LADENBURG
THALMANN
Established 1876

# Ladenburg Thalmann Financial Services Inc.

## ANNUAL REPORT FOR YEAR ENDED DECEMBER 31, 2016

LADENBURG THALMANN

Established 1876

April 10, 2017

**Dear Fellow Shareholder:**

We are pleased with Ladenburg's 2016 performance in the face of difficult market conditions, as our diversified financial services platform continued to deliver high quality, trustworthy services to meet the varied needs of our clients. With solid performance from our five Independent Brokerage and Advisory Services (IBD) firms that constitute more than 90% of our total revenues, our strategy delivered value for clients and for shareholders.

Over the last year, we continued to grow our IBD business, with Ladenburg's total client assets under administration increasing over 10% from 2015 to $137.4 billion. We had another successful year of recruiting new advisors to our firms, including adding large groups of advisors from Foothill Securities and Wall Street Financial Group to our Securities America subsidiary, giving us an impressive network of approximately 4,000 independent advisors. Our position as a leader in the IBD space is clear in what we believe is one of the fastest growing and most attractive segments of the financial services industry. While we are certainly cognizant of the impact that regulatory and market change will continue to have on Ladenburg and the industry, including the ongoing uncertainty over the Department of Labor's fiduciary rule, we are confident in Ladenburg's future prospects and look forward to executing on our business plans in 2017 and beyond.

To that end, the company acquired 6,132,124 shares of our common stock in open market purchases in 2016 at a cost of approximately $14.7 million, representing an average price per share of $2.41. Ladenburg's directors, senior leadership team and their affiliates are major shareholders in our company, beneficially owning approximately 46.75% of our shares at year-end 2016, and are fully aligned with other investors in building long-term shareholder value.

Following is a review of Ladenburg's business developments and financial highlights for 2016, and additional detail on the company's strategic positioning for future success.

**2016 Overview**

- Revenues were $1.1 billion in fiscal 2016, a decrease of 3.9% from the prior year.
- Advisory fee revenues increased 0.3% year-over-year, while investment banking revenues decreased 28%.
- Shareholders' equity at year-end was $363 million, and we retired approximately $28.4 million of debt during 2016.
- In 2016, we repurchased 6,132,124 shares of our common stock at a cost of approximately $14.7 million, representing an average price per share of $2.41.
- By the end of 2016, we had $137.4 billion in client assets – an increase of over 10% from $124.6 billion at December 31, 2015.
- 2016 recurring revenues, consisting of advisory fees, trailing commissions, cash sweep fees and other fees, represented approximately 77% of the revenues from our IBD business, up from approximately 74% in 2015.

- Our investment banking group participated in 61 underwritten offerings that raised approximately \$5.7 billion, and placed 11 registered direct and PIPE offerings that raised an aggregate of approximately \$276 million, for clients in healthcare, biotechnology, energy and other industries.
- Ladenburg's internal wealth management division, Ladenburg Thalmann Asset Management (LTAM), had approximately \$2.1 billion of assets under management and more than 12,000 client accounts at year-end.

**Ladenburg's Independent Brokerage and Advisory Services (IBD) Business**

In 2016, we enhanced our position as a leader in this rapidly growing sector of the financial services industry. Our Securities America and Triad Advisors subsidiaries achieved impressive success in recruiting new advisors to our firms, including the addition of the two large groups of advisors from Foothill Securities and Wall Street Financial Group at Securities America. Ladenburg has been growing market share in the independent channel since entering this business in 2007, and this trend continued in 2016. Client assets under administration increased over 10% to \$137.4 billion, while our advisors continued to grow the advisory side of their businesses with total advisory assets under management increasing 15% over the prior year to \$57.8 billion.

During the past decade, IBDs have played an increasingly important role in providing independent retail advice, financial planning and investment solutions to the mass affluent segment of "Main Street America". We are immensely proud of the work our approximately 4,000 independent advisors do each and every day for what they do matters greatly to our society and to our country. Millions of Americans put their trust in them and in other independent advisors to help them with among the most important issues a family faces – the educating of their children, care for a disabled or elderly family member, or providing for a financially secure retirement.

We believe our IBD business is focused on just the right spot – the mass affluent investor. Recent industry data show that households with \$100,000 to \$2 million of investible assets represent around 25% of American households, but well over 40% of retail wealth. Many of our advisors generally work with households with less than \$1,000,000 to \$1,500,000 or so in investible assets, and no one services this important part of our society, Main Street America, better than independent financial advisors like ours. The wirehouse and the regional firms may have some passing interest at the higher asset levels but this is not their focus – they live in a world where at the extreme clients with less than \$250,000 in assets are sent to a call center without any further connection to their advisor. It is why what our advisors do in providing independent financial advice to these mass affluent households matters so much. Their need for independent, unbiased financial advice has never been greater, and we believe we are well positioned to capitalize on their needs by providing them with world class advisory and financial planning services and innovative wealth management solutions.

We are committed to our network model of firms and will continue to seek to scale our IBD business through aggressive recruiting and by opportunistically acquiring other independent brokerage firms and complementary businesses. Securities America has developed strong expertise in transitioning large groups of financial advisors as part of a transaction where it acquires certain assets of small broker-dealer firms. Securities America has completed 10 such deals since 2008, including the two in 2016, and has developed detailed processes, led by a cross-departmental team of 25 people, to transition such groups effectively. We anticipate there will continue to be similar opportunities to acquire groups of advisors in this manner as increasing compliance costs disproportionately impact small broker-dealers and the level of services and resources they can provide to their advisors.

The scale we have created over the last several years has resulted in increased revenue and expense synergies but very significant opportunities remain. Under the leadership of Adam Malamed, our Executive Vice President and Chief Operating Officer, working closely with Jim Nagengast, Securities America's CEO, and Pat Farrell, Investacorp's CEO, among others, we have undertaken numerous firmwide growth and operational initiatives and collaborative programs. We will continue to focus on building shared services in areas such as technology, insurance, conference planning, procurement and other administrative functions to drive margin expansion, as well as in areas such as legal and regulatory matters, product due diligence, branding and marketing. In recent months we have announced several key appointments. Various executives at our IBD firms have taken on additional enterprise-wide responsibilities as we seek to provide across our entire platform the full reach of the resources and tools we make available to our advisors, including our wealth management program and retirement and advisory services. We thank Doreen Griffith, Securities America's Chief Information Officer (CIO), who was appointed Senior Vice President and CIO at our parent company at year-end, for her oversight of the process of consolidating Ladenburg's IBD firms onto a unified technology platform.

As our industry continues to evolve and innovate, we believe it is crucial that we provide our financial advisors with access to industry-leading and differentiated tools and services that are keenly focused on the growing demands of their clients. By connecting our trusted advisors with all the resources of our sister firms, we provide them with a competitive edge in the marketplace. This Ladenburg Advantage includes trust services through Premier Trust, expert wealth management advice from Ladenburg Thalmann Asset Management, insurance solutions from Highland Capital, investment banking and capital market products, including a dedicated fixed income trading desk, from Ladenburg Thalmann & Co. Inc., and extensive practice management, growth and succession planning tools. As investor demands continue to evolve, the Ladenburg Advantage will seek strategic opportunities to benefit our affiliated advisors and their clients.

We also recognize that our success in future years will rely largely on the energy and dedication of our approximately 1,300 employees and 4,000 financial advisors, and remain committed to investing in their future while managing costs. Our advisors share our respect for the value of quality advice and innovative products and solutions and constantly strive to find the best solutions available for our clients.

**Ladenburg's Investment Banking and Capital Markets Business**

The broad market volatility that characterized 2015 carried over into 2016, which when combined with the uncertainty around the 2016 presidential election, resulted in a challenging year for our investment banking and capital markets businesses. Together, renewed concerns over global economic growth and the Fed's first rate hike since the Great Recession contributed to a highly volatile market to start the year. Equity capital raising for small and mid-cap public companies experienced significant decline in 2016 as compared to 2015. Business results improved in the fourth quarter, and we remain encouraged by our pipeline for 2017 and continue to believe we are well positioned to capitalize on opportunities once the market rebounds.

We continue to invest in and broaden our capabilities and expertise across key industries such as healthcare, biotechnology, technology, energy and others. In 2016, our investment banking group participated in 61 underwritten offerings that raised approximately $5.7 billion and placed 11 registered direct and PIPE offerings that raised an aggregate of approximately $276 million.

**Financial Details and Stock Repurchase Program**

2016 revenues were $1.1 billion, a 3.9% decrease from revenues of $1.2 billion for 2015. Net loss attributable to the Company for fiscal 2016 was $22.3 million, as compared to net loss attributable to the Company of $11.2 million in fiscal 2015. Net loss available to common shareholders, after payment of preferred dividends, was $52.7 million or ($0.29) per basic and diluted common share in 2016, as compared to net loss available to common shareholders, after payment of preferred dividends, of $39.3 million or ($0.21) per basic and diluted common share in 2015. The 2016 results included approximately $33.6 million of non-cash charges for depreciation, amortization and compensation, $5.5 million of amortization of retention and forgivable loans, $4.3 million of interest expense and $10.0 million of income tax expense. The 2015 results included approximately $35.8 million of non-cash charges for depreciation, amortization and compensation, $9.2 million of amortization of retention and forgivable loans, $5.2 million of interest expense, $0.3 million of loss on extinguishment of debt and $0.5 million of income tax benefit.

The IBD sector continued to drive high recurring revenues, which consist of advisory fees, trailing commissions, cash sweep fees and certain other fees. Recurring revenues represented approximately 77% of revenues from our IBD business in 2016, compared to recurring revenues of approximately 74% for 2015.

Ladenburg repurchased 6,132,124 shares of its common stock in 2016 at a cost of approximately $14.7 million, representing an average price per share of $2.41. Since the inception of our stock repurchase program in March 2007, Ladenburg has repurchased 25,174,554 shares at a total cost of approximately $52.8 million, including purchases of 7,500,000 shares outside its stock repurchase program.

**Accelerating Business Growth for Female Advisors**

In October 2016, we were pleased to host our fifth annual Ladenburg Institute of Women & Finance (LIWF) symposium in Salt Lake City, Utah. LIWF grew out of our commitment to support and invest in the future of female advisors. Our commitment to this mission has resulted in increased recruiting and retention of female advisors across the Ladenburg organization. According to *Financial Planning Magazine*, three of Ladenburg's broker-dealer affiliates are among the industry leaders in percentage of female advisors: Triad Advisors with 30.5% female advisors, Securities America with 29.4% and KMS Financial Services with 27.7%.

Through the LIWF event, we unite top women advisors from Ladenburg's IBD firms with one goal in mind: to develop and accelerate the success of female financial advisors. The symposium covers practice-building strategies and key issues within the financial advisory industry, while providing a supportive and collaborative forum for women to learn, connect and grow. We are proud of the great work by our sponsors, speakers and network of advisors, and the role they have played in making it easier for female advisors to excel and grow their businesses. We congratulate Jaime Desmond, the COO of Ladenburg Thalmann Asset Management, who was named one of the "50 Most Influential Women in Private Wealth" by *Private Asset Management* magazine, for her valuable work since 2012 on our LIWF initiatives and the related LIFT mentoring program, now in its fourth year, which pairs seasoned women advisors from Ladenburg's network with rising women advisors and career changers to offer them guidance and direction throughout the year.

**Thought Leadership and Industry Involvement**

Ladenburg continues to work closely with the Financial Services Institute (FSI), the only organization advocating solely on behalf of independent financial advisors and independent financial services firms. As the 2017 Chairman of the FSI Board, Dick Lampen oversees a group of industry leaders providing insight on industry-wide developments and working to ensure that all individuals have access to competent and affordable financial advice, products and services. Ladenburg looks forward to supporting this expansive network of financial advisors and broker-dealers committed to creating a healthier, more business-friendly regulatory environment for independent financial services firms and their advisors.

Ladenburg continues to be recognized as a top player in the independent brokerage and advisory business, and we believe we are positioned for long-term success and are confident in our ability to generate sustainable shareholder value.

As always, we thank our fellow shareholders and our approximately 5,300 financial advisors and employees, who have all helped us establish Ladenburg as an industry leader and continue to support the firm. We look forward to a strong 2017.

Sincerely,

Phillip Frost

Richard Lampen

Phillip Frost, M.D.
Chairman of the Board

Richard J. Lampen
President & Chief Executive Officer

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# Form 10-K

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

**For the Fiscal Year Ended December 31, 2016**

**Commission File Number 1-15799**

# LADENBURG THALMANN FINANCIAL SERVICES INC.

**(Exact Name Of Registrant As Specified In Its Charter)**

| | |
|---|---|
| **Florida** | **65-0701248** |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification Number) |
| **4400 Biscayne Boulevard, 12th Floor Miami, Florida** | **33137** |
| (Address of principal executive offices) | (Zip Code) |

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|
| Common Stock, par value $.0001 per share | NYSE MKT |
| 8.00% Series A Cumulative Redeemable Preferred Stock, Liquidation Preference $25.00 per share | NYSE MKT |

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark whether the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

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 if disclosure of delinquent filers pursuant to Item 405 Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statement incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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 June 30, 2016 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the registrant's common stock (based on the closing price on the NYSE MKT on that date) held by non-affiliates of the registrant was approximately $234,394,947.

As of March 8, 2017, there were 194,026,224 shares of the registrant's common stock outstanding.

**Documents Incorporated by Reference:**

Part III (Items 10, 11, 12, 13 and 14) of this Annual Report on Form 10-K is incorporated by reference from the definitive Proxy Statement for the 2017 Annual Meeting of Shareholders or in an amendment to this Annual Report on Form 10-K to be filed with the Securities and Exchange Commission no later than 120 days after the end of the Registrant's fiscal year covered by this report.

**LADENBURG THALMANN FINANCIAL SERVICES INC.**

**Form 10-K**

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## PART I

### ITEM 1. *BUSINESS.*

*This business description should be read in conjunction with our audited consolidated financial statements and accompanying notes thereto appearing elsewhere in this annual report, which are incorporated herein by this reference.*

### General

We are a diversified financial services company engaged in independent brokerage and advisory services, investment banking, investment research, institutional sales and trading, asset management services, wholesale life insurance brokerage and trust services through our principal subsidiaries, Securities America, Inc. (collectively with related companies, "Securities America"), Triad Advisors, Inc. ("Triad"), Securities Service Network, Inc. ("SSN"), Investacorp, Inc. (collectively with related companies, "Investacorp"), KMS Financial Services, Inc. ("KMS"), Ladenburg Thalmann & Co. Inc. ("Ladenburg"), Ladenburg Thalmann Asset Management Inc. ("LTAM"), Highland Capital Brokerage, Inc. ("Highland"), and Premier Trust, Inc. ("Premier Trust"). We acquired Highland and KMS in 2014 and we acquired SSN in 2015. We are committed to establishing a significant presence in the financial services industry by meeting the varying investment needs of our clients.

Through our acquisitions of Securities America, Triad, SSN, Investacorp and KMS, we have established a leadership position in the independent broker-dealer industry. During the past decade, this has been one of the fastest growing segments of the financial services industry. With approximately 4,000 financial advisors located in 50 states, we have become one of the largest independent broker-dealer networks. We believe that we have the opportunity through acquisitions, recruiting and internal growth to continue expanding our market share in this segment over the next several years. Since 2007, our plan has been to marry the more stable and recurring revenue and cash flows of the independent broker-dealer business with Ladenburg's traditional investment banking, capital markets, institutional sales and trading and related businesses.

Ladenburg's legacy investment banking business is generally more volatile and subject to the cycles of the equity capital markets than our independent broker-dealer subsidiaries, but historically has enjoyed strong operating margins in periods of good market conditions. Our goal has been to build sufficient scale in our independent brokerage business, with the accompanying more steady cash flows it can produce, so regardless of capital market conditions, we as a firm can generate significant operating cash flow to create value for our shareholders.

The appealing growth profile of the independent brokerage and advisory business has been a key factor in setting our strategic path. The independent channel plays an important role in providing independent retail advice, financial planning and investment solutions to "Main Street" Americans—"mass affluent" households and individuals, which we define as individuals and households with $100,000 to $1,500,000 in investible assets. We believe that this market is underserved by the wirehouse and regional brokerage firms. As of December 31, 2016, our independent brokerage and advisory business served clients with $137 billion in assets under administration through our approximately 4,000 financial advisors.

The independent brokerage and advisory channel has expanded significantly over the past decade, driven in large part by demographic trends, including the graying of America, the retirement of the baby boomer generation and the expected transfer of retirement assets from 401(k) and group plans to individual retirement accounts ("IRAs"). The increasing responsibility of individuals to plan for their own retirement has created demand for the financial advice provided by financial advisors in the independent channel, who are not tied to a particular firm's proprietary products. These developments have been occurring against a backdrop of the steady migration of client assets and advisors from the wirehouse, insurance and bank channels to the independent channel.

We operate each of our independent broker-dealers separately under their own management teams in a network model, which reflects our recognition that each firm has its own unique culture and strengths. We believe this is an important part of the glue that helps bind the advisors to the firm. At the same time, we have taken advantage of the scale we have created across the multiple firms by spreading costs in areas that are not directly visible to the advisors and their clients, such as technology, accounting, insurance, procurement and other back office functions.

While we keep each firm separate, we seek to share intellectual capital and best practices among the firms. For instance, we offer Securities America's industry recognized Next Level practice development tools to our other advisors. Similarly, the advisors in our independent brokerage and advisory services segment have other resources to enhance their practices, including access to Ladenburg's proprietary research, investment banking and capital markets services, fixed income trading and syndicate products, Premier Trust's trust services, Highland's insurance solutions and LTAM's wealth management solutions.

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

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

Highland is a leading independent insurance brokerage firm that delivers life insurance, fixed and equity indexed annuities and long-term care solutions to investment and insurance providers. Highland provides specialized point-of-sale support along with advanced marketing and estate and business planning techniques, delivering customized insurance solutions to both institutional clients and independent producers.

Premier Trust, a Nevada trust company, provides trust administration of personal and retirement accounts, estate and financial planning, wealth management and custody services. We acquired Premier Trust in September 2010 to provide our network of independent financial advisors with access to a broad array of trust services. This, together with our 2014 Highland acquisition, were important strategic steps in our efforts to meaningfully differentiate our independent broker-dealer platform by the breadth of the products and services we offer to our advisors.

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

We were incorporated under the laws of the State of Florida in February 1996.

**Available Information**

Our securities filings, including our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, our proxy statements and reports filed by our officers and directors under Section 16(a) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and any amendments to those filings, are available, free of charge, on our website, *www.ladenburg.com*, as soon as reasonably practicable after we electronically file or furnish such material with the SEC. We do not intend for information contained in our website, or those of our subsidiaries, to be a part of this annual report on Form 10-K. In February 2004, our board of directors adopted a code of ethics that applies to our directors, officers and employees as well as those of our subsidiaries. We will provide to any person, without charge, a copy of our code of ethics. Requests for copies of our code of ethics should be sent in writing to Ladenburg Thalmann Financial Services Inc., 4400 Biscayne Blvd., 12th Floor, Miami, FL 33137, Attn: Secretary. Our code of ethics is also available, free of charge, on our website. Any amendments to or waivers from a provision of this code of ethics will be posted on our website.

**Caution Concerning Forward-Looking Statements and Risk Factors**

This annual report on Form 10-K includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations or beliefs and are subject to uncertainty and changes in circumstances. Actual results may vary materially from the views expressed in the forward-looking statements contained in this report due to changes in economic, business, competitive, strategic and/or regulatory factors, and other factors affecting the operation of our businesses. For more detailed information about these factors, and risk factors about our operations, see Item 1A. "Risk Factors," and Item 7. "Management's Discussion and Analysis of Results of Operations and Financial Condition—Special Note Regarding Forward-Looking Statements" below.

You should note that forward-looking statements in this document speak only as of the date of this annual report on Form 10-K. We expressly disclaim any obligation to update or alter any forward-looking statements, whether as a result of new information, subsequent events or otherwise, except as required by law.

**Business Segments**

We have three operating segments: (i) the independent brokerage and advisory services segment, (ii) the Ladenburg segment and (iii) the insurance brokerage segment. The independent brokerage and advisory services segment includes the broker-dealer and investment advisory services provided by our independent broker-dealer subsidiaries to their independent contractor financial advisors and the wealth management services provided by Premier Trust. The Ladenburg segment includes the investment banking, sales and trading and asset management services and investment activities conducted by Ladenburg and LTAM. The insurance brokerage segment includes the wholesale insurance brokerage activities provided by Highland, which delivers life insurance, fixed and equity indexed annuities and long- term care solutions to investment and insurance providers. See Note 19, "Segment Information," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K for information regarding revenue, income (loss) before income taxes, EBITDA, as adjusted, identifiable assets, depreciation and amortization, interest, capital expenditures, and non-cash compensation for our three operating segments.

**Independent Brokerage and Advisory Services Segment**

**Overview**

Securities America, Triad, SSN, Investacorp and KMS are independent broker-dealers and registered investment advisors, whose independent contractor financial advisors offer securities brokerage and advisory services to their clients, which may include packaged products such as mutual funds, variable and fixed annuities and advisor managed accounts. Revenues generated by our independent brokerage and advisory services segment represented approximately 91%, 90% and 89% of our total revenues for 2016, 2015 and 2014, respectively.

We believe that the financial services industry is experiencing an increase in the percentage of retail client assets held at independent broker-dealers and registered investment advisors as the market share of retail assets declines at large national firms. New independent financial advisors require client and back office support services and access to technology and often affiliate with an independent broker-dealer. We expect this trend to continue and possibly accelerate in the future. Also, financial advisors at banks and credit unions often affiliate with independent broker-dealers. Securities America's Financial Institutions Division delivers a diverse selection of investment and insurance products, detailed, hands-on professional development, and a fully integrated technology platform customized to meet the unique reporting needs of financial advisors located within banks and credit unions.

