|
| Goodwill | $ 2,001 |
| Intangible Assets | 6,735 |
| **Total** | $ 8,736 |

(h) To record note payable, additional payable to shareholders and contingent consideration in connection with acquisition:

| | As of June 30, 2018 |
|---|---|
| To record 4% note, maturity date November 15, 2036, issued to selling shareholder | $ 5,450 |
| Additional deferred payments to selling shareholders made on the one, two and three year anniversary of close | 963 |
| Contingent consideration | 619 |
| **Total** | 7,032 |

(i) Adjustments to shareholder's equity:

| | As of June 30, 2018 |
|---|---|
| To eliminate KFG stockholder's equity | $ (262) |

(j) Adjustments to reflect excluded balances:

| | As of June 30, 2018 |
|---|---|
| Cash | $ (442) |
| Notes receivable from financial advisors, net | (5) |
| Other receivables, net | (34) |
| Fixed assets, net | (10) |
| Other assets | (107) |
| Accrued compensation | (43) |
| Commissions and fees payable | (70) |
| Accounts payable and accrued liabilities | (169) |
| Deferred rent | (401) |
| **Total** | $ (1,281) |