A financial advisor who becomes affiliated with one of our independent broker-dealers generally establishes his or her own office and is solely responsible for the payment of all expenses associated with the operation of the branch office (including rent, utilities, furniture, equipment, quotation systems, employee wages and benefits and general office supplies). The size of each branch office is typically between 1 and 15 advisors, but may be substantially larger. All of a branch's revenues from securities brokerage transactions and from advisory services conducted through our broker-dealers accrue to our broker-dealers. Because an independent financial advisor bears the responsibility for his or her operating expenses, the financial advisor receives a significant percentage of the commissions or advisory fees he or she generates, typically at least 80%. This compares with a payout rate of approximately 30% to 50% to financial advisors working in a traditional wirehouse brokerage setting where the brokerage firm bears substantially all of the sales force costs, including providing employee benefits, office space, sales assistants, telephone service and supplies. The independent brokerage model permits our independent broker-dealer subsidiaries to expand their revenue base and retail distribution network of investment products and services without either the capital expenditures that would be required to open company-owned offices, or the additional administrative and other costs of hiring financial advisors as in-house employees.

An independent financial advisor must possess a sufficient level of business experience to enable the individual to independently operate his or her own office. Insurance agents, financial planners, accountants and other financial professionals, who already provide financial services to their clients, often affiliate with independent broker-dealers. These professionals then offer financial products and services to their clients through an independent broker-dealer and earn commissions and fees for these transactions and services. These financial advisors have the ability to structure their own practices and to focus in different areas of the investment business, subject to supervisory procedures as well as compliance with all applicable regulatory requirements.

Many independent financial advisors provide financial planning services to their clients, wherein the financial advisor evaluates a client's financial needs and objectives, develops a detailed plan, and then implements the plan with the client's approval. When the implementation of such objectives involves the purchase or sale of securities (including the placement of assets within a managed account) such transactions may be effected through a broker-dealer, for which such broker-dealer earns either a commission or a fee. Representatives may be permitted to conduct other approved businesses unrelated to their brokerage or advisory activities, such as offering fixed insurance products and accounting, estate planning and tax services, among others.

Each financial advisor is required to obtain and maintain in good standing each license required by the SEC and FINRA to conduct the type of securities or advisory business in which he or she engages, and to register in the various states in which he or she has customers. Each of our independent broker-dealers is responsible for supervising all of its financial advisors wherever they are located. We can incur substantial liability from improper actions of any of these financial advisors. See Item 1A. "Risk Factors—Risks Relating to our Business" below.

Many of our independent financial advisors are also authorized agents of insurance companies. Our independent broker-dealers process non-registered insurance business through subsidiaries or sister companies that are licensed insurance brokers, as well as through licensed third-party insurance brokers. We are not an insurance company, and we retain no insurance risk related to insurance or annuity products.

Our independent financial advisors also may provide consultation and financial planning services including: estate planning, retirement and financial goal planning, educational funding, asset allocation and insurance needs analysis, as well as general analysis and planning. These financial advisors may prepare a written financial plan based upon the client's stated goals, needs and investment profile.

**Strategy for our Independent Brokerage and Advisory Services Business**

We focus on increasing our independent broker-dealer networks of financial advisors, revenues and client assets as described below:

- **Provide our advisors with a differentiated independent platform.** We believe we have built a meaningfully differentiated platform by offering our independent financial advisors the unique and valued benefits of access to Ladenburg's wealth management division, capital markets products, investment banking services, proprietary investment research and fixed income trading desk, Highland's insurance solutions and Premier Trust's trust services and planning capabilities.
- **Provide technological solutions to independent financial advisors and home-office employees.** We believe that it is imperative that our independent broker-dealers possess state-of-the-art technology so their employees and independent financial advisors can effectively transact, facilitate, measure and record business activity in a timely, accurate and efficient manner. By continuing our commitment to provide a highly capable technology platform to process business, we believe our independent broker-dealers can achieve economies of scale and potentially reduce the need to hire additional back-office personnel.
- **Assist financial advisors to expand their business.** Our independent broker-dealers are aligned with their financial advisors in seeking to increase their revenues and improve efficiency. Each of our broker-dealers undertakes initiatives to assist their financial advisors with client recruitment, education, compliance and product support. Our practice management programs accelerate our advisors' efforts to grow their businesses by providing customized coaching and consulting services, study groups and conferences, educational workshops, publications and web resources and other productivity tools. Our independent broker-dealers also focus on improving back-office support to allow financial advisors more time to focus on serving their clients, rather than attending to administrative matters.
- **Build recurring revenue.** We have recognized the trend toward increased investment advisory business and are focused on providing fee-based investment advisory services, which may better suit certain clients. While these fee-based accounts generate substantially lower first year revenue than accounts invested in most commission-based products, the recurring nature of these fees provides a platform that generates recurring revenue.
- **Expand our financial advisor base through recruiting and acquisitions.** Each of our independent broker-dealers actively recruits experienced financial professionals. These efforts are supported by advertising, targeted direct mail and outbound telemarketing. Our independent broker-dealers' recruitment efforts are enhanced by their ability to serve a variety of independent advisor models, including independent financial advisors, registered investment advisors and independent registered investment advisors. Securities America has developed strong expertise in transitioning large groups of financial advisors as part of transactions whereby the firm acquires certain assets of small broker-dealer firms. Securities America has completed ten such deals since 2008, including two in 2016, and has developed detailed processes, led by a cross-departmental team of more than 25 people, to transition such groups effectively. We anticipate there will continue to be opportunities to acquire groups of financial advisors through transactions of this type, or otherwise, as increasing compliance costs disproportionately impact smaller broker-dealers and the level of services and resources they can provide to their advisors.
- **Acquire independent brokerage firms and complementary businesses.** We also may pursue the acquisition of other independent brokerage firms and other complementary businesses. Our ability to realize growth through acquisitions depends, among other things, on the availability of suitable candidates and our ability to successfully negotiate favorable terms. There can be no assurance that we will be able to consummate any such acquisitions. Further, the costs associated with the integration of new businesses and personnel may be greater than anticipated.

### Brokerage Business

Each of our independent broker-dealers provides full support services to its financial advisors, including: access to stock, bond and options execution; products such as insurance, mutual funds, unit trusts and investment advisory programs; and research, compliance, supervision, accounting and related services.

While an increasing number of clients are electing asset-based advisory fee platforms rather than the traditional commission schedule, our independent broker-dealers primarily derive their revenue from commissions charged on variable annuity, mutual fund, equity and fixed income transactions.

### Asset Management Business

Our independent broker-dealers offer various accounts, some of which are managed by our financial advisors, and others that are managed by third parties. The advisor managed accounts offer various account structures, including fee-based and "wrap fee" accounts. For financial advisors who prefer not to act as portfolio managers, third party management options are available. These options employ managers who select diversified, fee-based asset management investment portfolios based on a client's needs and risk profile. The types of portfolios may include separately managed portfolios, multi-managed accounts, and mutual fund and exchange-traded fund ("ETF") model portfolios. These portfolios may also include portfolio analytics, performance reporting and position-specific reporting.

### Premier Trust

Founded in 2001, Premier Trust is a Nevada-chartered trust company headquartered in Las Vegas, Nevada, with more than $1.0 billion in assets under administration at December 31, 2016. Premier Trust provides trust administration of personal and retirement accounts, estate and financial planning, wealth management and custody services. Working in combination with a client's legal and other professional advisors, Premier Trust's professionals assist with every aspect of planning, including income and estate taxes, retirement, succession of the family business, transferring assets to future generations and asset protection.

## Ladenburg Segment

Ladenburg is a full-service broker-dealer that provides investment banking, sales and trading and investment research to its corporate and institutional clients and high net-worth individuals.

### Investment Banking Activities

Ladenburg's investment banking professionals provide corporate finance and strategic and financial advisory services to public and private companies, primarily those companies with market capitalizations below $500 million, which we refer to as middle-market companies.

Ladenburg provides these middle-market companies with capital raising and strategic advisory services throughout their growth cycles. Ladenburg offers its clients a high level of attention from senior personnel and has designed its organizational structure so that the investment bankers who are responsible for securing and maintaining client relationships also actively participate in providing all related transaction execution services to those clients. Ladenburg's 14 investment banking professionals serve clients nationwide and worldwide.

*Corporate Finance*

Ladenburg's corporate finance group provides capital origination services and merger and acquisition advice primarily to middle-market companies. Ladenburg's investment bankers develop financing strategies, transaction structures and financing instruments for its corporate clients. Ladenburg offers a broad range of financing options including underwritten public offerings, registered direct offerings, at-the-market offerings, PIPEs (private investment in public equity) and other private placements. Ladenburg's ability to effectively structure offerings and to identify likely buyers of such offerings makes it a valuable advisor to small and middle-market companies. Although the capital markets are not consistently favorable, we expect that Ladenburg will participate in follow-on offerings, registered direct offerings, PIPEs and other private placements to generate corporate finance revenues. We believe there is a significant opportunity for continued growth in the registered direct and PIPEs areas given issuers' desire to identify and pursue faster and less costly financing alternatives to traditional follow-on offerings and institutional investors' continuing interest in these financing transactions. Further, we believe the establishment of relationships with issuers through our capital raising efforts will lead to additional investment banking services, including further capital raising, and other advisory services. In 2016, we participated in 61 underwritten offerings that raised an aggregate of approximately $5.7 billion. In 2016, Ladenburg placed 11 registered direct and PIPE offerings, which raised an aggregate of approximately $276 million for clients in the health-care, biotechnology, energy and other industries.

Ladenburg seeks to capitalize on its distribution network by focusing on yield-oriented equities, which have been attractive to both institutional and retail investors. The yield-oriented equity business has developed in recent years in response to the low interest rate environment.

Our yield-oriented equity bankers focus primarily on three specific areas: mortgage and equity real estate investment trusts (REITs), business development companies (BDCs) and master limited partnerships (MLPs). Ladenburg has become a leader in syndicating these products to institutional investors as well as other retail and independent firms. Since 2014, Ladenburg has participated as a manager in 131 offerings of these products, which raised over $16.5 billion.

Similarly, Ladenburg also has dedicated investment bankers focused on health-care and biotechnology companies, as well as the energy, utilities and technology sectors. From 2014 through 2016, Ladenburg participated as a manager in 83 offerings, which raised over $4.6 billion in the health-care and biotechnology sectors.

*Strategic and Financial Advisory Services*

Ladenburg advises clients on a wide range of strategic and financial issues. When Ladenburg advises a company in the potential acquisition of another company, business or assets, its services include evaluating potential acquisition targets, providing valuation analyses, evaluating and proposing financial and strategic alternatives and rendering, if appropriate, fairness opinions. Ladenburg also may provide advice regarding the timing, structure, financing and pricing of a proposed acquisition and may assist in negotiating and closing the acquisition. Ladenburg's buy-side and sell-side mandates often require the firm to leverage its extensive relationships and capital markets expertise. These mandates generally have a limited duration so Ladenburg seeks to develop new engagements from existing and prior clients, as well as their legal and other advisors.

Ladenburg has extensive expertise in providing fairness opinions that often are necessary or requested in a variety of situations, including mergers, acquisitions, restructurings, financings and privatizations. Ladenburg provides fairness opinions and analyses to boards of directors, independent committees of boards of directors and shareholders. The firm also provides independent, third-party advice in connection with mergers, acquisitions, leveraged buyouts and restructurings, going-private transactions and certain other market activities.

**Sales and Trading**

Ladenburg's private client services and institutional sales departments charge commissions to their individual and institutional clients for executing securities trading orders.

Ladenburg's sales and trading operation distributes our investment research product and communicates our proprietary investment recommendations to our growing base of institutional investors. Also, our sales and trading staff executes equity trades on behalf of our clients and sells the securities of companies for which we act as an underwriter.

Ladenburg's fixed income trading desk, Ladenburg Fixed Income (LFIX), works with advisors at our broker-dealer subsidiaries to develop fixed income solutions for clients based on individualized client needs. We believe LFIX strengthens the value proposition of our broker-dealer platform and is a natural complement to Ladenburg's efforts in yield-oriented equities because many of the same companies to which Ladenburg provides investment banking services are also potential fixed income issuers.

We have established a broad institutional client base through a consistent focus on the investment and trading objectives of our clients. Our sales and trading professionals work closely with our investment research staff to provide insight and differentiated investment advice to institutional clients nationwide.

We believe that our investment research features proprietary themes and actionable ideas about industries and companies that are not widely evaluated by many other investment banks that do not have our middle-market emphasis. In recent years, many investment banks have reduced investment research coverage and market making activities for companies with market capitalizations below certain thresholds. However, we continue to commit research and sales and trading resources to smaller-capitalization companies with the belief that institutional investors will value such specialized knowledge and service.

Our sales and trading personnel are also central to our ability to market equity offerings and provide after-market support. Our equity capital markets group manages the syndication, marketing, execution and distribution of equity offerings. Our syndicate activities include managing the marketing and order-taking process for underwritten transactions and conducting after-market stabilization and initial market making. Our syndicate staff is also responsible for developing and maintaining relationships with the syndicate departments of other investment banks.

**Research Services**

We believe that Ladenburg's research department takes a fresh, critical approach to analyzing primary sources and developing proprietary research. Many individuals, institutions, portfolio managers and hedge fund managers, on all levels, have been neglected by brokerage firms that ignore the demand for unbiased research for small and mid-cap companies. Ladenburg provides a branded in-depth research product. Ladenburg's research department focuses on investigating investment opportunities by utilizing fundamental, technical and quantitative methods to conduct in-depth analysis. Currently, our research department provides research coverage on approximately 180 companies and closed-end funds, specializing in small- to mid-cap companies in the power and electric utilities, energy exploration and production, biotechnology, personalized medicine, medical devices, specialty pharmaceutical, healthcare services, medical technology and internet and software services industries; MLPs, BDCs and mortgage and equity REITs; and other companies on a special situations basis. Ladenburg's research coverage may expand to additional sectors in the future. Ladenburg provides its research on a fee basis to certain institutional accounts and makes it available to the financial advisors at all of our broker-dealer subsidiaries.

Our research department:

- reviews and analyzes general market conditions and industry groups;
- issues written reports on companies;
- furnishes information to retail and institutional customers; and
- responds to inquiries from customers and account executives.

### Ladenburg Thalmann Asset Management

LTAM is a registered investment advisor offering various asset management products utilized by Ladenburg clients, as well as clients of our independent broker-dealers' financial advisors. LTAM serves as our internal wealth management group and plays an important role in supporting the growth of the advisory businesses at our independent firms. At December 31, 2016, LTAM had approximately $2.1 billion of assets under management and more than 12,000 client accounts.

*Ladenburg Asset Management Program*

The Ladenburg Asset Management Program ("LAMP") provides centralized management of mutual fund and exchange-traded fund portfolios based on asset allocation models. Features of the program include active rebalancing at the asset class and security level, low minimum account size, risk analysis, customized investment policy statements and comprehensive performance reporting.

*Investment Consulting Services*

LTAM's Investment Consulting Services ("ICS") provides clients with access to professional money managers who are usually available only to large institutions. Whether the client requires a complete asset allocation strategy or an investment manager for a single asset class, ICS provides access to money managers across the spectrum of major asset classes, and each of our managers has been thoroughly examined for inclusion in the ICS program. Once a manager has been added to the platform, it is regularly reviewed in order to ensure that it represents a suitable solution. Through ICS, LTAM services high net worth clients and institutions, such as universities, foundations and hospitals.

*Fund Management*

<u>Alternative Strategies Fund</u>

LTAM has created a closed-end interval fund, the Alternative Strategies Fund, which includes alternative investment products and allows clients to access these investments with low minimums and without having to be accredited investors. LTAM's mutual fund is comprised of a portfolio of alternative investments in more than ten asset classes, including, among others, REITs, MLPs, and BDCs.

<u>Ladenburg Funds</u>

LTAM is the investment adviser to five funds collectively called the Ladenburg Funds. The five Ladenburg Funds are the Ladenburg Income Fund, the Ladenburg Income & Growth Fund, the Ladenburg Growth & Income Fund, the Ladenburg Growth Fund, and the Ladenburg Aggressive Growth Fund. Each of the Ladenburg Funds is an open end fund of funds that primarily invests in a combination of equity, fixed income and alternative strategy exchange-traded funds ("ETFs"), exchange-traded notes ("ETNs") and mutual funds. The Ladenburg Funds employ the same investment strategies and features as the ones LTAM employs in managing separate client accounts in LAMP.

*Private Investment Management*

The Private Investment Management program allows internal managers to provide portfolio services to clients on a discretionary basis with specific styles of investing for an annual asset-based fee.

*Retirement Plan Sponsor Services*

LTAM provides investment consulting services to sponsors of retirement plans, such as 401(k) plans. These services include: identifying mutual funds and ETF's for the plan sponsor's review and final selection based on the selection criteria stated in the plan's investment policy statement; assisting in the planning of, and participating in, enrollment and communication meetings; and providing to the plan sponsor quarterly performance reports of the funds for the purpose of meeting the plan fiduciary's obligation to monitor plan assets. Certain plan participants also may engage LTAM to manage their plan assets on a discretionary basis.

*Alternative Investments*

LTAM provides high net worth clients and institutional investors the opportunity to invest in proprietary and third party alternative investments. These include, but are not limited to, hedge funds, funds of funds, private equity, venture capital and real estate.

*Ladenburg Architect Program*

LTAM provides its customers with the Ladenburg Architect Program as a non-discretionary, fee-based, advisory account that allows customers to maintain control over the management of the account and select from a diverse group of securities.

*Third-Party Advisory Services*

Together with its affiliates, LTAM may also provide advisory services, ranging from proprietary investment solutions to access to professional money managers for the clients of the registered investment advisors of our broker-dealer subsidiaries.

**Investment Activities**

Ladenburg may, from time to time, seek to realize investment gains by purchasing, selling and holding securities for its own account, including through LFIX. Ladenburg may also from time to time engage for its own account in the arbitrage of securities. We are required to commit the capital necessary for use in these investment activities. The amount of capital committed at any particular time will vary according to market, economic and financial factors, including the other aspects of our business. Also, Ladenburg regularly receives shares or warrants that entitle it to purchase securities of the corporate issuers for which it raises capital or provides advisory services.

**Administration, Operations, Securities Transactions Processing and Customer Accounts**

Our broker-dealer subsidiaries do not hold funds or securities for their customers. Instead, each of Ladenburg, Triad and Investacorp use the services of National Financial Services LLC ("NFS"), a Fidelity Investments® company, as its clearing agent on a fully disclosed basis. Each of Securities America and SSN use the services of NFS and Pershing LLC ("Pershing"), a subsidiary of the Bank of New York Mellon Corporation, as its clearing agent on a fully disclosed basis. KMS uses the services of Pershing as its clearing agent on a fully disclosed basis. The clearing agents process all securities transactions and maintain customer accounts on a fee basis. SIPC coverage protects client accounts up to $500,000 per customer, including up to $250,000 for cash. Each of NFS and Pershing also maintains excess securities bonds, "Excess SIPC," providing additional protection. Clearing agent services include billing, credit control, and receipt, custody and delivery of securities. The clearing agent provides operational support necessary to process, record and maintain securities transactions for the brokerage activities of our broker-dealer subsidiaries. The clearing agent also lends funds to customers of our broker-dealer subsidiaries through the use of margin credit. These loans are made to customers on a secured basis, with the clearing agent maintaining collateral in the form of saleable securities, cash or cash equivalents. We have agreed to indemnify each clearing agent for losses it may incur on these credit arrangements.

### Insurance Brokerage Segment

Highland operates through a brokerage general agency model that provides brokers, typically either independent life insurance advisors or institutions, support as needed. The independent life insurance advisors or institutions then distribute life insurance products and services directly to individual clients. Highland provides its partners with access to major insurance carriers, advanced planning support, expertise in risk underwriting, back office processing and point of sale support, if needed. Highland generally receives allowances paid by the insurance carrier for facilitating the placement of the product. The amount of the allowance is a percentage of the product premium. Revenue tends to be concentrated in the year that the policy is originated. Historically, revenue in the wholesale life brokerage business is weighted towards the fourth quarter as clients finalize tax-planning decisions at year end.

### Seasonality and Cyclical Factors

Seasonality generally does not impact our results. Our revenues may be adversely affected by cyclical factors, such as financial market downturns and low interest rates, as well as downturns or recessions in the United States or global economies. These downturns may cause investor concern, which results in fewer investment banking transactions, lower asset values and less investing by institutional and retail investors, thereby reducing our revenues and potential profits. Such conditions might also expose us to the risk of being unable to raise additional capital to offset related significant reductions in revenues.

### Competition

We encounter intense competition in all aspects of our business and compete directly with many other providers of financial services for clients as well as financial advisors. We compete directly with many national and regional full service financial services firms, other independent broker-dealers, investment advisors, discount brokers, broker-dealer subsidiaries of major commercial bank holding companies, insurance companies and other companies offering financial services in the United States, globally, and through the Internet. Many of our competitors have significantly greater financial, technical, marketing and other resources than we do. Also, many firms offer discount brokerage services and generally effect transactions at substantially lower commission rates on an “execution only” basis, without offering other services such as financial planning, investment recommendations and research. Moreover, there is substantial commission discounting by full-service broker-dealers competing for institutional and retail brokerage business.

A growing number of brokerage firms offer online trading and web-based financial services, usually with lower levels of service, which has further intensified the competition for retail brokerage customers. Our broker-dealer subsidiaries currently do not offer any online trading services to their customers, although they offer online account access so their customers can review their account balances and activity. Our broker-dealer subsidiaries also provide access to a proprietary online wealth management tool.

Competition also is increasing from other financial institutions, notably banking institutions, insurance companies and other organizations, which offer customers some of the same services and products presently provided by securities firms. We seek to compete through the quality of our financial advisors and investment bankers, our level of service, the products and services we offer and our expertise in certain areas.

There is significant competition for qualified personnel in the financial services industry. Our ability to compete effectively depends on attracting, retaining and motivating qualified financial advisors, investment bankers, trading professionals, portfolio managers and other revenue-producing or specialized personnel.

### Government Regulation

The securities industry, including our business, is subject to extensive regulation by the SEC, state securities regulators and other governmental regulatory authorities. We are also regulated by industry self-regulatory organizations, including FINRA and the MSRB. The principal purpose of these regulations is the protection of customers and the securities markets. The SEC is the federal agency charged with the administration of the federal securities laws. Much of the regulation of broker-dealers, however, has been delegated to self-regulatory organizations, principally FINRA. These self-regulatory organizations adopt rules, subject to approval by the SEC, which govern their members and conduct periodic examinations of member firms' operations.

Securities firms are also subject to regulation by state securities commissions in the states in which they are registered. Each of Securities America, Triad, SSN, Investacorp, KMS and Ladenburg is a registered broker-dealer with the SEC. Each such firm is licensed to conduct activities as a broker-dealer in all 50 states. Ladenburg is a member firm of the NYSE.

The regulations to which broker-dealers are subject cover many aspects of the securities industry, including:

- sales methods and supervision;
- trading practices among broker-dealers;
- use and safekeeping of customers' funds and securities;
- capital structure of securities firms;
- record keeping;
- conduct of directors, officers and employees; and
- advertising, including regulations related to telephone solicitation.

As registered investment advisors under the Investment Advisers Act of 1940, as amended (the "Advisers Act"), our investment advisory subsidiaries are subject to the regulations under both the Advisers Act and certain state securities laws and regulations. Such requirements relate to, among other things:

- limitations on the ability of investment advisors to charge clients performance-based or non-refundable fees;
- record-keeping and reporting requirements;
- disclosure requirements;
- limitations on principal transactions between an advisor or its affiliates and advisory clients; and
- general anti-fraud prohibitions.

Additionally, our investment advisory subsidiaries are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), administered by the Employee Benefits Security Administration ("EBSA") of the U.S. Department of Labor ("DOL"), for accounts that are ERISA-covered pension plans. These plans include defined benefit pension plans and individual account plans, such as 401(k) plans. ERISA imposes certain duties on persons who are fiduciaries (as defined in Section 3(21) of ERISA) and prohibits certain transactions involving ERISA plans and fiduciaries or other service providers to such plans. Failure to comply with the ERISA requirements could result in significant monetary penalties and could severely limit the ability of our investment advisory subsidiaries to act as fiduciaries.

In April 2016, the DOL issued regulations (the "DOL Rule") expanding the definition of who is deemed an "investment advice fiduciary" under ERISA, as a result of giving investment advice to a "plan," "plan participant" or "beneficiary," as well as under the Internal Revenue Code for IRAs and non-ERISA plans (collectively, "qualified plans"). As a result of adopting a new definition of "fiduciary" under ERISA, the DOL Rule extends fiduciary status to many investment professionals that have not been considered fiduciaries previously and to many activities, including IRA rollovers. A fiduciary is subject to strict duties to act solely in the interests of plan participants and beneficiaries and is personally liable to the ERISA plan for breaches in its discharge of its duties. The DOL Rule also contains exemptions, including the Best Interest Contract exemption (the "BIC Exemption") and the Principal Transactions in Certain Assets exemption (the "Principal Transactions Exemption"), allowing investment professionals that will become fiduciaries to operate under business models that would otherwise be prohibited, subject to compliance with new conditions. To rely on these exemptions, our broker-dealer subsidiaries will be required to: (i) act under defined impartial conduct standards that are in the best interest of our client; (ii) adopt certain anti-conflict policies and procedures; (iii) provide disclosure of certain information relating to fees, compensation and defined "material conflicts of interest;" (iv) provide a written acknowledgment of fiduciary status; and (v) for IRAs and non-ERISA plans, enter into an enforceable contract with our client that contains extensive warranties and does not allow exculpatory provisions waiving the client's rights and remedies, including the right to participate in a class action in court.

The DOL Rule became effective as of June 7, 2016, with phase-in of the fiduciary definition not applicable until April 10, 2017, and with phase-in of the BIC Exemption and Principal Transactions Exemption not applicable until January 1, 2018. On March 2, 2017, the DOL published a proposed rule to delay implementation of the DOL Rule for a period of 60 days. The DOL Rule could be further delayed or revised. However, until there is some definitive action impacting the DOL Rule, we intend to continue to pursue necessary changes. Political changes may impact the degree and timing of the effect of the DOL Rule on our business in ways which cannot now be anticipated and may further impact the products and services offered by our financial advisors.

Qualified accounts, particularly IRA accounts, comprise a significant portion of our business. Accordingly, if the DOL Rule is not delayed or amended, we expect that compliance with the DOL Rule and reliance on the BIC Exemption and the Principal Transactions Exemption would negatively impact our results of operations, including the impact of increased legal, compliance, information technology and other costs. Also, we expect to face enhanced legal risks in connection with compliance with the DOL Rule.

Additional legislation, changes in rules promulgated by the SEC and by self-regulatory bodies and changes in the interpretation or enforcement of existing laws and rules often directly affect the method of operation and profitability of broker-dealers. The SEC and the self-regulatory bodies may conduct administrative proceedings which can result in censure, fine, suspension or expulsion of a broker-dealer, its officers, employees or financial advisors. As a result of the 2010 Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"), our financial advisors may in the future become subject to a fiduciary standard of conduct in connection with their broker-dealer activities that is no less stringent than what is currently applied to investment advisers under the Advisers Act. We continue to see enhanced legislative and regulatory interest regarding retirement investing and financial advisors, including proposed rules, regulatory priorities or general discussion around transparency and disclosure in advisor compensation and recruiting, identifying and managing conflicts of interest and enhanced data collection.

Premier Trust is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division.

Highland is subject to regulation by various regulatory bodies, including state attorneys general and insurance departments.

The USA PATRIOT Act of 2001 (the "PATRIOT Act") contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers and other financial services companies. Financial institutions subject to the PATRIOT Act generally must have anti-money laundering procedures in place, implement specialized employee training programs, designate an anti-money laundering compliance officer and be subject to periodic audits by an independent party to test the effectiveness of such compliance. We have established policies, procedures and systems designed to comply with these regulations.

Regulation regarding privacy and data protection continues to increase worldwide and is generally being driven by the growth of technology and related concerns about the rapid and widespread dissemination and use of information. To the extent applicable to us, we must comply with these global, federal, and state information-related laws and regulations, including, for example, those in the United States, such as the 1999 Gramm-Leach-Bliley Act, SEC Regulation S-P and the Fair Credit Reporting Act of 1970, as amended.

**Net Capital Requirements**

Approximately 27% of our total assets at December 31, 2016 consisted of cash and cash equivalents, securities owned and receivables from clearing brokers and other broker-dealers, all of which fluctuate depending upon the levels of customer business and trading activity. Receivables from broker-dealers, which are primarily from clearing brokers, turn over rapidly. A relatively small percentage of our total assets are fixed. 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.

Our registered broker-dealer subsidiaries are subject to the SEC's Uniform Net Capital Rule 15c3-1, which we refer to as the Net Capital Rule. The Net Capital Rule requires that broker-dealers maintain minimum net capital and is designed to measure the general financial integrity and liquidity of a broker-dealer. Net capital is defined as the net worth of a broker-dealer, subject to certain adjustments, and may be calculated in one of two ways. In computing net capital, various adjustments are made to net worth which exclude assets not readily convertible into cash. Also, the regulations require that certain assets, such as a broker-dealer's position in securities, be valued in a conservative manner to avoid inflation of the broker-dealer's net capital.

Each of Securities America, Triad, Investacorp, KMS and Ladenburg has elected to compute its net capital under the alternative method allowed by the Net Capital Rule and at December 31, 2016, each had a $250,000 minimum net capital requirement. At December 31, 2016, Securities America had regulatory net capital of $5,192,000, Triad had regulatory net capital of $11,262,000, Investacorp had regulatory net capital of $7,293,000, KMS had regulatory net capital of $5,517,000 and Ladenburg had regulatory net capital of $22,523,000. See Note 5, "Net Capital Requirements," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K for a discussion of a net capital deficiency at Triad.

SSN has elected to compute its net capital under the basic method allowed by the Net Capital Rule and at December 31, 2016, it had net capital of $7,739,000, which was $6,918,000 in excess of its required net capital of $821,000, and had a net capital ratio of 1.59 to 1.

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

Also, funds invested as equity capital may not be withdrawn, nor may any unsecured advances or loans be made to any stockholder of a registered broker-dealer, if, after giving effect to the withdrawal, advance or loan and to any other withdrawal, advance or loan as well as to any scheduled payments of subordinated debt that are scheduled to occur within six months, the net capital of the broker-dealer would fall below 120% of the minimum dollar amount of net capital required or the ratio of aggregate indebtedness to net capital would exceed 10 to 1.

Further, any funds invested in the form of subordinated debt generally must be invested for a minimum term of one year and repayment of such debt may be suspended if the broker-dealer fails to maintain certain minimum net capital levels. For example, scheduled payments of subordinated debt are suspended in the event that the ratio of aggregate indebtedness to net capital of the broker-dealer would exceed 12 to 1 or its net capital would be less than 120% of the minimum dollar amount of net capital required. The net capital rule also prohibits payments of dividends, redemption of stock and the prepayment, or payment in respect of principal or subordinated indebtedness if net capital, after giving effect to the payment, redemption or repayment, would be less than the specified percentage (120%) of the minimum net capital requirement.

Premier Trust, chartered by the state of Nevada, is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division. Under Nevada law, Premier Trust must maintain minimum stockholder's equity of at least $1,000,000, including at least $250,000 in cash. At December 31, 2016, Premier Trust had stockholder's equity of approximately $1,766,000, including at least $250,000 in cash.

Failure to maintain the required net capital may subject a firm to fines, suspension or expulsion by FINRA, the SEC and other regulatory bodies and ultimately may require its liquidation. During the fourth quarter of 2009 and the first quarter of 2016, Triad had a short-term net-capital deficiency. In March 2014, Triad entered into a settlement with FINRA regarding the 2009 deficiency under which Triad agreed to a fine and censure. 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 could limit our ability to pay dividends and repay debt.

In the past, Ladenburg has entered into, and from time to time in the future may enter into, temporary subordinated loan arrangements to borrow funds on a short-term basis from our shareholders or clearing brokers to supplement the capital of our broker-dealers to allow them to facilitate underwriting transactions.

### Financial Information about Geographic Areas

We are domiciled in the United States and substantially all of our revenue is attributed to activities in the United States. All of our long-lived assets are located in the United States.

### Personnel

At December 31, 2016, we had 1,299 full-time employees. No employees are covered by a collective bargaining agreement. We consider our relationship with our employees to be good.

## ITEM 1A. *RISK FACTORS.*

You should carefully consider all of the risks described below regarding our company. Our business, financial condition or results of operations could be materially adversely affected by any of these risks. Additional risks and uncertainties not currently known to us or that we currently deem immaterial also may materially and adversely affect our business operations.

### Risk Factors Relating to Our Business

***Damage to our reputation could adversely impact our business.***

Maintaining our reputation is critical to our ability to attract and retain financial advisors, clients and employees, and our failure, or perceived failure, to appropriately operate our business or deal with matters that give rise to reputational risk may materially and adversely harm our business, prospects and results of operations. Those matters giving rise to reputational risk include the risks discussed in this Item 1A, as well as appropriately dealing with legal and regulatory requirements, anti money-laundering practices, privacy, record keeping, and sales and trading practices, as well as our proper identification of the legal, reputational, credit, liquidity, and market risks inherent in financial products. Also, our inability to sell securities that we have underwritten on expected terms, including anticipated prices, could result in reputational damage that results in our loss of investment banking business, which would adversely impact our Ladenburg segment. Our failure to deliver appropriate standards of service and quality, or our failure or perceived failure to treat clients fairly, could result in customer dissatisfaction, litigation and heightened regulatory scrutiny, all of which can lead to lost revenue, higher operating costs and harm to our reputation. Further, negative publicity regarding us or our financial advisors, whether or not true, may be detrimental to our business.

***Changing conditions in financial markets and the economy could adversely affect our financial condition and results of operations.***

Our financial results have been adversely affected by turmoil in the financial markets in the past and may again be impacted in the future. As a financial services firm, changes in the financial markets or economic conditions in the United States and elsewhere in the world could materially adversely affect our business in many ways, including the following:

- a market downturn could lead to a decline in the volume of transactions executed for customers and, therefore, to a decline in the revenues we receive from commissions and spreads;
- low interest rates adversely impact interest sharing revenues received from our clearing firms and other cash sweep programs;
- adverse changes in the market could lead to a reduction in revenues from asset management fees. Even in the absence of a market downturn, below-market investment performance by portfolio managers could reduce asset management revenues and assets under management and result in reputational damage that might make it more difficult to attract new investors;
- unfavorable financial or economic conditions could reduce the number and size of transactions in which we provide underwriting, financial advisory and other services. Our investment banking revenues, in the form of financial advisory and underwriting or placement fees, are directly related to the number and size of the transactions in which we participate and therefore could be adversely affected by unfavorable financial or economic conditions;
- increases in credit spreads, as well as limitations on the availability of credit, can affect our ability to borrow on a secured or unsecured basis, which may adversely affect our liquidity and results of operations;
- adverse changes in the market could lead to losses from principal transactions. To the extent that we own assets, i.e., have long positions, a downturn in the market could result in losses from a decline in the value of those long positions. Conversely, to the extent that we have sold assets that we do not own, i.e., have short positions, an upturn in the market could expose us to potentially unlimited losses as we attempt to cover our short positions by acquiring assets in a rising market; and
- new or increased taxes on compensation payments such as bonuses or securities transactions may adversely affect our financial results.

***We have incurred, and may again incur, significant losses.***

We incurred significant losses in 2016, 2015 and in various prior years. We cannot assure you that we will achieve profitability or have positive cash flow on either a quarterly or annual basis. If we are unable to achieve and sustain our profitability, it would have a material adverse effect on our business and results of operations.

***We have a significant amount of debt and preferred stock outstanding, which limits cash flow available for operations and may impair our ability to obtain additional financing.***

As of December 31, 2016, our total debt was approximately $26 million and we had 15,844,916 shares of Series A Preferred Stock outstanding. Our substantial amount of indebtedness and preferred stock outstanding:

- requires us to dedicate a substantial portion of cash flows from operations to the payment of debt service and dividends, resulting in less cash available for operations and other purposes; and
- limits our ability to obtain additional financing for working capital, regulatory capital requirements, acquisitions or general corporate purposes.

Our substantial indebtedness also increases our vulnerability to downturns in our business or in general economic conditions. Our ability to satisfy our obligations and to reduce our total debt depends on our future operating performance. Also, there can be no assurance that we will satisfy the requirements for forgiveness of our forgivable loans from our principal clearing firm. Our future operating performance is subject to many factors, including economic, financial and competitive factors, which may be beyond our control.

As a result, we may not be able to generate sufficient cash flow, and future sales of equity or debt securities in public or private transactions may not be available to provide sufficient net proceeds to meet these obligations, which would have a material adverse effect on our business, profitability and results of operations.

***We are a holding company and rely on dividends, distributions and other payments, advances and transfers of funds from our subsidiaries to meet our debt service and other obligations.***

We have no direct operations and derive all of our cash flow from our subsidiaries. Because we conduct our operations through our subsidiaries, we depend on those entities for dividends and other payments or distributions to meet any existing or future debt service and other obligations, including payment of dividends on our Series A Preferred Stock.

The deterioration of the earnings from, or other available assets of, our subsidiaries for any reason could limit or impair their ability to pay dividends or other distributions to us. Also, FINRA regulations restrict dividends in excess of 10% of a member firm's excess net capital without FINRA's prior approval. Compliance with this regulation may impede our ability to receive dividends from our broker-dealer subsidiaries.

***We face significant competition for financial advisors and professional employees.***

From time to time, financial advisors and individuals we employ choose to leave our company to pursue other opportunities. We have experienced losses of financial advisors and trading and investment banking professionals in the past, and competition for key personnel remains intense. We cannot assure you that the loss of financial advisors and key personnel will not occur in the future. We expend significant resources in recruiting, training and retaining our financial advisors. The loss of a key financial advisor, trading or investment banking professional, or broker-dealer executive, particularly a senior banking professional or executive with significant industry contacts, or the failure to recruit productive financial advisors could materially and adversely affect our results of operations. Also, difficultly in recruiting young advisors, due to the low number of persons entering our industry, combined with the high average age of our existing financial advisors, may adversely impact our ability to retain client assets and our financial results.

***Misconduct by our employees and independent financial advisors, who operate in a decentralized environment, is difficult to detect and deter and could harm our business, reputation, results of operations or financial condition.***

Misconduct by our employees and independent financial advisors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm.

Misconduct could include:

- recommending transactions that are not suitable for the client or in the client's best interests;
- engaging in fraudulent or otherwise improper activity;
- binding us to transactions that exceed authorized limits;
- hiding unauthorized or unsuccessful activities, resulting in unknown and unmanaged risks or losses;
- improperly using or disclosing confidential information;
- engaging in unauthorized or excessive trading to the detriment of customers;
- failure, whether negligent or intentional, to effect securities transactions on behalf of clients;

- failure to perform reasonable diligence on a security, product or strategy;
- failure to supervise a financial advisor;
- failure to provide insurance carriers with complete and accurate information;
- engaging in unauthorized or excessive trading to the detriment of clients;
- engaging in improper transactions with clients; or
- otherwise not complying with laws or our control procedures.

We cannot always deter misconduct by our employees and independent financial advisors, and the precautions we take to prevent and detect this activity may not be effective in all cases. Also, our failure to properly investigate new and existing financial advisors may subject us to additional risks and liabilities.

Prevention and detection among our independent financial advisors, who are not employees of our company and tend to be located in small, decentralized offices, present additional challenges. Misconduct by our employees and independent financial advisors may have a material adverse effect on our business and results of operations.

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

The policies and procedures we employ to identify, monitor and manage risks may not be fully effective. Some methods of risk management are based on historical behavior. As a result, these methods may not predict future risk exposures, which could be significantly greater than indicated historically. Other risk management methods depend on our management's evaluation of information regarding markets, clients or other matters that are publicly available or otherwise accessible. This information may not be accurate, complete, up-to-date or properly evaluated. Management of operational, legal and regulatory risk requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. We cannot assure you that our policies and procedures will effectively and accurately record and verify this information. Also, we face additional risk management challenges because many of our independent financial advisors work in small, decentralized offices.

We seek to monitor and control our risk exposure through a variety of separate but complementary financial, credit, operational and legal reporting systems. Nonetheless, the effectiveness of our ability to manage risk exposure can never be completely or accurately predicted or fully assured. For example, unexpectedly large or rapid movements or disruptions in one or more markets or other unforeseen developments can have a material adverse effect on our results of operations and financial condition, regardless of our risk management policies and procedures.

***Poor performance of the investment products and services recommended or sold to our clients may have a material adverse effect on our business.***

Our advisors' clients control their assets maintained with us. These clients can terminate their relationships, reduce the aggregate amount of assets under management or shift their funds to other types of accounts with different rate structures for any number of reasons, including investment performance, changes in prevailing interest rates, financial market performance and personal client liquidity needs. Poor performance of the investment products and services recommended or sold to such clients relative to the performance of other products available in the market or the performance of other investment management firms tends to result in the loss of accounts. The decrease in revenue that could result from such an event could have a material adverse effect on our results of operations.

***We depend on our senior employees and the loss of their services could harm our business.***

Our success is dependent in large part upon the services of our senior executives and employees, including the management of our broker-dealer subsidiaries. We generally do not maintain, and do not intend to obtain, key man insurance on the life of any executive or employee. If our senior executives or employees terminate their employment with us and we are unable to find suitable replacements in relatively short periods of time, our business and results of operations may be materially and adversely affected.

***Systems failures could significantly disrupt our business and subject us to losses, litigation and regulatory actions.***

Our business depends on our and our clearing firms' ability to process, on a daily basis, many transactions across numerous and diverse markets and the transactions we process have become increasingly complex. We rely heavily on our communications and financial, accounting and other data processing systems, including systems we maintain and systems provided by our clearing brokers and service providers. We face operational risk arising from mistakes made in the confirmation or settlement of transactions or from transactions not being properly recorded, evaluated or accounted.

If any of these systems do not operate properly or are disabled, we could suffer financial loss, a disruption of our business, liability to clients, regulatory intervention and fines or reputational damage.

Any failure or interruption of our systems, the systems of our clearing brokers, or third party trading systems could cause delays or other problems in our securities trading activities, which could have a material adverse effect on our operating results. Also, our clearing brokers provide our principal disaster recovery system. We also are implementing new technology platforms and failures in connection with such implementation may cause disruption to our operations, which could result in liability and reputational damage. We cannot assure you that we or our clearing brokers will not suffer any systems failures or interruption, including ones caused by earthquake, fire, other natural disasters, power or telecommunications failure, act of God, act of war, cyberattacks, unauthorized access, viruses, human error, terrorism, or otherwise, or that our or our clearing brokers' back-up procedures and capabilities in the event of any such failure or interruption will be adequate.

***Our operational systems and networks have been, and will continue to be, subject to evolving cybersecurity or other technological risks, which could result in the disclosure of confidential client information, loss of our proprietary information, damage to our reputation, additional costs to us, regulatory penalties and other adverse impacts.***

The secure transmission of confidential information over public networks is a critical element of our operations. A portion of our business is conducted through the Internet, mobile devices and our internal computer systems. We rely on technology to provide the security necessary to effect secure transmission of confidential information over the Internet. Maintaining the integrity of these systems and networks is critical to the success of our business operations, including the retention of our advisors and their clients, and to the protection of our proprietary information and client information. We rely on our advisors and employees to comply with our policies and procedures to safeguard confidential data. The failure of our advisors and employees to comply with such policies and procedures could result in the loss or wrongful use of their clients' confidential information or other sensitive information. The increased use of mobile and cloud technologies can heighten these and other operational risks. Also, even if we and our advisors comply with our policies and procedures, persons who circumvent security measures could wrongfully use our confidential information or the confidential information of our advisors' clients, or cause interruptions or malfunctions in our operations and we may not be able to detect such breaches for an extended period of time. During such time, we may not know the extent of the harm or how best to remediate it and certain errors or actions may be repeated or compounded before they are discovered and rectified, all or any of which would further increase the costs and consequences of a cyberattack.

To date, we have not experienced any material breaches of, or interference with, our systems and networks; however, we routinely encounter and address such threats. Our experiences with cybersecurity and technology threats have included phishing scams, introductions of malware, attempts at electronic break-ins and unauthorized payment requests. Any such breaches or interference by third parties or by our advisors or employees that may occur in the future and the failure of our controls and procedures to detect or prevent such breaches or interference could have a material adverse impact on our business, financial condition or results of operations.

Although we take protective measures and endeavor to modify them as circumstances warrant, the computer systems, software and networks may be vulnerable to unauthorized access, human error, computer viruses, denial-of-service attacks, or other malicious code and other events that could impact the security, reliability, and availability of our systems. If one or more of these events occur, this could jeopardize our own, our advisors' or their clients' or counterparties' confidential and other information processed, stored in and transmitted through our computer systems and networks, or otherwise cause interruptions or malfunctions in our own, our advisors' or their clients', our counterparties' or third parties' operations. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications, and we may be subject to litigation, regulatory sanctions and financial losses that are either not insured or are not fully covered through any insurance we maintain.

Despite the measures we have taken and may in the future take to address and mitigate cybersecurity and technology risks, we cannot assure that our systems and networks will not be subject to breaches or interference. Any such event may result in operational disruptions, unauthorized access to, or the disclosure or loss of, our own, our advisors' or their clients' or counterparties' confidential or other information. This in turn may result in legal claims, regulatory scrutiny and liability, reputational damage, incurrence of costs to eliminate or mitigate further exposure, loss of advisors or client assets or other damage to our business. While we maintain cyber liability insurance that provides both third-party liability and first-party liability coverages, this insurance may not be sufficient to protect us against all losses. Also, the trend toward broad consumer and general public notification of such incidents could exacerbate the harm to our business, financial condition or results of operations. Even if we successfully protect our technology infrastructure and the confidentiality of sensitive data, we may incur significant expenses in connection with our responses to any such attacks and the adoption and maintenance of appropriate security measures. We also may be subject to litigation and regulatory sanctions.

We could also suffer harm to our business and reputation if attempted security breaches are publicized. We cannot be certain that advances in criminal capabilities, discovery of new vulnerabilities, attempts to exploit vulnerabilities in our systems, data thefts, physical system or network break-ins or inappropriate access, or other developments will not compromise or breach the technology or other security measures protecting the networks and systems used in connection with our business.

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

Each of Triad, Investacorp, KMS, and Ladenburg uses one principal clearing broker to process securities transactions and maintain customer accounts on a fee basis. Securities America and SSN use two clearing brokers to perform the same functions. Each clearing broker also provides billing services, extends credit and provides for control and receipt, custody and delivery of securities. Each of our broker-dealer subsidiaries depends on the operational capacity and ability of its clearing broker for the orderly processing of transactions. By engaging the processing services of a clearing firm, each of our broker-dealer subsidiaries is exempt from some capital reserve requirements and other regulatory requirements imposed by federal and state securities laws. If these clearing agreements were terminated for any reason, we would be forced to find alternative clearing arrangements. We cannot assure you that we would be able to find alternative clearing arrangements on acceptable terms to us or at all. Also, the loss of a clearing firm could hamper the ability of our independent broker-dealers to recruit and retain their respective independent financial advisors.

***Our business depends on commissions and fees generated from the distribution of financial products, and adverse changes in the structure or amount of fees or marketing allowances paid by the sponsors of these products could materially adversely affect our cash flows, revenues and results of operations.***

We generate an important portion of our revenues from commissions and fees related to the distribution of financial products, such as mutual funds and variable annuities, by our independent financial advisors, and to a lesser extent, Ladenburg's financial advisors. Changes in the structure or amount of the fees or marketing allowances paid by the sponsors of these products could materially adversely affect our cash flows, revenues and results of operations.

Also, regulatory agencies and other industry participants have suggested that Rule 12b-1 distribution fees in the mutual fund industry should be reconsidered and, potentially, reduced or eliminated. Any reduction or restructuring of Rule 12b-1 distribution fees could have a material adverse effect on our results of operations. Additionally, the U.S. Department of Labor, which promulgates rules related to retirement plans, has proposed rules that may restrict commissions and fees on qualified retirement accounts, including IRAs.

***Decreases in client assets or assets under management may decrease our revenues.***

The results of operations of our independent broker-dealer subsidiaries depend on their level of assets under management and client assets. Assets under management balances are impacted by both the flow of client assets in and out of accounts and changes in market values. Poor investment performance by financial products and financial advisors could result in a loss of managed accounts and could result in reputational damage that might make it more difficult to attract new investors. A reduction in client assets or assets under management may cause our revenues to decline.

***Our clearing firms extend credit to our clients and we are liable if the clients do not pay.***

Each of our broker-dealer subsidiaries permits its clients to purchase securities on a margin basis or sell securities short, which means that the applicable clearing firm extends the client credit that is secured by cash and securities in the client's account. Market conditions, general economic conditions and issues affecting the particular securities held by a client, among other factors, could cause the value of the collateral held by the clearing firm to fall below the amount borrowed by the client. If margin requirements are not sufficient to cover losses, the clearing broker sells or buys securities at prevailing market prices, and may incur losses to satisfy client obligations. Each of our broker-dealer subsidiaries has agreed to indemnify its clearing brokers for losses they may incur while extending credit to its clients.

***Significant interest rate changes and the termination of our cash sweep agreement could affect our profitability and financial condition.***

Our revenues are exposed to interest rate risk primarily from changes in fees payable to us from banks participating in cash sweep programs, which are based on prevailing interest rates. Our revenues from our sweep program are negatively impacted by periods of low interest rates.

If our contracts with participants in cash sweep programs are terminated, we may not be able to obtain contracts on similar terms, which would decrease our revenue and profitability. Also, decreases in interest rates or clients moving assets out of our cash sweep programs would decrease our revenue and profitability. We may also be limited in the amount we can reduce interest rates payable to clients in cash sweep programs and still offer a competitive return. A sustained low interest rate environment may negatively impact our ability to negotiate contracts on comparable terms.

***We may be unable to underwrite securities due to capital limits.***

From time to time, our underwriting activities may require that we temporarily receive an infusion of capital for regulatory purposes. This is predicated on the amount of Ladenburg's commitment for each underwriting. In the past, we entered into temporary subordinated loan arrangements with our shareholders or clearing firm. Should we no longer be able to receive such funding from these sources, and if there are no other viable sources available, it would have an adverse impact on our ability to underwrite offerings, generate profits, recruit financial consultants and retain existing customers.

## Risk Factors Relating to Our Industry

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

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

These parties include:

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

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

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

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

***Intense competition from existing and new entities may adversely affect our revenues and results of operations.***

The financial services industry is rapidly evolving and intensely competitive. We expect competition to continue and intensify in the future. Many of our competitors have significantly greater financial, technical, marketing and other resources than we do. Some of our competitors also have greater name recognition and a larger base of financial advisors and clients. These competitors may be able to respond more quickly to new or changing opportunities, technologies and client requirements. They may also be able to undertake more extensive marketing activities, offer more attractive terms to clients and financial advisors, and adopt more aggressive pricing policies.

We may not be able to compete effectively with current or future competitors and competitive pressures faced by us may harm our business and may adversely affect our revenues and results of operations.

***Errors and omissions claims may negatively affect our business and results of operations.***

Our subsidiaries are subject to claims and litigation in the ordinary course of business resulting from alleged and actual errors and omissions in effecting securities transactions, rendering investment advice and placing insurance. These activities involve substantial amounts of money. Since errors and omissions claims against our subsidiaries or their financial advisors may allege liability for all or part of the amounts in question, claimants may seek large damage awards. These claims can involve significant defense costs. Errors and omissions could include, for example, failure, whether negligently or intentionally, to effect securities transactions on behalf of clients, to choose suitable investments for any particular client, to supervise a financial advisor or to provide insurance carriers with complete and accurate information. It is not always possible to prevent or detect errors and omissions, and the precautions our subsidiaries take may not be effective in all cases. Our liability for significant and successful errors and omissions claims may materially and negatively affect our results of operations.

***We are subject to various risks associated with the securities industry, any of which could have a materially adverse effect on our business, cash flows and results of operations.***

We are subject to uncertainties that are common in the securities industry. These uncertainties include:

- the volatility of domestic and international financial, bond and stock markets;
- extensive governmental regulation;
- litigation;
- intense competition;
- poor performance of investment products our advisors recommend or sell;
- substantial fluctuations in the volume and price level of securities; and
- dependence on the solvency of various third parties.

As a result, revenues and earnings may vary significantly from quarter to quarter and from year to year. In periods of low retail and institutional brokerage volume and reduced investment banking activity, profitability is impaired because certain expenses remain relatively fixed. We are smaller and have less capital than many of our competitors in the securities industry. In the event of a market downturn, our business could be adversely affected in many ways. Our revenues are likely to decline in such circumstances and, if we are unable to reduce expenses at the same pace, our profit margins would erode.

***Legal liability may harm our business.***

Many aspects of our business subject us to substantial risks of liability to customers and to regulatory enforcement proceedings by state and federal regulators. We face significant legal risks in our businesses and, in recent years, the volume of claims and amount of damages sought in litigation and regulatory proceedings against financial institutions have been increasing. In the normal course of business, our operating subsidiaries have been, and continue to be, the subject of numerous civil actions, regulatory proceedings and arbitrations arising out of customer complaints relating to our activities as a broker-dealer, as an employer or as a result of other business activities.

Dissatisfied clients often make claims against securities firms and their brokers and investment advisers for, among others, negligence, fraud, unauthorized trading, suitability, churning, failure to conduct adequate due diligence on products offered, failure to address issues arising from product due diligence, failure to supervise, breach of fiduciary duty, employee errors, intentional misconduct, unauthorized transactions, improper recruiting activity, and failures in the processing of securities transactions. These types of claims expose us to the risk of significant loss. Also, an underwriter, such as Ladenburg, is exposed to substantial liability under federal and state securities laws, other federal and state laws, and court decisions, including decisions about underwriters' liability and limitations on indemnification of underwriters by issuers.

For example, a firm that acts as an underwriter may be held liable for material misstatements or omissions of fact in a prospectus used in connection with the securities being offered or for statements made by its securities analysts or other personnel. Therefore, Ladenburg's activities may subject it to the risk of significant legal liabilities to its clients and aggrieved third parties, including stockholders of its clients who could bring securities class actions against Ladenburg. As a result, Ladenburg may incur significant legal and other expenses in defending against litigation and may be required to pay substantial damages for settlements and adverse judgments. Ladenburg's underwriting activities often involve offerings of the securities of smaller companies, which may involve a higher degree of risk and are more volatile than the securities of more established companies. In comparison with more established companies, smaller companies are also more likely to be the subject of securities class actions, to carry directors and officers liability insurance policies with lower limits or not at all, and to become insolvent. Each of these factors increases the likelihood that an underwriter of a smaller company's securities will be required to contribute to an adverse judgment or settlement of a securities lawsuit.

While we do not expect the outcome of any pending claims against us to have a material adverse impact on our business, financial condition, or results of operations, we cannot assure you that these types of proceedings, which may generate losses that significantly exceed our reserves, will not materially and adversely affect us. Also, legal or regulatory actions could cause significant reputational harm, which could in turn seriously harm our business prospects.

**Risk Factors Relating to the Regulatory Environment**

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

The securities industry and our business is subject to extensive regulation by the SEC, state securities regulators and other governmental regulatory authorities. We are also regulated by industry self-regulatory organizations, including FINRA and the MSRB. The regulatory environment is also subject to change and we may be adversely affected as a result of new or revised legislation or regulations imposed by the SEC, other federal or state governmental regulatory authorities, or self-regulatory organizations. We also may be adversely affected by changes in the interpretation or enforcement of existing laws and rules by these governmental authorities and self-regulatory organizations.

Each of Securities America, Triad, SSN, Investacorp, KMS and Ladenburg is a registered broker-dealer with the SEC and FINRA. Highland is subject to regulation by various regulatory bodies, including state attorneys general and insurance departments. Premier Trust is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division. Broker-dealers are subject to regulations which cover all aspects of the securities business, including:

- sales methods and supervision;
- trading practices among broker-dealers;
- use and safekeeping of customers' funds and securities;
- capital structure of securities firms;
- record keeping;
- conduct of directors, officers and employees; and
- advertising, including regulations related to telephone solicitation.

Compliance with many of these regulations involves a number of risks, particularly in areas where applicable regulations may be subject to varying interpretation. The requirements imposed by these regulators are designed to ensure the integrity of the financial markets and to protect customers and other third parties who deal with us. Consequently, these regulations often serve to limit our activities, including through net capital, customer protection and market conduct requirements. Much of the regulation of broker-dealers has been delegated to self-regulatory organizations, principally FINRA. FINRA adopts rules, subject to SEC approval, that govern broker-dealers and conducts periodic examinations of firms' operations.

If we are found to have violated any applicable regulation, formal administrative or judicial proceedings may be initiated against us that may result in:

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

Certain of our subsidiaries have been subject to some of the penalties listed above. For instance, in July 2016, one of our broker-dealer subsidiaries entered into an agreement with FINRA under which it agreed to a censure and other relief. The imposition of any of the penalties listed above could have a material adverse effect on our operating results and financial condition.

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

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

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

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

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

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

As discussed in Item 1,"Business—Government Regulation," the DOL Rule significantly expands the scope of who is considered an ERISA fiduciary and what activity constitutes acting as an ERISA fiduciary, while prohibiting certain additional types of transactions conducted by persons who are considered fiduciaries. The DOL Rule focuses on conflicts of interest related to investment recommendations made by financial advisors or registered investment advisors to clients holding qualified accounts and other types of ERISA clients as well as how financial advisors are able to discuss IRA rollovers. The DOL Rule is currently generally applicable in April 2017, with certain requirements becoming applicable on January 1, 2018. However, on March 2, 2017, the DOL published a proposed rule to delay implementation of the DOL Rule for a period of 60 days.

The DOL Rule could be further delayed or revised. If not delayed or revised, we expect that the DOL Rule would impact how we receive fees, how we compensate our advisors, how we are able to retain advisors, and how we design our investments and services for qualified accounts. Because qualified retirement accounts and IRAs make up a significant portion of our business, we expect that implementation of the DOL Rule and related exemptions will negatively impact our results, including the impact of increased expenditures related to legal, compliance, information technology and other costs.

***Legislative, judicial or regulatory changes to the classification of independent contractors could increase our operating expenses.***

From time to time, various legislative or regulatory proposals are introduced at the federal or state levels to change the status of independent contractors' classification to employees for either employment tax purposes (withholding, social security, Medicare and unemployment taxes) or other benefits available to employees. Currently, most individuals are classified as employees or independent contractors for employment tax purposes based on 20 "common law" factors, rather than any definition found in the Internal Revenue Code or Internal Revenue Service ("IRS") regulations. Each of Securities America, Triad, SSN, Investacorp and KMS classifies its financial advisors as independent contractors for all purposes, including employment tax and employee benefit purposes. We cannot assure you that legislative, judicial, or regulatory (including tax) authorities will not introduce proposals or assert interpretations of existing rules and regulations that would change the employee/independent contractor classification of these broker-dealers' financial advisors. The costs associated with potential changes, if any, to these independent contractor classifications could have a material adverse effect on us, including our results of operations and financial condition.

***Failure to comply with capital requirements could subject us to suspension, revocation or fines by the SEC, FINRA or other regulators.***

Our broker-dealer subsidiaries are subject to the SEC's Net Capital Rule, which requires the maintenance of minimum net capital. Also, under Nevada law, Premier Trust must maintain minimum stockholders' equity of at least $1,000,000, including at least $250,000 in cash. At December 31, 2016, each of our broker-dealer subsidiaries exceeded its minimum net capital requirement and Premier Trust exceeded its minimum stockholder's equity requirement. The Net Capital Rule is designed to measure the general financial integrity and liquidity of a broker-dealer. In computing net capital, various adjustments are made to net worth which exclude assets not readily convertible into cash. The regulations also require that certain assets, such as a broker-dealer's position in securities, be valued in a conservative manner to avoid inflation of the broker-dealer's net capital. The Net Capital Rule requires a broker-dealer to maintain a minimum level of net capital. The particular levels vary depending upon the nature of the activity undertaken by a firm. Compliance with the Net Capital Rule limits those operations of broker-dealers which require the intensive use of their capital, such as underwriting commitments and principal trading activities. The rule also limits the ability of securities firms to pay dividends or make payments on certain indebtedness such as subordinated debt as it matures. A significant operating loss or any charge against net capital could adversely affect the ability of a broker-dealer to expand or, depending on the magnitude of the loss or charge, maintain its then present level of business. FINRA may enter the offices of a broker-dealer at any time, without notice, and calculate the firm's net capital. If the calculation reveals a net capital deficiency, FINRA may immediately restrict or suspend some or all of the broker-dealer's activities, including its ability to make markets. Our broker-dealer subsidiaries may not be able to maintain adequate net capital, or their net capital may fall below requirements established by the SEC and subject us to disciplinary action in the form of fines, censure, suspension, expulsion or the termination of business altogether. During the fourth quarter of 2009 and the first quarter of 2016, Triad had a short-term net-capital deficiency. See Note 5, "Net Capital Requirements," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

**Risk Factors Relating to Strategic Acquisitions and the Integration of Acquired Operations**

***We may be unable to successfully integrate acquired businesses into our existing business and operations, which may adversely affect our cash flows, liquidity and results of operations.***

We have completed numerous acquisitions since 2006. We continue to explore opportunities to grow our businesses, including through potential acquisitions of other financial services firms, both domestically and internationally. These acquisitions may involve payments of material amounts of cash, incurrence of a material amount of debt or the issuance of significant amounts of our equity securities, which may increase our leverage and/or be dilutive to our existing shareholders. We may experience difficulty integrating the operations of these entities or any other entities acquired in the future into our existing business and operations.

Furthermore, we may not be able to retain all of the employees or financial advisors we acquire as a result of these transactions. If we are unable to effectively address these risks, we may be required to restructure the acquired businesses or write-off the value of some or all of the assets of the acquired business. If we are unable to successfully integrate acquired businesses into our existing business and operations in the future, it could have a material adverse effect on our liquidity, cash flows and results of operations.

***We may be adversely affected if the firms we acquire do not perform as expected.***

Even if we successfully complete acquisitions, we may be adversely affected if the acquired firms do not perform as expected. The firms we acquire may perform below expectations after the acquisition for various reasons, including legislative or regulatory changes that affect the products in which a firm specializes, the loss of key clients, employees and/or financial advisors after the acquisition closing, general economic factors and the cultural incompatibility of an acquired firm's management team with us. The failure of firms to perform as expected at the time of acquisition may have an adverse effect on our earnings and revenue growth rates, and may result in impairment charges and/or generate losses or charges to earnings.

***We face numerous risks and uncertainties as we expand our business.***

We expect the growth of our business to come primarily from organic growth and through acquisitions. As we expand our business, there can be no assurance that our financial controls, the level and knowledge of our personnel, our operational abilities, our legal and compliance controls and our other corporate support systems will be adequate to manage our business and our growth. The ineffectiveness of any of these controls or systems could adversely affect our business and prospects. In addition, as we acquire new businesses, we face numerous risks and uncertainties integrating their controls and systems into ours, including financial controls, accounting and data processing systems, management controls and other operations. A failure to integrate these systems and controls, and even an inefficient integration of these systems and controls, could adversely affect our business, cash flows and results of operations.

**Risk Factors Relating to Owning Our Stock**

***The price of our common stock and Series A Preferred Stock may fluctuate significantly, and this may make it difficult for you to resell the shares of our stock at prices you find attractive.***

The trading price of our common stock, as reported by the NYSE MKT, has ranged from a low of $1.63 to a high of $2.87 per share for the 52 week period ended December 31, 2016. The trading price of our Series A Preferred Stock, as reported by the NYSE MKT, has ranged from a low of $20.57 to a high of $25.17 per share for the 52 week period ended December 31, 2016. We expect that the market price of our common stock and Series A Preferred Stock will continue to fluctuate significantly.

The market price of our stock may fluctuate in response to numerous factors, many of which are beyond our control. These factors include:

- variations in quarterly operating results;
- general economic and business conditions, including conditions in the securities brokerage and investment banking markets;
- prevailing interest rates, increases in which may have an adverse effect on the market price of the Series A Preferred Stock;
- trading prices of similar securities;
- the annual yield from dividends on the Series A Preferred Stock as compared to yields on other financial instruments;
- our announcements of significant contracts, milestones or acquisitions;
- our relationships with other companies;
- our ability to obtain needed capital;
- additions or departures of key personnel;
- the initiation or outcome of litigation or arbitration proceedings;
- sales of common stock, conversion of securities convertible into common stock, exercise of options and warrants to purchase common stock or termination of stock transfer restrictions;
- legislation or regulatory policies, practices or actions;
- changes in financial estimates by securities analysts; and
- fluctuations in stock market prices and volume.

Any one of these factors could have an adverse effect on the market price of our common stock and/or Series A Preferred Stock. Also, the stock market in recent years has experienced significant price and volume fluctuations that have materially affected the market prices of equity securities of many companies and that often have been unrelated to such companies' operating performance. These market fluctuations have adversely impacted the price of our common stock in the past and may do so in the future. Also, shareholders may initiate securities class action lawsuits if the market price of our stock drops significantly, which may cause us to incur substantial costs and divert our management's time and attention. These factors, among others, could significantly depress the price of our common stock.

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

At March 7, 2017, our named executive officers, directors and their affiliates, beneficially owned approximately 46.75% of our common stock. Accordingly, these individuals and entities can significantly influence most, if not all, of our corporate actions, including the election of directors and the appointment of officers. Also, this ownership of our common stock may make it difficult for a third party to acquire control of us, therefore possibly discouraging third parties from seeking to acquire us. A third party would have to negotiate any possible transactions with these principal shareholders, and their interests may be different from the interests of our other shareholders. This may depress the price of our common stock.

***Our quarterly operating results may fluctuate substantially due to the nature of our business and therefore we may fail to meet profitability expectations.***

Our operating results may fluctuate from quarter to quarter and from year to year due to a combination of factors, including: fluctuations in capital markets, which may affect trading activity in commission-based accounts and asset values in fee-based accounts, the level of underwriting and advisory transactions completed by Ladenburg and attrition of financial advisors. Accordingly, our results of operations may fluctuate significantly due to an increased or decreased number of transactions in any particular quarter or year.

***Reports published by securities or industry analysts, including projections in those reports that exceed our actual results, could adversely affect our stock price and trading volume.***

Research analysts publish their own quarterly projections regarding our operating results. These projections may vary widely from one another and may not accurately predict the results we actually achieve. Our stock price may decline if we fail to meet securities research analysts' projections. Similarly, if one or more of the analysts who cover us downgrades our stock or publishes inaccurate or unfavorable research about our business, our stock price could decline. If one or more of these analysts ceases coverage of us or fails to publish reports on us regularly, our stock price or trading volume could decline.

***Possible additional share issuances may cause significant dilution.***

At December 31, 2016, we had outstanding 194,057,738 shares of common stock, options and warrants to purchase a total of 41,191,772 shares of common stock and 15,844,916 shares of our Series A Preferred Stock. We are authorized to issue up to 1,000,000,000 shares of common stock and 50,000,000 shares of preferred stock and are able to issue a significant number of additional shares without obtaining shareholder approval.

If we issue additional shares, or if our existing shareholders exercise their outstanding options and warrants, our other shareholders may be significantly diluted, which means that they would own a smaller percentage of our company.

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

The rights of our shareholders will be subject to and may be adversely affected by the rights of holders of any preferred stock that we may issue in the future. Our articles of incorporation authorize our board of directors to issue up to 50,000,000 shares of "blank check" preferred stock and to fix the rights, preferences, privilege and restrictions, including voting rights, of these shares without further shareholder approval.

***We do not expect to pay any cash dividends on our common stock.***

We do not anticipate paying cash dividends on our common stock in the foreseeable future. Accordingly, you must rely on sales of your common stock after price appreciation, which may never occur, as the only way to realize any positive return on your investment in our common stock. Net capital requirements imposed on our broker-dealer subsidiaries by the SEC and our obligation to pay dividends on our Series A Preferred Stock restrict our ability to pay dividends on our common stock.

***Market interest rates may materially and adversely affect the value of the Series A Preferred Stock.***

One of the factors that influences the price of the Series A Preferred Stock is the dividend yield on the Series A Preferred Stock (as a percentage of the market price of the Series A Preferred Stock) relative to market interest rates. An increase in market interest rates, which are currently at low levels relative to historical rates, may lead prospective purchasers of the Series A Preferred Stock to expect a higher dividend yield (and higher interest rates would likely increase our borrowing costs and potentially decrease funds available for dividend payments). Thus, higher market interest rates could cause the market price of the Series A Preferred Stock to materially decrease.

***We may not be able to pay dividends on the Series A Preferred Stock.***

Under Florida law, we may not make any distribution to our shareholders, including holders of the Series A Preferred Stock, if, after giving effect to the distribution, we would not be able to pay our debts as they become due in the usual course of business, or our total assets would be less than the sum of our total liabilities plus the amount that would be needed, if we were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferred rights are superior to those receiving the distribution. Our ability to pay cash dividends on the Series A Preferred Stock will require us to have positive net assets (total assets less total liabilities) over our capital and to be able to pay our debts as they become due in the usual course of business. Further, notwithstanding these factors, we may not have sufficient cash to pay dividends on the Series A Preferred Stock. Our ability to pay dividends may be impaired if any of the risks described in this report were to occur. Also, payment of our dividends depends upon our financial condition and other factors as our board of directors may deem relevant from time to time. We cannot assure you that our businesses will generate sufficient cash flow from operations or that future borrowings will be available to us in an amount sufficient to enable us to make distributions on our common stock, if any, and preferred stock, including the Series A Preferred Stock, to pay our indebtedness or to fund our other liquidity needs.

***If our common stock is delisted, the ability to transfer or sell shares of our Series A Preferred Stock may be limited and the market value of our Series A Preferred Stock will likely be materially adversely affected.***

Other than in connection with a Change of Control (as defined in the terms of our Series A Preferred Stock), our Series A Preferred Stock does not contain provisions that are intended to protect a holder if our common stock is delisted from the NYSE MKT. Since the Series A Preferred Stock has no stated maturity date, holders may be forced to hold shares of our Series A Preferred Stock and receive stated dividends on the Series A Preferred Stock when, as and if authorized by our board of directors and paid by us with no assurance as to ever receiving the liquidation value thereof. Also, if our common stock is delisted from the NYSE MKT, it is likely that our Series A Preferred Stock will be delisted from the NYSE MKT as well. Accordingly, if our common stock is delisted from the NYSE MKT, the ability to transfer or sell shares of our Series A Preferred Stock may be limited and the market value of our Series A Preferred Stock will likely be materially adversely affected.

***The change of control conversion rights of our Series A Preferred Stock may make it more difficult for a party to acquire us or discourage a party from acquiring us.***

Upon the occurrence of a Change of Control, each holder of the Series A Preferred Stock has the right (subject to our election to redeem the Series A Preferred Stock in whole or in part prior to the date the Series A

Preferred Stock is to be converted) to convert some or all of such holder's Series A Preferred Stock into shares of our common stock (or under specified circumstances, certain alternative consideration).

The Change of Control conversion feature of the Series A Preferred Stock may have the effect of discouraging a third party from making an acquisition proposal for us or of delaying, deferring or preventing certain of our change of control transactions under circumstances that otherwise could provide the holders of our common stock and Series A Preferred Stock with the opportunity to realize a premium over the then-current market price of such stock or that shareholders may otherwise believe is in their best interests.

## ITEM 1B. *UNRESOLVED STAFF COMMENTS.*

None.

## ITEM 2. *PROPERTIES.*

Our principal executive offices are located at 4400 Biscayne Boulevard, 12th Floor, Miami, Florida 33137, where we have leased approximately 14,050 square feet of office space. The lessor is Frost Real Estate Holdings, LLC, an entity affiliated with Dr. Phillip Frost, our Chairman of the Board and principal shareholder. Our lease was renewed in March 2013 and now expires in February 2018.

The Ladenburg segment's principal executive offices are located at 570 Lexington Avenue, 11th floor, New York, New York 10022, where it subleases approximately 38,000 square feet of office space under a lease that expires in April 2017. Ladenburg entered into a sublease for space at 277 Park Avenue, 26th floor, New York, New York 10017 in December 2016, where it subleases approximately 23,000 square feet of office space commencing February 1, 2017 through January 20, 2021. Ladenburg previously occupied office space at 590 Madison Avenue, New York, New York; Ladenburg previously subleased all of this space to three unrelated parties on various terms that provided for sublease payments to Ladenburg of approximately $807,000 through June 2015, when the lease expired. One of these subtenants filed for bankruptcy protection under Chapter 7 of the Federal Bankruptcy Code in April 2015. As a result, Ladenburg wrote-off a receivable from subtenant of $855,000 and incurred additional rent expense due to default by subtenant of $468,000 during 2015. Ladenburg also operates branch offices in leased office space. Such branch offices are located in Miami, Naples and Boca Raton, Florida, Boston, Massachusetts, Calabasas and Irvine, California, Melville, New York and Westhampton Beach, New York.

Our independent financial advisors are responsible for the office space they occupy, whether by lease or otherwise. Information regarding the principal executive offices used in our independent brokerage and advisory services segment is listed below:

| Subsidiary | Location | Approximate Square Footage | Lease Expiration Date |
|---|---|---|---|
| Securities America | La Vista, NE | 81,424 | January 2030 |
| Triad | Norcross, GA | 21,835 | February 2025 |
| SSN | Knoxville, TN | 15,000 | March 2020 (1) |
| Investacorp | Miami, FL | 11,475 | September 2020 (2) |
| KMS | Seattle, WA | 8,575 | September 2024 |
| Premier Trust | Las Vegas, NV | 14,455 | September 2019 |

(1) The lessor is Cogdill Capital LLC, an entity of which SSN's CFO and CEO are members.
(2) The lessor is Frost Real Estate Holdings, LLC, an entity affiliated with Dr. Phillip Frost, our Chairman of the Board and principal shareholder.

Highland's principal executive offices, which are used for our insurance brokerage segment, are located in Birmingham, Alabama, where it leases approximately 15,300 square feet under a lease that expires in April 2021. Highland also maintains regional offices in leased office space at various locations in the U.S.

We believe that our existing properties are adequate for the current operating requirements of our business and that additional space will be available as needed.

## ITEM 3. *LEGAL PROCEEDINGS.*

The information under the heading "Litigation and Regulatory Matters" contained in Note 13 to our consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K is incorporated by reference in this Item 3.

## ITEM 4. *MINE SAFETY DISCLOSURES.*

Not applicable.

# PART II

## ITEM 5. *MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.*

Our common stock trades on the NYSE MKT under the symbol "LTS." The following table sets forth the high and low sales prices of our common stock for the periods specified:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| **Period** | **High** | **Low** | **High** | **Low** |
| First Quarter | $2.72 | $1.86 | $4.08 | $3.80 |
| Second Quarter | 2.80 | 2.25 | 3.97 | 3.23 |
| Third Quarter | 2.56 | 2.07 | 3.50 | 1.80 |
| Fourth Quarter | 2.87 | 1.63 | 3.28 | 2.07 |

Our Series A Preferred Stock trades on the NYSE MKT under the symbol "LTS PrA."

### Holders

At March 4, 2017, there were approximately 3,193 record holders of our common stock.

### Common Stock Dividends

We have never paid or declared any dividends on our common stock. We do not anticipate paying cash dividends on our common stock in the foreseeable future. The payment of future dividends, if any, will be at our board of directors' discretion after taking into account our financial condition, operating results, anticipated cash needs and any other factors that our board of directors may deem relevant. The net capital requirements imposed on our broker-dealer subsidiaries by the SEC, the obligation to pay dividends on our outstanding preferred stock and covenants contained in our outstanding debt agreements also restrict our ability to pay dividends.

### Issuer Purchases of Equity Securities

This table shows information regarding our purchases of our common stock during the fourth quarter of 2016.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares that May Yet Be Purchased Under the Plans or Programs (1) |
|---|---|---|---|---|
| October 1 to October 31, 2016 | 499,297 | $2.24 | 499,297 | 38,099 |
| November 1 to November 30, 2016 | 38,099 | 2.04 | 38,099 | 10,000,000 |
| December 1 to December 31, 2016 | — | — | — | 10,000,000 |
| Total | 537,396 | $2.22 | 537,396 | |

(1) On March 19, 2007, we announced that our board of directors authorized the repurchase of up to 2,500,000 shares of our common stock from time to time on the open market or in privately negotiated transactions depending on market conditions. In October 2011, our board amended this repurchase program to permit the purchase of up to an additional 5,000,000 shares. In November 2014, our board amended this repurchase program to permit the purchase of up to an additional 10,000,000 shares. In November 2016, an amendment to the stock repurchase program was approved to permit the purchase of up to an additional 10,000,000 shares. As of December 31, 2016, 17,500,000 shares had been repurchased for $44,690 under the program and 10,000,000 shares remain available for purchase under the program. Beginning in the fourth quarter of 2015, we adopted a Rule 10b5-1 trading plan to permit the repurchase of common stock pursuant to the existing stock repurchase program during certain restricted trading periods. We intend to execute similar Rule 10b5-1 plans periodically in the future.

**ITEM 6.** ***SELECTED FINANCIAL DATA.***

The selected financial data set forth below is derived from our audited consolidated financial statements. You should read this selected financial data together with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and the notes thereto included elsewhere in this annual report on Form 10-K:

| | Year Ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2016 | 2015 | 2014 | 2013 | 2012 |
| | (In thousands, except share and per share amounts) | | | | |
| **Operating Results:** | | | | | |
| Total revenues | $ 1,106,953 | $ 1,152,118 | $ 921,253 (1) | $ 793,116 | $ 650,111 |
| Total expenses | 1,119,023 | 1,163,868 | 911,259 | 790,591 | 672,114 |
| (Loss) income before item shown below | (12,070) | (11,750) | 9,994 | 2,525 | (22,003) |
| Change in fair value of contingent consideration | (216) | 55 | 12 | (121) | 7,111 |
| (Loss) income before income taxes | (12,286) | (11,695) | 10,006 | 2,404 | (14,892) |
| Net (loss) income | (22,311) | (11,213) | 33,352 | (522) | (16,354) |
| Per common and equivalent share: | | | | | |
| (Loss) income per common share—basic | $ (0.29) | $ (0.21) | $ 0.09 | $ (0.04) | $ (0.09) |
| (Loss) income per common share—diluted | $ (0.29) | $ (0.21) | $ 0.08 | $ (0.04) | $ (0.09) |
| Basic weighted average common shares | 182,987,850 | 183,660,993 | 182,768,494 | 182,295,476 | 183,572,582 |
| Diluted weighted average common shares | 182,987,850 | 183,660,993 | 206,512,437 | 182,295,476 | 183,572,582 |
| **Balance Sheet Data:** | | | | | |
| Total assets | $ 546,003 | $ 574,105 | $ 510,758 | $ 360,820 | $ 338,129 |
| Total liabilities | 183,502 | 198,074 | 174,287 | 167,407 | 286,908 |
| Shareholders' equity | 362,474 | 376,002 | 336,460 | 193,361 | 51,221 |
| **Other Data:** | | | | | |
| Book value per common share | $ 1.87 | $ 2.06 | $ 1.82 | $ 1.06 | $ 0.28 |

(1) Includes $26,164 of revenue from Highland (acquired July 31, 2014) and $19,840 of revenue from KMS (acquired October 15, 2014). See Note 3, "Acquisitions," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

**ITEM 7.** ***MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.***

***(Dollars in thousands, except share and per share amounts)***

## Overview

We are a diversified financial services company engaged in independent brokerage and advisory services, investment banking, investment research, institutional sales and trading, asset management services, wholesale life insurance brokerage and trust services through our principal subsidiaries, Securities America, Triad, SSN, Investacorp, KMS, Ladenburg, LTAM, Highland and Premier Trust. We are committed to establishing a significant presence in the financial services industry by meeting the varying investment needs of our clients.

Through our acquisitions of Securities America, Triad, SSN, Investacorp and KMS, we have established a leadership position in the independent broker-dealer industry. During the past decade, this has been one of the fastest growing segments of the financial services industry. With approximately 4,000 financial advisors located in 50 states, we have become one of the largest independent broker-dealer networks. We believe that we have the opportunity through acquisitions, recruiting and internal growth to continue expanding our market share in this segment over the next several years. Since 2007, our plan has been to marry the more stable and recurring revenue and cash flows of the independent broker-dealer business with Ladenburg's traditional investment banking, capital markets, institutional sales and trading and related businesses.

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

*Acquisition Strategy*

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

During the three years ended December 31, 2016, in connection with acquisitions, we issued 3,981,684 shares of common stock and incurred $60,600 of indebtedness related to acquisitions, of which $22,231 was outstanding as of December 31, 2016.

## Critical Accounting Policies

*General*. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, referred to as GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

*Clearing Arrangements*. Our broker-dealer subsidiaries do not carry accounts for customers or perform custodial functions related to customers' securities. Each of our broker-dealer subsidiaries introduces all of its customer transactions, which are not reflected in these financial statements, to its clearing brokers, which maintain the customers' accounts and clear such transactions. Also, the clearing brokers provide the clearing and depository operations for our broker-dealer subsidiaries' proprietary securities transactions. These activities may expose us to off-balance-sheet risk in the event that customers do not fulfill their obligations with the clearing brokers, as we have agreed to indemnify our clearing brokers for any resulting losses. We continually assess risk associated with each customer who is on margin credit and record an estimated loss when we believe collection from the customer is unlikely. We incurred losses from these arrangements, prior to any recoupment from our financial advisors, of $57, $11 and $47 for the years ended December 31, 2016, 2015 and 2014, respectively.

*Customer Claims, Litigation and Regulatory Matters*. In the ordinary course of business, our operating subsidiaries have been and are the subject of numerous civil actions and arbitrations arising out of customer complaints relating to their activities as a broker-dealer, as an employer or supervisor and as a result of other business activities. In general, the cases involve various allegations that our employees or independent financial advisors had mishandled customer accounts. Due to the uncertain nature of litigation in general, we are unable to estimate a range of possible loss related to lawsuits filed against us, but based on our historical experience and consultation with counsel, we typically reserve an amount we believe will be sufficient to cover any damages assessed against us. We had accruals of $4,396 at December 31, 2016 and $1,358 at December 31, 2015 for potential losses. See Note 13, "Commitments and Contingencies," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K. However, in the past we have been assessed damages that exceeded our reserves. If we misjudge the amount of damages that may be assessed against us from pending or threatened claims, or if we are unable to adequately estimate the amount of damages that will be assessed against us from claims that arise in the future and reserve accordingly, our operating income and liquidity would be reduced. Such costs may have a material adverse effect on our future financial position, results of operations and liquidity.

*Fair Value*. "Trading securities owned" and "Securities sold, but not yet purchased" on our consolidated statements of financial condition are recorded at fair value, with related unrealized gains and losses recognized in our results of operations. The determination of fair value is fundamental to our financial condition and results of operations and, in certain circumstances, it requires management to make complex judgments.

Fair values are based on listed market prices, where possible. If listed market prices are not available or if the liquidation of our positions would reasonably be expected to impact market prices, fair value is determined based on other relevant factors, including dealer price quotations. Fair values for certain derivative contracts are derived from pricing models that consider market and contractual prices for the underlying financial instruments or commodities, as well as time value and yield curve or volatility factors underlying the positions.

Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized, and the use of different pricing models or assumptions could produce different financial results. Changes in the fixed income and equity markets will impact our estimates of fair value in the future, potentially affecting principal trading revenues. The illiquid nature of certain securities or debt instruments also requires a high degree of judgment in determining fair value due to the lack of listed market prices and the potential impact of the liquidation of our position on market prices, among other factors.

The Financial Accounting Standards Board, which we refer to as the FASB, has issued authoritative accounting guidance that defines fair value, establishes a framework for measuring fair value and establishes a fair value hierarchy which prioritizes the inputs to valuation techniques. The guidance clarifies that fair value should be based on assumptions that market participants would use when pricing an asset or liability.

*Valuation of Deferred Tax Assets.* We account for income taxes under the asset and liability method, which requires the recognition of tax benefits or expense on the temporary differences between the tax basis and book basis of our assets and liabilities as well as tax loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Net deferred tax liability as of December 31, 2016, which consists principally of the tax benefit of net operating loss carryforwards, compensation charges related to equity instruments and deferred compensation liabilities, offset by intangible assets and goodwill, amounted to $10,642. After consideration of all the evidence, both positive and negative, we have determined that it was more likely than not that deferred tax assets would not be realized and we established a full valuation allowance against our deferred tax assets. See Note 11, "Income Taxes," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

*Stock-Based Compensation*. Our stock based compensation uses a fair value-based method to recognize non-cash compensation expense for share-based transactions. The accounting guidance requires an entity to measure the cost of employee, officer and director services received in exchange for an award of equity instruments, including stock options and restricted stock, based on the grant-date fair value of the award. The cost is recognized as compensation expense over the service period, which would normally be the vesting period of the options. Compensation expense for share-based awards granted to independent contractors is measured at their vesting date fair value. The compensation expense recognized each period is based on the awards' estimated value at the most recent reporting date.

*Intangible Assets*. We amortize intangible assets over their estimated useful lives generally on a straight-line basis. Intangible assets subject to amortization are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may be not recoverable. We assess the recoverability of our intangible assets by determining whether the unamortized balance can be recovered over the assets' remaining life through undiscounted forecasted cash flows. If undiscounted forecasted cash flows indicate that the unamortized amounts will not be recovered, an adjustment will be made to reduce such amounts to an amount consistent with forecasted future cash flows discounted at a rate commensurate with the risk associated with achieving future discounted cash flows. Future cash flows are based on trends of historical performance and our estimate of future performances, giving consideration to existing and anticipated competitive and economic conditions.

*Goodwill*. Goodwill is not subject to amortization and is tested for impairment annually or more frequently if events or changes in circumstances indicate that the asset may be impaired. The impairment test consists of a comparison of the fair value of the reporting unit with its carrying amount. Fair value is typically based upon future cash flows discounted at a rate commensurate with the risk involved or market based comparables. If the carrying amount of the reporting unit exceeds its fair value then an analysis will be performed to compare the implied fair value of goodwill with the carrying amount of goodwill. An impairment loss will be recognized in an amount equal to excess of the carrying amount over the implied fair value. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis. Accounting guidance on the testing of goodwill for impairment allows entities the option of performing a qualitative assessment to determine the likelihood of goodwill impairment and whether it is necessary to perform such two-step quantitative impairment test.

## Results of Operations

The following discussion provides an assessment of our consolidated results of operations, capital resources and liquidity and should be read in conjunction with our audited consolidated financial statements and related notes included elsewhere in this report. Our consolidated financial statements include our accounts and the accounts of Ladenburg, Investacorp, Triad, Premier Trust, Securities America, Highland (since July 31, 2014), KMS (since October 15, 2014), SSN (since January 2, 2015) and our other wholly-owned subsidiaries.

The following table includes a reconciliation of net (loss) income attributable to the Company as reported to EBITDA, as adjusted:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Total revenues | $1,106,953 | $1,152,118 | $921,253 |
| Total expenses | 1,119,023 | 1,163,868 | 911,259 |
| (Loss) income before income taxes | (12,286) | (11,695) | 10,006 |
| Net (loss) income attributable to the Company | (22,269) | (11,151) | 33,433 |
| Reconciliation of net income (loss) attributable to the Company to EBITDA: | | | |
| Net (loss) income attributable to the Company | (22,269) | (11,151) | 33,433 |
| Less: | | | |
| Interest income | (672) | (254) | (245) |
| Change in fair value of contingent consideration | 216 | (55) | (12) |
| Add: | | | |
| Loss on extinguishment of debt | — | 252 | 548 |
| Interest expense | 4,262 | 5,169 | 6,990 |
| Income tax expense (benefit) | 10,025 | (482) | (23,346) |
| Depreciation and amortization | 28,334 | 27,077 | 18,397 |
| Non-cash compensation expense | 5,311 | 8,759 | 10,541 |
| Amortization of retention and forgivable loans | 5,472 | 9,238 | 11,041 |
| Financial advisor recruiting expense | 1,882 | 2,387 | 1,489 |
| Acquisition-related expense | 1,357 | 940 (3) | 2,342 |
| Other | 1,853 (1) | 2,165 (2) | — |
| EBITDA, as adjusted | $ 35,771 | $ 44,045 | $ 61,178 |

(1) Includes loss on severance costs of $755, excise and franchise tax expense of $508 and compensation expense that may be paid in stock of $586 for the twelve months ended December 31, 2016.

(2) Includes loss on write-off of receivable from subtenant of $855, compensation expense that may be paid in stock of $532, rent expense due to default by subtenant of $468 and excise and franchise tax expense of $310 for the twelve months ended December 31, 2015.

(3) Includes $409 for acquisition-related expense that was previously included in professional services expense and other expense for the twelve months ended December 31, 2015.

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

We have three operating segments. The independent brokerage and advisory services segment includes the broker-dealer and investment advisory services provided by our independent broker-dealer subsidiaries to their independent contractor financial advisors and the wealth management services provided by Premier Trust. The Ladenburg segment includes the investment banking, sales and trading and asset management services and investment activities conducted by Ladenburg and LTAM. The insurance brokerage segment, which arose when we acquired Highland on July 31, 2014, includes the wholesale insurance brokerage activities provided by Highland, which delivers life insurance, fixed and equity indexed annuities and long-term care solutions to investment and insurance providers.

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Revenues: | | | |
| Independent Brokerage and Advisory Services (1) | $1,003,282 | $1,035,365 | $816,581 |
| Ladenburg | 49,425 | 61,841 | 73,298 |
| Insurance Brokerage (4) | 50,483 | 49,573 | 26,164 |
| Corporate | 3,763 | 5,339 | 5,210 |
| Total revenues | $1,106,953 | $1,152,118 | $921,253 |
| Income (loss) before income taxes: | | | |
| Independent Brokerage and Advisory Services (1) | 15,071 | 7,735 | 10,520 |
| Ladenburg | (3,674) | 3,095 | 14,846 |
| Insurance Brokerage (4) | (6,074) | (6,701) | (841) |
| Corporate (2) | (17,609) | (15,824) | (14,519) |
| Total loss before income taxes | $ (12,286) | $ (11,695) | $ 10,006 |
| EBITDA, as adjusted (3) | | | |
| Independent Brokerage and Advisory Services (1) | 47,977 | 46,462 | 50,596 |
| Ladenburg | (1,676) | 6,052 | 16,174 |
| Insurance Brokerage (4) | 2,255 | 1,170 | 2,315 |
| Corporate | (12,785) | (9,639) | (7,907) |
| Total EBITDA, as adjusted | $ 35,771 | $ 44,045 | $ 61,178 |

(1) Includes KMS from October 15, 2014 and SSN from January 2, 2015.
(2) Includes interest expense, compensation, professional fees and other general administrative expenses.
(3) See Note 19, "Segment Information," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K for a reconciliation of (loss) income before income taxes to EBITDA, as adjusted.
(4) Includes Highland from July 31, 2014.

**Year ended December 31, 2016 compared to year ended December 31, 2015**

For the fiscal year ended December 31, 2016, we had a net loss attributable to the Company of $22,269 as compared to net loss attributable to the Company of $11,151 for the fiscal year ended December 31, 2015, primarily due to a $10,507 increase in income tax expense. Net loss attributable to the Company in 2016 was also impacted by decreased commissions and marketing revenues from sales of alternative investments, variable annuities and mutual fund products in our independent brokerage and advisory services segment and a decline of $11,979 in equity capital raising for small and mid-cap public companies in our Ladenburg segment, which has higher margins than our other segments. Net loss attributable to the Company also increased due to additional expenses in 2016 related to business expansion, technology investment and preparation for compliance with the

DOL Rule. See Item 1. “Business—Government Regulation” above for a discussion of the DOL Rule and possible effects on our business.

Total revenues for 2016 decreased by $45,165 (4%) from 2015. Total revenues for 2016 were impacted by decreases in commissions of $46,682 and investment banking revenue of $9,692. This decrease in total revenues was partially offset by increases in interest and dividends of $6,414, service fees and other income of $3,135, advisory fees of $1,515 and principal transactions of $145. Our independent brokerage and advisory services segment revenues decreased by $32,083 (3%) from 2015 mainly driven by a decline in commissions, as discussed below. Our Ladenburg segment revenues decreased by $12,416 (20%) from 2015 as a result of lower investment banking revenue due to a continued decline in equity capital raising as compared to 2015. Our insurance brokerage segment revenues increased by $910 (2%) in 2016 as compared to the prior year, primarily driven by increased commissions from institutional accounts.

Total expenses for 2016 decreased by $44,845 (4%) from 2015, primarily due to the decline in revenue and reflecting expense reduction efforts. Total expenses for 2016 included decreases in commissions and fees expense of $39,842, brokerage, communication and clearance fee expense of $5,008, amortization of retention and forgivable loans of $3,766, non-cash compensation of $3,448, interest expense of $907, rent and occupancy expense, net of sublease revenue, of $124 and loss on extinguishment of debt of $252. The decreased 2016 total expenses described above were partially offset by increases in compensation and benefits expense of $2,806, other expense of $3,238, depreciation and amortization expense of $1,257, acquisition related expense of $417 and professional services expense of $784. Notwithstanding the overall decrease in expenses, we incurred additional expenses in 2016 related to business expansion, technology investment and preparation for compliance with the DOL Rule.

The $46,682 (8%) decrease in commissions revenue for 2016 as compared to 2015 was primarily attributable to an industry-wide decline in sales of alternative investments, variable annuities and mutual fund products resulting from volatile markets, investor uncertainty in the low interest rate environment and the impact of the DOL Rule. Our independent brokerage and advisory services segment commissions revenue decreased by $44,437 (9%) in 2016 from 2015. Our Ladenburg segment commissions revenue decreased by $2,974 (17%) and our insurance brokerage segment commissions revenue increased by $729 (1%) in 2016 as compared to the prior year.

The $1,515 (0.3%) increase in advisory fees revenue in 2016 as compared to 2015 was primarily attributable to a $2,489 increase in our independent brokerage and advisory services segment, due to improved market conditions and higher average advisory assets, partly offset by a decrease of $887 in our Ladenburg segment. Advisory fee revenue for a particular period is primarily affected by the level of advisory assets and market conditions. As of December 31, 2016, our advisory assets have increased by 15% as compared to December 31, 2015. Total advisory assets under management at December 31, 2016 were approximately $57,800,000 as compared to $50,100,000 at December 31, 2015.

The $9,692 (28%) decrease in investment banking revenue for 2016 as compared to 2015 was primarily driven by a $11,979 decrease in capital raising revenue, partially offset by a $2,286 increase in strategic advisory services revenue. We derive investment banking revenue from Ladenburg’s capital raising activities, including underwritten public offerings and private placements, and strategic advisory services.

Revenue from capital raising activities was $21,036 for the fiscal year ended December 31, 2016 as compared to $33,015 for the prior year, resulting from a significant decline in equity capital raising for small and mid-cap public companies. Strategic advisory services revenue increased by $2,286 to $4,417 for 2016 as compared to $2,131 for 2015.

The $145 (24%) increase in principal transactions revenue in 2016 as compared to 2015 was driven by our independent brokerage and advisory services and Ladenburg segments, which increased by $99 (39%) and $46

(5%), respectively, due to an increase in the market value of the firm's investments and gains incurred upon liquidation of other investments.

The $6,414 (167%) increase in interest and dividends revenue for 2016 as compared to 2015 was driven by increased revenue from our cash sweep program. Interest revenue from our cash sweep program was $7,985 for the year ended December 31, 2016, as compared to $1,994 for the prior year, resulting from the implementation of a new cash sweep program during April 2015 and September 2015 that applies to certain client cash balances at five of our broker-dealer subsidiaries. We expect to implement additional cash sweep programs in 2017. Future levels of interest and dividend revenue are dependent upon changes in prevailing interest rates and asset levels. At December 31, 2016, cash balances included in client assets were approximately $4,824,000, including approximately $3,506,000 participating in our current cash sweep program. Item 1A. "Risk Factors—Risk Factors Relating to Our Business—Significant interest rate changes and the termination of our cash sweep agreement could affect our profitability and financial condition" above.

The $3,135 (3%) increase in service fees and other income in 2016 as compared to 2015 was primarily driven by an increase of $4,075 in our independent brokerage and advisory services segment, primarily due to increases in affiliation fees of $1,194, errors and omissions insurance revenue of $1,165 and trading related fees of $789. During 2016, we implemented initiatives that we anticipate will increase service fees and other income, including the initial implementation of an enterprise-wide strategic product partner program.

The $39,842 (5%) decrease in commissions and fees expense for 2016 as compared to 2015 was directly correlated with the decrease in advisory fee and commission revenue in our independent brokerage and advisory services segment. Commissions and fees expense comprises compensation 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 generated by such persons and vary by product. Accordingly, when our independent contractor registered representatives decrease their business, both our revenues and expenses decrease because our representatives earn reduced compensation based on the lower revenues produced.

The $2,806 (2%) increase in compensation and benefits expense for 2016 as compared to 2015 was attributable to an increase of $5,903 in our independent brokerage and advisory services segment, as headcount grew 5% from the prior year, partially offset by a decrease of $4,737 in our Ladenburg segment due to lower revenues. Compensation and benefits expense in our insurance brokerage segment increased by $326 due to higher revenues.

The $3,448 (39%) decrease in non-cash compensation expense for 2016 as compared to 2015 was primarily attributable to a decrease of $2,809 in expense related to stock option grants made to Securities America financial advisors in connection with the 2011 acquisition, caused by the change in fair value of the company's common stock which became fully vested in the fourth quarter of 2015. Compensation expense for share-based awards granted to independent financial advisors is measured at their vesting date fair value. The compensation expense recognized each period is based on the awards' estimated value at the most recent reporting date. The Company uses a Black-Scholes model to estimate fair value, which uses volatility, price and interest inputs. Also, we estimate a forfeiture rate based on historical experience. The decrease in the price of our common stock has contributed to the decrease in our non-cash compensation expense related to grants made to advisors.

The $5,008 (24%) decrease in brokerage, communication and clearance fees expense for 2016 as compared to 2015 was driven by a decrease of $5,510 in our our independent brokerage and advisory services segment, primarily due to renegotiated clearing agreements at our subsidiaries including the receipt of clearing credits by one of our subsidiaries. This was partially offset by an increase of $570 in our Ladenburg segment due to a clearing credit received in the prior year.

The $124 (1%) decrease in rent and occupancy, net of sublease revenue, for 2016 as compared to 2015 was attributable to decreases of $46 in our independent brokerage and advisory services segment, $283 in our Ladenburg segment and $10 in our insurance brokerage segment, partly offset by an increase of $216 in our corporate segment. We expect estimated savings of $500 in 2017 due to expected lower expense from Ladenburg's new New York City headquarters office and our smaller Miami corporate headquarters office.

The $784 (6%) increase in professional services expense for 2016 as compared to 2015 was attributable to increases at our independent brokerage and advisory services segment of $1,145 and our corporate segment of $109 mainly driven by higher legal fees, partly offset by a decrease in our insurance brokerage segment of $252 and our Ladenburg segment of $218.

The $907 (18%) decrease in interest expense for 2016 as compared to 2015 resulted from decreased average debt balances. An average debt balance of approximately $48,025 was outstanding for 2016, as compared to an average debt balance outstanding of approximately $61,948 for 2015. The average interest rate was 7.7% for 2016 as compared to 7.2% for 2015. For the twelve months ended December 31, 2016, our average debt balance declined due to the October 2016 cancellation of promissory notes in the aggregate balance of $17,976, the remaining principal amount, of our 11% notes due 2016, which were used to finance our 2011 acquisition of Securities America. Such cancellation was consideration for the exercise price of certain warrants. Our outstanding debt balance as of December 31, 2016 included $6,738, $4,073 and $11,421 of indebtedness incurred in connection with the Highland, KMS and SSN acquisitions, respectively.

The $1,257 (5%) increase in depreciation and amortization expense for 2016 as compared to 2015 was mainly due to an increase of $1,033 in our independent brokerage and advisory services segment primarily due to new technology enhancements and amortization of intangible assets related to acquisitions made in 2016 and $212 in our insurance brokerage segment.

The $417 (44%) increase in acquisition-related expense for 2016 as compared to 2015 was due to higher expenses in our independent brokerage and advisory services segment of $945 related to certain asset acquisitions by Securities America in 2016 offset by a decrease in our corporate segment of $528.

The $3,766 (41%) decrease in amortization of retention and forgivable loans for 2016 as compared to 2015 was due primarily to a reduction in our independent brokerage and advisory services segment as a majority of the retention loans granted to financial advisors from the acquisition of Securities America in 2011 matured in November 2015.

The $3,238 (5%) increase in other expense in 2016 as compared to 2015 was primarily driven by increases at our independent brokerage and advisory services segment of $5,298, driven by increases in bad debt, error and legal settlement expense of $3,812, deferred compensation plan expense of $654, travel and entertainment expense of $629, insurance expense of $422, dues, license and registration expense of $82 and financial advisor recruiting expenses $65, partially offset by decreases in other office expense $253 and advertising $241. Our Ladenburg segment experienced a decrease of $1,225, primarily driven by decreases in bad debt, errors and settlements expense of $603, travel and entertainment expense of $521 and other office expenses of $345. Other expense in our insurance brokerage and corporate segments also decreased by $637 and $198 respectively as compared to 2015.

We had an income tax expense of $10,025 in 2016 as compared to an income tax benefit of $482 in 2015. In 2016, our income tax provision is attributable to an increase in our valuation allowance.

**Year ended December 31, 2015 compared to year ended December 31, 2014**

For the fiscal year ended December 31, 2015, we had a net loss attributable to the Company of $11,151 as compared to net income attributable to the Company of $33,433 for the fiscal year ended December 31, 2014, primarily due to a $22,864 decrease in income tax benefit, a $11,456 decrease in revenues in our Ladenburg segment, an increase in depreciation and amortization expense of $8,680 and a reduction in interest and dividends revenue of $2,367 due to the expiration of our prior bank sweep program on cash deposits. The revenue decrease in our Ladenburg segment, which has higher margins than our other segments, resulted from a decline in equity capital raising for small and mid-cap public companies as compared to the prior year during which the Ladenburg segment experienced high levels of capital raising revenues. Our independent brokerage and advisory services segment also experienced reduced profitability, driven by declining commissions and marketing revenues from alternative investments, lower syndicate revenues and increased expenses related to business expansion. Net loss attributable to the Company for the fiscal year ended December 31, 2015 benefited from decreases in interest expense of $1,821, acquisition expense of $1,814 and non-cash compensation expense of $1,782 as compared to 2014. The 2014 results reflected a $23,346 income tax benefit primarily attributable to the Highland and KMS acquisitions, as well as from the reversal of a valuation allowance previously provided to offset deferred tax assets. Highland, which we acquired during the third quarter of 2014, had a loss before income taxes of $6,701 for fiscal year 2015 as compared to a loss before income taxes of $841 from the date of acquisition (July 31, 2014) through December 31, 2014. Total revenues and total expenses in 2015 increased by 25% and 28%, respectively, from the prior year.

2015 total revenues increased by $230,865 (25%) from 2014, in part due to the addition of $116,207 from SSN, which we acquired in January 2015. Revenues for Highland and KMS, which we acquired in July 2014 and October 2014, respectively, were $142,234 for the twelve months ended December 31, 2015 as compared to $46,004 from their dates of acquisition through December 31, 2014. 2015 total revenues included increases in advisory fees of $118,875, commissions of $112,949 and service fees and other income of $14,597, partially offset by decreases in investment banking revenue of $11,853, interest and dividends of $2,367 and principal transactions of $1,336. Our independent brokerage and advisory services segment revenues increased $218,785 (27%) from 2014, driven by an increase of $189,028 from the KMS and SSN acquisitions, successful recruitment of additional advisors and increased advisory assets under management. Our Ladenburg segment revenues decreased by $11,456 (16%) from 2014 primarily due to lower investment banking revenue as compared to the prior year.

2015 total expenses increased by $252,609 (28%) from 2014, in part due to the addition of $114,832 from SSN. Expenses for Highland and KMS were $149,511 for the twelve months ended December 31, 2015 as compared to $46,501 from their dates of acquisition through December 31, 2014. 2015 total expenses included increases in commissions and fees expense of $195,664, compensation and benefits expense of $29,555, other expense of $17,116, depreciation and amortization of $8,680, professional services expense of $3,525, brokerage, communication and clearance fee expense of $2,827 and rent and occupancy expense, net of sublease revenue, of $2,757, which were partially offset by decreases in interest expense of $1,821, acquisition-related expense of $1,814, amortization of retention and forgivable loans of $1,803, non-cash compensation of $1,782 and loss on extinguishment of debt of $296 due to the prepayment of indebtedness.

The $112,949 (25%) increase in commissions revenue for 2015 as compared to 2014 was attributable to the acquisitions of Highland, KMS and SSN, which added $148,362 in commissions revenue for the twelve months ended December 31, 2015. Our independent brokerage and advisory services segment commissions revenue increased by $90,561 (23%) in 2015 as compared to the prior year, mainly driven by an increase of $90,217 in revenues from the KMS and SSN acquisitions, higher commission trails and increased sales of mutual funds and variable annuities, partially offset by decreased sales of alternative investments. Our Ladenburg segment commissions revenue decreased by $1,011 (6%) in 2015 from 2014 resulting from reduced fees in all sectors. Commissions revenue in our insurance brokerage segment was $49,021 for the twelve months ended December 31, 2015 as compared to $25,622 from the date of acquisition (July 31, 2014) through December 31, 2014.

The $118,875 (35%) increase in advisory fees revenue in 2015 as compared to 2014 was primarily attributable to a $117,822 (35%) increase in our independent brokerage and advisory services segment. The acquisitions of KMS and SSN added $94,717 in advisory fees revenue for the twelve months ended December 31, 2015. Advisory fees revenue for a particular period is primarily affected by the level of advisory assets and market conditions. Total advisory assets under management at December 31, 2015 increased by 15% to approximately $50,100,000 as compared to $43,500,000 at December 31, 2014, primarily resulting from the SSN acquisition, which added approximately $5,300,000 in advisory assets.

The $11,853 (25%) decrease in investment banking revenue for 2015 as compared to 2014 was primarily driven by a $12,678 decrease in capital raising revenue. We derive investment banking revenue from Ladenburg's capital raising activities, including underwritten public offerings and private placements, and strategic advisory services. Revenue from capital raising activities was $33,015 for the fiscal year ended December 31, 2015 as compared to $45,692 for the prior year, primarily due to high levels of capital raising revenue in the prior year. Strategic advisory services revenue increased by $825 to $2,131 for 2015 as compared to $1,306 for 2014.

The $1,336 (69%) decrease in principal transactions revenue in 2015 as compared to 2014 was primarily attributable to our Ladenburg segment, which had a decrease of $1,215 (59%) due to a decline in the value of the firm's investments.

The $2,367 (38%) decrease in interest and dividends revenue for 2015 as compared to 2014 was primarily due to lower revenue from our cash sweep programs. We received enhanced revenue during 2014 under our cash sweep program but the benefits expired in the fourth quarter of 2014. Interest revenue from our cash sweep program was $1,994 for the year ended December 31, 2015, as compared to $4,172 for the prior year. We implemented a new cash sweep program beginning in April 2015 that applies to the cash balances at four of our broker-dealer subsidiaries, and implemented such program at a fifth broker-dealer subsidiary in September 2015. Future levels of interest and dividend revenue are dependent upon changes in prevailing interest rates and asset levels. At December 31, 2015, cash balances included in client assets were approximately $4,776,000, including approximately $3,624,000 participating in our new cash sweep programs. See Item 1A. "Risk Factors—Risk Factors Relating to Our Business—Significant interest rate changes and the termination of our cash sweep agreement could affect our profitability and financial condition" above.

The $14,597 (19%) increase in service fees and other income in 2015 as compared to 2014 was primarily attributable to the acquisitions of Highland, KMS and SSN, which added $15,344 in service fees and other income for the twelve months ended December 31, 2015. We have undertaken initiatives to increase service fees and other income.

The $195,664 (30%) increase in commissions and fees expense for 2015 as compared to 2014 was directly correlated with the increase in advisory fee and commission revenue in our independent brokerage and advisory services segment and our insurance brokerage segment. Commissions and fees expense comprises compensation 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 generated by such persons and vary by product. Accordingly, when our independent contractor registered representatives increase their business, both our revenues and expenses increase because our representatives earn additional compensation based on the revenues produced. Commissions and fees expenses for Highland, KMS and SSN were $188,022 for the twelve months ended December 31, 2015.

The $29,555 (25%) increase in compensation and benefits expense for 2015 as compared to 2014 was attributable to an increase of $14,897 in our independent brokerage and advisory services segment, as headcount grew 18% from the prior year mainly driven by acquisitions, partially offset by a decrease of $2,774 in our Ladenburg segment. Compensation and benefits expense in our insurance brokerage segment was $30,044 for the twelve months ended December 31, 2015 as compared to $13,389 from the date of acquisition (July 31, 2014) through December 31, 2014.

The $1,782 (17%) decrease in non-cash compensation expense for 2015 as compared to 2014 was primarily attributable to a decrease of $3,575 from stock option grants made to Securities America financial advisors in connection with the 2011 acquisition and consultants, partially offset by an increase of $628 from stock option grants to employees and directors, including $704 granted to employees of newly-acquired companies and an increase of $1,168 from restricted stock grants to employees. Compensation expense for share-based awards granted to independent financial advisors is measured at their vesting date fair value. The compensation expense recognized each period is based on the awards' estimated value at the most recent reporting date. We use a Black-Scholes model to estimate fair value, which uses volatility, price and interest inputs. Also, we estimate a forfeiture rate based on historical experience. The decrease in the price of our common stock and the decrease in the expected forfeitures for these grants has contributed to the decrease in our non-cash compensation expense related to grants made to advisors. The stock option grants made to Securities America financial advisors in connection with the 2011 acquisition were fully vested in November 2015.

The $2,827 (16%) increase in brokerage, communication and clearance fees expense for 2015 as compared to 2014 was primarily due to the acquisitions of KMS and SSN, which added $3,077 for the twelve months ended December 31, 2015. Excluding KMS and SSN, our independent brokerage and advisory services segment experienced a decrease of $616 in brokerage, communication and clearing fees expense for 2015 as compared to the prior year. Brokerage, communication and clearing fees expense in our insurance brokerage segment was $759 for the twelve months ended December 31, 2015 as compared to $329 from the date of acquisition (July 31, 2014) through December 31, 2014.

The $2,757 (39%) increase in rent and occupancy, net of sublease revenue for 2015 as compared to 2014 was primarily due to an increase of $1,069 in our insurance brokerage segment, an increase of $978 in our independent brokerage and advisory services segment, and an increase of $694 in our Ladenburg segment that included additional expense of $468 due to default by a subtenant who filed for bankruptcy during 2015.

The $3,116 (28%) increase in professional services expense for 2015 as compared to 2014 was attributable to increases at our independent brokerage and advisory services segment of $972, our corporate segment of $1,163 and our Ladenburg segment of $772, mainly driven by higher audit and recruiting fees. Professional services expenses for Highland, KMS and SSN were $1,787 for the twelve months ended December 31, 2015.

The $1,821 (26%) decrease in interest expense for 2015 as compared to 2014 resulted from decreased average debt balances and decreased average interest rates. An average debt balance of approximately $61,948 was outstanding for 2015, as compared to an average debt balance outstanding of approximately $63,704 for 2014. The average interest rate was 7.2% for 2015 as compared to 9.2% for 2014. For the twelve months ended December 31, 2015, our average debt balance declined due to the prepayment of $11,852 of our 11% notes due 2016, which were used to finance our 2011 acquisition of Securities America. In January 2015, we incurred $20,000 of debt in connection with the SSN acquisition, which bears interest at an annual rate of 1.74%. Our outstanding debt balance as of December 31, 2015 included $6,738, $6,054 and $16,355 of indebtedness incurred in connection with the Highland, KMS and SSN acquisitions, respectively.

The $8,680 (47%) increase in depreciation and amortization expense for 2015 as compared to 2014 was largely due to $1,890 of additional expense from SSN and an increase of $2,506 in our independent brokerage and advisory services segment driven by capitalized information technology expense.

Depreciation and amortization expense in our insurance brokerage segment was $6,949 for the twelve months ended December 31, 2015 as compared to $2,743 from the date of acquisition (July 31, 2014) through December 31, 2014.

The $1,402 (60%) decrease in acquisition-related expense for 2015 as compared to 2014 was due to higher expenses in the prior-year period resulting from the acquisitions of Highland and KMS in 2014 and SSN on January 2, 2015.

The $17,114 (40%) increase in other expense in 2015 as compared to 2014 was primarily driven by increases at our independent brokerage and advisory services segment of $10,293, our insurance brokerage segment of $4,553 and our Ladenburg segment of $1,779. The acquisitions of KMS and SSN added $7,387 in other expense for the twelve months ended December 31, 2015. Excluding KMS and SSN, the increase in other expense at our independent brokerage and advisory services segment was mainly attributable to increases in insurance expense of $1,115, bad debt, error and settlement expense of $959, and financial advisor recruiting expense of $753, which was partially offset by decreases in dues, licenses and registrations of $655, deferred compensation plan expense of $303 and conference expense of $277. Our Ladenburg segment experienced an increase in bad debt expense of $974, recorded a write-off of $855 due to the bankruptcy of a subtenant under a lease that expired in June 2015 and added expense related to a new health care conference held in the third quarter of 2015, partially offset by a decrease in travel, entertainment and meals expense of $210. Our insurance brokerage segment had other expense of $7,336 for the twelve months ended December 31, 2015 as compared to $2,783 from the date of acquisition (July 31, 2014) through December 31, 2014.

We had an income tax benefit of $482 in 2015 as compared to an income tax benefit of $23,346 in 2014. In 2015, the effective tax rate differed from the federal statutory income tax rate primarily due to non-deductible expenses and state and local income taxes. In 2014, the effective tax rate differed from the federal statutory income tax rate primarily due to the reversal of our valuation allowance as our net deferred tax assets became realizable on a more-likely-than-not basis. The reversal related to additional positive evidence including acquisition of Highland Capital and pre-tax earnings in recent years.

## Liquidity and Capital Resources

Approximately 26% and 29% of our total assets at December 31, 2016 and December 31, 2015, respectively, consisted of cash and cash equivalents, securities owned and receivables from clearing brokers and other broker-dealers, all of which fluctuate, depending upon the levels of customer business and trading activity.

Receivables from broker-dealers, which are primarily from clearing brokers, turn over rapidly. A relatively small percentage of our total assets are fixed. 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.

Below is a summary of changes in our cash flow (in thousands):

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Net cash provided by (used in): | | | |
| Operating activities | $ 14,246 | $ 19,319 | $ 26,855 |
| Investing activities | (11,229) | (28,211) | (16,613) |
| Financing activities | (22,764) | 24,482 | 42,516 |
| Net (decrease) increase in cash and cash equivalents | $ (19,747) | $ 15,590 | $ 52,758 |
| Cash and cash equivalents, beginning of period | 118,677 | 103,087 | 50,329 |
| Cash and cash equivalents, end of period | $ 98,930 | $118,677 | $103,087 |

Cash provided by operating activities for 2016 was $14,246, which primarily consisted of our net loss of $22,311 adjusted for non-cash expenses, decreases in accrued compensation, decreases in securities owned at fair value, decreases in receivables from clearing brokers and other broker-dealers and decreases in other assets, partially offset by increases in commissions and fees payable, increases in cash surrender value, increases in notes receivable as well as increases in accounts payable and accrued liabilities. In 2015, cash provided by operating activities was $19,319, which primarily consisted of our net loss of $11,213 adjusted for non-cash expenses, increases in accrued compensation, commissions and fees payable, and decreases in securities owned at fair value and cash surrender value, partially offset by increases in receivables from clearing brokers and other broker-dealers, notes receivable and other assets, as well as increases in accounts payable and accrued liabilities.

Investing activities used $11,229 in 2016, primarily due to the purchase of furniture, equipment and leasehold improvements of $7,132, the acquisition of certain assets of Wall Street Financial Group for $1,192 and the acquisition of certain assets of Foothill Securities for $2,905. In 2015, investing activities used $28,211, primarily due to the acquisition of SSN, the purchase of furniture, equipment and leasehold improvements and the capitalization of software development costs and certain asset acquisitions.

Financing activities used $22,764 in 2016, primarily due to the payment of $30,438 of dividends on our Series A Preferred Stock, $14,749 used for common stock repurchases and $7,516 in payments of outstanding indebtedness that included a $4,935 repayment of outstanding notes related to the SSN acquisition, a $1,981 repayment of outstanding notes related to the KMS acquisition and a $600 repayment of a subordinated note payable to an officer of KMS. This was partially offset by $27,580 from the issuance of the Series A Preferred Stock under our "at the market" offering and $3,061 from the issuance of common stock upon option exercises and under our employee stock purchase plan. Financing activities provided $24,482 in 2015, primarily due to $84,380 from the issuance of the Series A Preferred Stock under our "at the market" offering and $2,016 from the issuance of common stock upon option exercises and under our employee stock purchase plan. This was partially offset by $18,026 in payments of outstanding indebtedness that included a $11,852 loan repayment of our 11% notes due 2016, a $3,645 repayment of outstanding notes related to the SSN acquisition, a $1,945 repayment of outstanding notes related to the KMS acquisition and a $387 repayment of a term note made by one of our subsidiaries, payment of $28,108 of dividends on our Series A Preferred Stock and $16,355 used for common stock repurchases.

**Operating Capital Requirements**

Each of Securities America, Triad, Investacorp, KMS, SSN and Ladenburg is subject to a minimum net capital requirement. Therefore, they are subject to certain restrictions on the use of capital and their related liquidity. At December 31, 2016, the regulatory net capital of each of our broker-dealer subsidiaries was as follows: Securities America $5,192, Triad $11,262, Investacorp $7,293, KMS $5,517, SSN $7,739 and Ladenburg $22,523. Failure to maintain the required net capital may subject our broker-dealer subsidiaries to suspension or expulsion by FINRA, the SEC and other regulatory bodies and ultimately may require their liquidation. The Net Capital Rule also prohibits the payment of dividends, redemption of stock and prepayment or payment of principal of subordinated indebtedness if net capital, after giving effect to the payment, redemption or prepayment, would be less than specified percentages of the minimum net capital requirement.

Compliance with the Net Capital Rule could limit Ladenburg's operations that require the intensive use of capital, such as underwriting and trading activities, and also could restrict our ability to withdraw capital from our subsidiaries, which in turn, could limit our ability to pay dividends and repay debt. See Item 1A. "Risk Factors—Risk Factors Relating to the Regulatory Environment—Failure to comply with capital requirements could subject us to suspension, revocation or fines by the SEC, FINRA or other regulators" above.

Premier Trust, chartered by the state of Nevada, is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division. Under Nevada law, Premier Trust must maintain stockholders' equity of at least $1,000, including cash of at least $250. At December 31, 2016, Premier Trust had stockholders' equity of $1,766, including at least $250 in cash.

**Sources of Liquidity**

Our primary sources of liquidity include cash flows from operations, sales of securities in public or private transactions and borrowings under our $40,000 revolving credit agreement with an affiliate of Dr. Phillip Frost, our chairman and principal shareholder. We believe that we have adequate cash and regulatory capital to fund our current level of operating activities through December 31, 2017.

We entered into an equity distribution agreement under which we sold shares of our Series A Preferred Stock in "at the market" offerings under Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"). During 2016, we sold 1,161,895 shares of Series A Preferred Stock pursuant to the "at the market" offering, which provided us with total gross proceeds of $28,303, before deducting the commission paid to unaffiliated sales agents and offering expenses aggregating $723.

We used the net proceeds from the Series A Preferred Stock offerings in the year ended December 31, 2015 to prepay $11,852 principal amount of the $160,700 aggregate principal amount of our 11% notes due 2016, which were used to finance our 2011 acquisition of Securities America. See Note 15, "Shareholders' Equity," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

Borrowings under the $40,000 revolving credit agreement bear interest at a rate of 11% per annum, payable quarterly. We had no outstanding balance under the revolving credit agreement at either December 31, 2016 or December 31, 2015. We may repay outstanding amounts or re-borrow amounts under our revolving credit facility at any time prior to the maturity date of August 25, 2021, without penalty. We believe our existing assets, cash flows from operations and funds available under our $40,000 revolving credit facility will provide adequate funds for continuing operations at current activity levels and for payment of our obligations, including outstanding indebtedness and the dividends on our outstanding Series A Preferred Stock. We were in compliance with all covenants in our debt agreements as of December 31, 2016.

**Debt**

In connection with the Securities America acquisition, we entered into a senior loan agreement with various lenders, under which the lenders loaned us $160,700, a portion of which we used to fund the acquisition. We refer to this loan as the November 2011 Loan. Interest on this loan was payable quarterly at 11% per year. In connection with this loan, we issued to the lenders warrants to purchase an aggregate of 10,713,332 shares of our common stock, at $1.68 per share, which was the closing price of our common stock on the acquisition closing date. On October 26, 2016, holders of these warrants to purchase an aggregate of 10,699,999 shares of our common stock exercised such warrants in full. Each holder paid the exercise price by cancellation of indebtedness represented by the remaining balance of the promissory note held by such lender. Accordingly, promissory notes with an aggregate remaining outstanding balance of $17,976 were canceled and no indebtedness related to the November 2011 Loan remains outstanding. See Note 12, "Notes Payable," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K. The lenders under the November 2011 Loan included Frost Nevada Investments Trust, an affiliate of our chairman of the board and principal shareholder, Dr. Phillip Frost, M.D., and Vector Group, Ltd., a principal shareholder.

On November 4, 2011, NFS provided us with a seven-year, $15,000 forgivable loan. We used the proceeds to fund expenses related to the Securities America acquisition. Interest on the loan accrues at the average annual Federal Funds effective rate plus 6% per annum, subject to the maximum rate of 11% per annum. If Securities America meets certain annual clearing revenue targets set forth in the loan agreement, the principal balance of the loan will be forgiven in seven equal yearly installments of $2,143 commencing on November 4, 2012 and continuing on an annual basis through November 2018. Interest payments due with respect to each such year will also be forgiven if the annual clearing revenue targets are met. Any principal amounts not forgiven will be due in November 2018, and any interest payments not forgiven are due annually. If during the loan term any principal amount is not forgiven, we may have such principal forgiven in future years if Securities America exceeds subsequent annual clearing revenue targets. We expensed interest under this loan agreement until such time as such interest is forgiven. Securities America met the annual clearing revenue target for the periods ending November 4, 2012, 2013, 2014, 2015 and 2016, resulting in the forgiveness of $2,143 aggregate principal amount of the loan in November of each period.

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

In connection with entering into the new forgivable loan in 2011, Securities America and our other broker–dealer subsidiaries amended their respective clearing agreements with NFS to, among other things, extend the term of those agreements through November 2018. Also, we and NFS amended the terms of the 2009 forgivable loan made by NFS to us such that the remaining principal balance of $7,143 and the related accrued interest will be forgiven, subject to the terms and conditions of the loan, in four equal annual installments commencing in November 2012 without us being required to satisfy the annual clearing revenue targets previously established. We expensed interest under the 2009 NFS agreement until such interest was forgiven. The principal balance of the 2009 forgivable loan was reduced to $0 in November 2015. The required conditions to forgiveness were met in November 2016 for the 2011 forgivable loan. Accordingly, we recognized income in the fourth quarter of 2016 of $2,143 and $408 from the forgiveness of principal and interest, respectively, and the outstanding balance under the 2011 forgivable loans was reduced to $4,285. We recognized income in 2015 of $3,928 and $619, and in 2014 of $3,929 and $839 from the forgiveness of principal and interest, respectively.

In November 2011, as part of the amendment of Ladenburg's clearing agreement with NFS, NFS agreed to provide an annual credit of $1,000 to Ladenburg or another of our broker-dealers for a five-year period. Such credits were received in November 2012, November 2013, November 2014, November 2015 and November 2016. Such expense reduction must be repaid pro-rata if the clearing agreement is terminated prior to the end of the term. We have reflected the expense reduction ratably in our financial statements.

On July 31, 2014, we acquired HCHC Holdings, Inc. ("HCHC"), the parent company of Highland. Under the terms of the merger agreement, all outstanding shares of HCHC common stock were converted into the right to receive $3,613 in cash and 2,540,762 shares of our common stock, which are subject to certain transfer restrictions. Also, we caused all indebtedness owed by certain HCHC subsidiaries under a credit agreement (in the amount of $21,834) to be repaid. At December 31, 2016, approximately $6,738 of HCHC Acquisition Inc.'s (as successor in interest to HCHC) 10% promissory notes due February 26, 2019 remained outstanding. Accrued interest on the promissory notes is payable quarterly on the 15th of October, January, April and July. The promissory notes may be prepaid. Payment of the principal and all accrued and unpaid interest under the promissory notes may be accelerated upon the occurrence of customary events of default, including the failure to make payments when due and the commencement of bankruptcy or similar proceedings. We used approximately $25,400 of cash to finance the Highland acquisition.

On October 15, 2014, we acquired all of the issued and outstanding capital stock of KMS. At the closing of the acquisition, we paid approximately $24,000, consisting of $11,000 in cash, $8,000 principal amount of promissory notes, and 1,440,922 shares of our common stock, which are subject to certain transfer restrictions. The notes are unsecured and bear interest at 1.84% per annum and are payable in 16 equal quarterly installments. The notes may be prepaid in full or in part at any time without premium or penalty. The holders may accelerate the notes upon certain customary events of default. At December 31, 2016, the outstanding balance of these notes, net of $221 discount, amounted to $3,852.

On January 2, 2015, we acquired all of the capital stock of SSN and a sister company. The purchase price was approximately $47,287, consisting of $25,000 principal amount of secured short-term promissory notes, which bore interest at 0.41% per annum and were paid in full on the business day following the closing date, and $20,000 principal amount of secured four-year promissory notes, bearing interest at 1.74% per annum and payable in equal quarterly installments of principal and interest. The notes may be prepaid in full or in part at any time without premium or penalty. The holders may accelerate the notes upon certain customary events of default. The notes are secured by a pledge of the shares of SSN and RCC purchased in the acquisition pursuant to a stock pledge agreement. At December 31, 2016, the outstanding balance of these notes, net of $651 discount, amounted to $10,769. We paid an additional amount subsequent to closing of approximately $3,590, which is included in the purchase price above, based on the amount by which the aggregate net worth of SSN and a sister company as of the closing date of the acquisition exceeded a targeted amount.

We are currently in compliance with all debt covenants in our debt agreements.

**Stock Repurchases**

In March 2007, our board of directors authorized the repurchase of up to 2,500,000 shares of our common stock from time to time on the open market or in privately negotiated transactions depending on market conditions. In October 2011, our board amended the repurchase program to permit the purchase of up to an additional 5,000,000 shares and another amendment was made in November 2014 to permit the repurchase of an additional 10,000,000 shares. On November 7, 2016, an amendment to the stock repurchase program was approved to permit the repurchase of up to an additional 10,000,000 shares. As of December 31, 2016, 17,500,000 shares had been repurchased for $44,690 under the program, including 6,132,124 shares repurchased for $14,749 during the twelve months ended December 31, 2016. In the fourth quarter of 2015, we adopted a Rule 10b5-1 trading plan, and intend to adopt similar plans periodically in the future, to permit the repurchase of common stock pursuant to the existing stock repurchase program during certain restricted trading periods.

**Lease Agreements**

At December 31, 2016, we were obligated under several non-cancelable lease agreements for office space, which provide for future minimum lease payments aggregating approximately $52,536 through January 2030, exclusive of escalation charges. Our Ladenburg subsidiary leased office space at 590 Madison Avenue, New York, New York in 1995 and the lease expired in June 2015. We sublet the space through June 2015. One of these subtenants filed for bankruptcy protection under Chapter 7 of the Federal Bankruptcy Code in April 2015. As a result, Ladenburg wrote-off a receivable from subtenant of $855 and incurred additional rent expense due to default by subtenant of $468 during the twelve months ended December 31, 2015.

In connection with an office lease amendment effective February 1, 2016, a subsidiary is obligated under a non-cancelable lease agreement for office space for a period of 14 years under which the annual rental payments are $1,791 for 2016 and 2017, $1,954 for 2018 and increasing by 2% per year thereafter.

In connection with a new office lease dated March 28, 2016, a subsidiary has an option to lease office space, which has not yet been constructed, for 12 years and, if exercised, would require the payment of an estimated average annual rent of $1,811, subject to certain adjustments. If the subsidiary does not exercise the option to lease the newly-built office space by May 31, 2017, it would be subject to certain financial penalties.

## Off-Balance Sheet Arrangements

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

See Note 14, "Off-Balance-Sheet Risk and Concentration of Credit Risk," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

## Contractual Obligations

The table below summarizes information about our contractual obligations as of December 31, 2016 and the effect these obligations are expected to have on our liquidity and cash flow in the future years.

| | Payments Due By Period | | | | |
|---|---|---|---|---|---|
| | **Total** | **Less than 1 year** | **1 – 3 years** | **4 – 5 years** | **After 5 years** |
| Revolving credit agreement with affiliate of our principal shareholder (1) | $ — | $ — | $ — | $ — | $ — |
| Notes payable to clearing firm under forgivable loans (2) | 4,675 | 263 | 4,412 | — | — |
| Operating leases (3) | 52,536 | 7,688 | 13,482 | 9,673 | 21,693 |
| Deferred compensation plan (4) | 19,234 | 800 | 5,103 | 4,432 | 8,899 |
| Note payable to bank—Securities America (5) | 810 | 583 | 213 | 14 | — |
| Notes payable to Highland's former shareholders (6) | 8,362 | 676 | 7,686 | — | — |
| Notes payable to KMS' former shareholders (7) | 4,156 | 2,079 | 2,077 | — | — |
| Notes payable to SSN's former shareholders (8) | 11,665 | 5,187 | 6,478 | — | — |
| Total | $101,438 | $17,276 | $39,451 | $14,119 | $30,592 |

(1) The revolving credit agreement has an August 25, 2021 maturity date and bears interest at a rate of 11% per annum, payable quarterly. Assumes no payments of principal prior to maturity. See Note 12, "Notes Payable," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

(2) The 2011 NFS forgivable loan ($4,285 at December 31, 2016) bears interest at the federal funds rate plus 6% per annum and is payable in seven annual installments if not forgiven. See Note 12, "Notes Payable," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

(3) Excludes sublease revenues of $188. See Note 13, "Commitments and Contingencies," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

(4) See Note 10, "Deferred Compensation Plan," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

(5) Note bears interest at 5.5% per annum and is payable in 54 monthly installments. See Note 12, "Notes Payable," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

(6) Notes bear interest at 10% per annum and mature on February 26, 2019. See Note 12, "Notes Payable," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

(7) Notes bear interest at 1.84% per annum and are payable in 16 quarterly installments. See Note 12, "Notes Payable," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

(8) Notes bear interest at 1.74% per annum and are payable in 16 quarterly installments. See Note 12, "Notes Payable," to the consolidated financial statements included in Part II, Item 8 of this annual report on Form 10-K.

## Market Risk

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

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

## 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 Securities and Exchange Commission 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 Item 1A above, 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, except as may be required by law.

## ITEM 7A. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.*

The information in Item 7 under the caption "Management's Discussion and Analysis of Financial Condition and Results of Operations—Market Risk" is incorporated herein by reference.

## ITEM 8. *FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.*

See the Consolidated Financial Statements and Notes thereto, together with the report thereon of EisnerAmper LLP dated March 15, 2017, beginning on page F-1 of this report which are incorporated by reference in this Item 8.

## ITEM 9. *CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.*

None.

## ITEM 9A. *CONTROLS AND PROCEDURES.*

### Evaluation of Disclosure Controls and Procedures

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

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

### Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rules 13a-15(f) and 15d-15(f).

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our internal control over financial reporting is designed to provide reasonable assurance to management and to our Board of Directors regarding the reliability of financial reporting and the preparation and fair presentation of financial statements for external purposes in accordance with generally accepted accounting principles. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

In connection with this annual report on Form 10-K, our chief executive officer and chief financial officer evaluated, with the participation of our management, the effectiveness of our internal control over financial reporting as of the end of the period covered by this report. Based on management's evaluation, our chief executive officer and chief financial officer each concluded that our internal control over financial reporting was effective as of December 31, 2016.

EisnerAmper LLP, an independent registered public accounting firm, has audited our consolidated financial statements and the effectiveness of internal controls over financial reporting as of December 31, 2016 as stated in its report which is included herein.

### Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Stockholders
Ladenburg Thalmann Financial Services Inc.

We have audited the internal control over financial reporting of Ladenburg Thalmann Financial Services Inc. and subsidiaries (the "Company") as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

An entity's internal control over financial reporting is a process designed 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. An entity's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and directors of the entity; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework (2013) issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated statements of financial condition of Ladenburg Thalmann Financial Services Inc. and subsidiaries as of December 31, 2016 and 2015 and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016, and our report dated March 15, 2017 expressed an unqualified opinion thereon.

/s/ EisnerAmper LLP
New York, New York
March 15, 2017

**ITEM 9B.** ***OTHER INFORMATION.***

None.

# PART III

## ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE.*

This information will be contained in our definitive proxy statement for our 2017 Annual Meeting of Shareholders, to be filed with the SEC not later than 120 days after the end of our fiscal year covered by this report, and incorporated herein by reference or, alternatively, by amendment to this Form 10-K under cover of Form 10-K/A no later than the end of such 120 day period.

## ITEM 11. *EXECUTIVE COMPENSATION.*

This information will be contained in our definitive proxy statement for our 2017 Annual Meeting of Shareholders, to be filed with the SEC not later than 120 days after the end of our fiscal year covered by this report, and incorporated herein by reference or, alternatively, by amendment to this Form 10-K under cover of Form 10-K/A no later than the end of such 120 day period.

## ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS.*

This information will be contained in our definitive proxy statement for our 2017 Annual Meeting of Shareholders, to be filed with the SEC not later than 120 days after the end of our fiscal year covered by this report, and incorporated herein by reference or, alternatively, by amendment to this Form 10-K under cover of Form 10-K/A no later than the end of such 120 day period.

## ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE.*

This information will be contained in our definitive proxy statement for our 2017 Annual Meeting of Shareholders, to be filed with the SEC not later than 120 days after the end of our fiscal year covered by this report, and incorporated herein by reference or, alternatively, by amendment to this Form 10-K under cover of Form 10-K/A no later than the end of such 120 day period.

## ITEM 14. *PRINCIPAL ACCOUNTANT FEES AND SERVICES.*

This information will be contained in our definitive proxy statement for our 2017 Annual Meeting of Shareholders, to be filed with the SEC not later than 120 days after the end of our fiscal year covered by this report, and incorporated herein by reference or, alternatively, by amendment to this Form 10-K under cover of Form 10-K/A no later than the end of such 120 day period.

## PART IV

### ITEM 15. *EXHIBITS AND FINANCIAL STATEMENT SCHEDULES.*

(a)(1): Index to 2016 Consolidated Financial Statements

The consolidated financial statements and the notes thereto, together with the report thereon of EisnerAmper LLP dated March 15, 2017, appear beginning on page F-1 of this report.

(a)(2): Financial Statement Schedules

Financial statement schedules not included in this report have been omitted because they are not applicable or the required information is shown in the consolidated financial statements or the notes thereto.

(a)(3): Exhibits Filed

The following exhibits are filed as part of this annual report on Form 10-K.

### ITEM 16. *FORM 10-K SUMMARY.*

None.

## EXHIBIT INDEX

| Exhibit No. | Description | Incorporated By Reference from Document | No. in Document |
|---|---|---|---|
| 2.1 | Stock Purchase Agreement, dated as of September 21, 2014, by and among the Company, Securities Service Network, Inc., Renaissance Capital Corporation and the shareholders of Securities Service Network, Inc. and Renaissance Capital Corporation. | X | 2.2 |
| 2.2 | Asset Purchase Agreement, dated July 16, 2014, by and among Securities America Financial Corporation, Sunset Financial Services, Inc. and Kansas City Life Insurance Company (Certain portions of this agreement have been omitted under a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 and filed separately with the United States Securities and Exchange Commission.) | Y | 2.1 |
| 2.3 | Stock Purchase Agreement, dated as of August 8, 2014 by and among the Company, KMS Financial Services, Inc. and the shareholders of KMS Financial Services, Inc. | W | 2.1 |
| 3.1 | Articles of Incorporation. | A | 3.1 |
| 3.2 | Articles of Amendment to the Articles of Incorporation, dated August 24, 1999. | B | 3.2 |
| 3.3 | Articles of Amendment to the Articles of Incorporation, dated April 3, 2006. | C | 3.1 |
| 3.4 | Articles of Amendment to the Articles of Incorporation, dated May 9, 2013. | Q | 3.1 |

| | | | |
|---|---|---|---|
| 3.5 | Articles of Amendment to the Articles of Incorporation, dated May 21, 2013. | R | 3.6 |
| 3.6 | Articles of Amendment to the Articles of Incorporation, dated June 20, 2013. | S | 3.1 |
| 3.7 | Articles of Amendment to the Articles of Incorporation, dated June 9, 2014. | T | 3.1 |
| 3.8 | Articles of Amendment to the Articles of Incorporation, dated June 25, 2014. | V | 3.1 |
| 3.9 | Articles of Amendment to the Articles of Incorporation, dated November 20, 2014. | Z | 3.1 |
| 3.10 | Articles of Amendment to the Articles of Incorporation, dated May 20, 2015. | DD | 3.1 |
| 3.11 | Articles of Amendment to the Articles of Incorporation, dated May 18, 2016. | GG | 3.1 |
| 3.12 | Amended and Restated Bylaws. | D | 3.2 |
| 4.1 | Form of common stock certificate. | A | 4.1 |
| 4.2 | Specimen 8.00% Series A Cumulative Redeemable Preferred Stock Certificate. | R | 4.1 |
| 4.3 | Form of Non-Negotiable Promissory Note, dated as of October 15, 2014, issued to the former shareholders of KMS Financial Services, Inc. | W | 4.1 |
| 4.4 | Form of Non-Negotiable Promissory Note (Balance Note), dated as of January 2, 2015, issued to the former shareholders of Securities Service Network, Inc. and Renaissance Capital Corporation. | AA | 4.2 |
| 10.1 | Amended and Restated 1999 Performance Equity Plan.* | F | 4.1 |
| 10.2 | Ladenburg Thalmann Financial Services Inc. Amended and Restated 2009 Incentive Compensation Plan.* | U | Exhibit A |
| 10.3 | Ladenburg Thalmann Financial Services Inc. Amended and Restated Qualified Employee Stock Purchase Plan.* | G | Appendix A |
| 10.4 | Office Lease dated March 30, 2007 between Ladenburg Thalmann & Co., Inc. and Frost Real Estate Holdings, LLC. | H | 10.1 |
| 10.5 | Amendment and Lease Extension Agreement, dated as of March 8, 2013, between Ladenburg Thalmann & Co. Inc. and Frost Real Estate Holdings, LLC. | P | 10.1 |
| 10.6 | 2nd Amendment to Lease Agreement, dated as of November 15, 2016, between Ladenburg Thalmann & Co. Inc. and Frost Real Estate Holdings, LLC. | ** | — |
| 10.7 | Letter Agreement, dated February 26, 2014, between the Company and Vector Group Ltd. | I | 10.1 |
| 10.8 | Employment Agreement, dated as of January 20, 2015, between the Company and Mark Zeitchick.* | BB | 10.2 |

| | | | |
|---|---|---|---|
| 10.9 | Employment Agreement, dated as of January 20, 2015, between the Company and Richard Lampen.* | BB | 10.1 |
| 10.10 | Non-Plan Option Agreement, dated as of October 19, 2007, by and between the Company and Bruce A. Zwigard. | E | 10.2 |
| 10.11 | Warrant, dated as of October 19, 2007, issued to Frost Gamma Investments Trust pursuant to Credit Agreement. | E | 10.3 |
| 10.12 | Employment Letter, dated as of January 30, 2013, by and between the Company and Joseph Giovanniello, Jr. * | O | 10.1 |
| 10.13 | Employment Letter dated as of February 8, 2008 between the Company and Brett Kaufman.* | J | 10.1 |
| 10.14 | Stock Purchase Agreement, dated August 16, 2011, by and between the Company and Ameriprise Financial, Inc. | M | 2.1 |
| 10.15 | Lease, dated as of August 13, 2010, between Investacorp Group, Inc. and Frost Real Estate Holdings, LLC. | L | 10.1 |
| 10.16 | Employment Letter, dated as of December 15, 2011, between the Company and Adam Malamed.* | N | 10.27 |
| 10.17 | Credit Agreement, dated as of October 19, 2007, by and between the Company and Frost Gamma Investments Trust, including the form of note thereto. | E | 4.1 |
| 10.18 | Amendment No. 1 to Credit Agreement by and between the Company and Frost Nevada Investments Trust, as assignee, dated as of August 25, 2009. | K | 4.2 |
| 10.19 | Amendment No. 2 to Credit Agreement, dated August 16, 2011, by and between the Company and Frost Nevada Investments Trust. | M | 10.1 |
| 10.20 | Amendment No. 3 to Credit Agreement, dated March 9, 2016, by and between the Company and Frost Nevada Investments Trust. | FF | 10.22 |
| 10.21 | Forgivable Loan Agreement, dated as of August 25, 2009, between the Company and National Financial Services LLC. (Certain portions of this agreement have been omitted under a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 and filed separately with the United States Securities and Exchange Commission.) | K | 4.1 |
| 10.22 | First Amendment, dated November 4, 2011, to Forgivable Loan Agreement between the Company and National Financial Services LLC. | N | 10.32 |
| 10.23 | Forgivable Loan Agreement, dated as of November 4, 2011, between the Company and National Financial Services LLC. (Certain portions of this agreement have been omitted under a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 and filed separately with the United States Securities and Exchange Commission.) | N | 10.33 |
| 10.24 | Equity Distribution Agreement, dated May 22, 2015, between the Company and Jefferies LLC, as representative of the Sales Agents listed on Schedule I thereto. | DD | 1.1 |

| | | | |
|---|---|---|---|
| 10.25 | Stock Pledge Agreement, dated as of January 2, 2015, between the Company and Wade Wilkinson and David Michael Coffey, as representatives of the former shareholders of Securities Service Network, Inc. and Renaissance Capital Corporation. | AA | 10.1 |
| 10.26 | Form of Restricted Stock Award Agreement.* | CC | 10.4 |
| 10.27 | Amendment and Lease Extension Agreement, dated as of February 22, 2016, between Investacorp Group, Inc. and Frost Real Estate Holdings, LLC. | EE | 10.1 |
| 12.1 | Statement re: Computation of Ratios of Earnings to Fixed Charge, and Ratios of Earnings to Combined Fixed Charge and Preferred Stock Dividends* | ** | |
| 21 | List of Subsidiaries | ** | — |
| 23.1 | Consent of EisnerAmper LLP | ** | — |
| 24 | Power of Attorney | *** | — |
| 31.1 | Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | ** | — |
| 31.2 | Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 | ** | — |
| 32.1 | Certification of Chief Executive Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | **** | — |
| 32.2 | Certification of Chief Financial Officer, Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 | **** | — |
| 101.INS | XBRL Instance Document | ** | — |
| 101.SCH | XBRL Taxonomy Extension Schema | ** | — |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase | ** | — |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase | ** | — |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase | ** | — |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase | ** | — |

* Management Compensation Contract
** Filed herewith
*** Contained on the signature page hereto
**** Furnished herewith
A. Registration statement on Form SB-2 (File No. 333-31001).
B. Annual report on Form 10-K for the year ended August 24, 1999.
C. Quarterly report on Form 10-Q for the quarter ended June 30, 2006.
D. Current report on Form 8-K, dated September 20, 2007 and filed with the SEC on September 21, 2007.
E. Current report on Form 8-K, dated October 19, 2007 and filed with the SEC on October 22, 2007.
F. Registration statement on Form S-8 (File No. 333-139254).

G. Definitive proxy statement filed with the SEC on August 27, 2012 relating to the annual meeting of shareholders held on September 28, 2012.
H. Current report on Form 8-K, dated March 30, 2007 and filed with the SEC on April 2, 2007.
I. Current report on Form 8-K, dated February 26, 2014 and filed with the SEC on February 28, 2014.
J. Current report on Form 8-K, dated March 27, 2008 and filed with the SEC on March 28, 2008.
K. Quarterly report on Form 10-Q for the quarter ended September 30, 2009.
L. Current report on Form 8-K, dated August 10, 2010 and filed with the SEC on August 13, 2010.
M. Current report on Form 8-K, dated August 16, 2011 and filed with the SEC on August 18, 2011.
N. Annual report on Form 10-K, for the year ended December 31, 2011.
O. Current Report on Form 8-K, dated January 30, 2013 and filed with the SEC on February 4, 2013.
P. Current Report on Form 8-K, dated March 8, 2013 and filed with the SEC on March 8, 2013.
Q. Current Report on Form 8-K, dated May 9, 2013 and filed with the SEC on May 15, 2013.
R. Registration Statement on Form 8-A, filed with the SEC on May 24, 2013.
S. Current Report on Form 8-K, dated June 24, 2013 and filed with the SEC on June 25, 2013.
T. Current Report on Form 8-K, dated June 12, 2014 and filed with the SEC on June 13, 2014.
U. Definitive proxy statement filed with the SEC on May 19, 2014 relating to the annual meeting of shareholders held on June 25, 2014.
V. Current report on Form 8-K, dated June 25, 2014 and filed with the SEC on June 27, 2014.
W. Current Report on Form 8-K, dated October 15, 2014 and filed with the SEC on October 16, 2014.
X. Quarterly Report on Form 10-Q for the quarter ended September 30, 2014.
Y. Current Report on Form 8-K, dated November 14, 2014 and filed with the SEC on November 20, 2014.
Z. Current Report on Form 8-K, dated November 21, 2014 and filed with the SEC on November 21, 2014.
AA. Current Report on Form 8-K, dated January 2, 2015 and filed with the SEC on January 6, 2015.
BB. Current Report on Form 8-K, dated January 20, 2015 and filed with the SEC on January 23, 2015.
CC. Quarterly Report on Form 10-Q for the quarter ended March 31, 2015.
DD. Current Report on Form 8-K, dated May 22, 2015 and filed with the SEC on May 22, 2015.
EE. Current Report on Form 8-K, dated February 22, 2016 and filed with the SEC on February 26, 2016.
FF. Annual report on Form 10-K, for the year ended December 31, 2015.
GG. Current Report on Form 8-K, dated May 18, 2016 and filed with the SEC on May 20, 2016.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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)
Dated: March 15, 2017

By: /s/ Brett H. Kaufman

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

## POWER OF ATTORNEY

The undersigned directors and officers of Ladenburg Thalmann Financial Services Inc. hereby constitute and appoint Brett H. Kaufman, Richard J. Lampen and Mark Zeitchick, and each of them, with full power to act without the other and with full power of substitution and resubstitution, our true and lawful attorneys-in-fact with full power to execute in our name and behalf in the capacities indicated below, this annual report on Form 10-K and any and all amendments thereto and to file the same, with all exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, and hereby ratify and confirm all that such attorneys-in-fact, or any of them, or their substitutes shall lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 15, 2017.

| Signatures | Title |
|---|---|
| /s/ Richard J. Lampen<br>Richard J. Lampen | President, Chief Executive Officer and Director (Principal Executive Officer) |
| /s/ Brett H. Kaufman<br>Brett H. Kaufman | Senior Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer) |
| /s/ Henry C. Beinstein<br>Henry C. Beinstein | Director |
| /s/ Phillip Frost, M.D.<br>Phillip Frost, M.D. | Director |
| /s/ Brian S. Genson<br>Brian S. Genson | Director |
| /s/ Saul Gilinski<br>Saul Gilinski | Director |
| /s/ Dr. Richard M. Krasno<br>Dr. Richard M. Krasno | Director |
| /s/ Howard M. Lorber<br>Howard M. Lorber | Director |
| /s/ Jeffrey S. Podell<br>Jeffrey S. Podell | Director |
| /s/ Jacqueline M. Simkin<br>Jacqueline M. Simkin | Director |
| /s/ Mark Zeitchick<br>Mark Zeitchick | Director |

**LADENBURG THALMANN FINANCIAL SERVICES INC.**

**FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2016**

**ITEMS 8 and 15(a) (1) AND (2)**
**INDEX TO FINANCIAL STATEMENTS**

Financial Statements of the Registrant and its subsidiaries required to be included in Items 8 and 15(a) (1) and (2) are listed below:

**FINANCIAL STATEMENTS:**

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
Ladenburg Thalmann Financial Services Inc.

We have audited the accompanying consolidated balance sheets of Ladenburg Thalmann Financial Services Inc. (the "Company"), as of December 31, 2016 and 2015, and the related consolidated statements of operations, changes in shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2016. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ladenburg Thalmann Financial Services Inc. as of December 31, 2016 and 2015, and the consolidated results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated March 15, 2017 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ EisnerAmper LLP

New York, New York

March 15, 2017

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

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| **ASSETS** | | |
| Cash and cash equivalents | $ 98,930 | $ 118,677 |
| Securities owned, at fair value | 3,543 | 4,079 |
| Receivables from clearing brokers | 41,492 | 44,466 |
| Receivables from other broker-dealers | 853 | 2,150 |
| Notes receivable from financial advisors, net | 32,611 | 26,967 |
| Other receivables, net | 54,634 | 48,564 |
| Fixed assets, net | 21,253 | 21,753 |
| Restricted assets | 1,011 | 1,011 |
| Intangible assets, net | 124,938 | 137,931 |
| Goodwill | 124,031 | 125,572 |
| Cash surrender value of life insurance | 10,210 | 9,247 |
| Other assets | 32,497 | 33,688 |
| Total assets | $ 546,003 | $ 574,105 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| Securities sold, but not yet purchased, at fair value | $ 382 | $ 238 |
| Accrued compensation | 26,299 | 29,115 |
| Commissions and fees payable | 60,594 | 59,995 |
| Accounts payable and accrued liabilities | 39,876 | 30,804 |
| Deferred rent | 1,764 | 1,551 |
| Deferred income taxes | 10,642 | 4,416 |
| Deferred compensation liability | 17,247 | 17,211 |
| Accrued interest | 281 | 823 |
| Notes payable, net of $872 and $1,492 unamortized discount in 2016 and 2015, respectively and net of debt issuance costs of $0 and $253 in 2016 and 2015, respectively. | 26,417 | 53,921 |
| Total liabilities | 183,502 | 198,074 |
| Commitments and contingencies (Note 13) | | |
| Shareholders' equity: | | |
| Preferred stock, $.0001 par value; authorized 50,000,000 shares in 2016 and 25,000,000 shares in 2015: 8% Series A cumulative redeemable preferred stock; authorized 17,290,000 shares in 2016 and 2015; shares issued and outstanding 15,844,916 in 2016 and 14,683,021 in 2015 (liquidation preference $396,123 in 2016 and $367,076 in 2015) | 1 | 1 |
| Common stock, $.0001 par value; authorized 1,000,000,000 shares in 2016 and 800,000,000 shares in 2015; shares issued and outstanding, 194,057,738 in 2016 and 182,338,038 in 2015 | 19 | 19 |
| Additional paid-in capital | 519,879 | 511,138 |
| Accumulated deficit | (157,425) | (135,156) |
| Total shareholders' equity of the Company | 362,474 | 376,002 |
| Noncontrolling interest | 27 | 29 |
| Total shareholders' equity | 362,501 | 376,031 |
| Total liabilities and shareholders' equity | $ 546,003 | $ 574,105 |

See accompanying notes.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **Revenues:** | | | |
| Commissions | $ 512,001 | $ 558,683 | $ 445,734 |
| Advisory fees | 463,602 | 462,087 | 343,212 |
| Investment banking | 25,453 | 35,145 | 46,998 |
| Principal transactions | 747 | 602 | 1,938 |
| Interest and dividends | 10,256 | 3,842 | 6,209 |
| Service fees and other income | 94,894 | 91,759 | 77,162 |
| Total revenues | 1,106,953 | 1,152,118 | 921,253 |
| **Expenses:** | | | |
| Commissions and fees | 818,000 | 857,842 | 662,178 |
| Compensation and benefits | 152,592 | 149,786 | 120,231 |
| Non-cash compensation | 5,311 | 8,759 | 10,541 |
| Brokerage, communication and clearance fees | 15,719 | 20,727 | 17,900 |
| Rent and occupancy, net of sublease revenue | 9,673 | 9,797 | 7,040 |
| Professional services | 14,940 | 14,156 | 11,040 |
| Interest | 4,262 | 5,169 | 6,990 |
| Depreciation and amortization | 28,334 | 27,077 | 18,397 |
| Acquisition-related expenses | 1,357 | 940 | 2,342 |
| Loss on extinguishment of debt | — | 252 | 548 |
| Amortization of retention and forgivable loans | 5,472 | 9,238 | 11,041 |
| Other | 63,363 | 60,125 | 43,011 |
| Total expenses | 1,119,023 | 1,163,868 | 911,259 |
| (Loss) income before item shown below | (12,070) | (11,750) | 9,994 |
| Change in fair value of contingent consideration | (216) | 55 | 12 |
| (Loss) income before income taxes | (12,286) | (11,695) | 10,006 |
| Income tax expense (benefit) | 10,025 | (482) | (23,346) |
| Net (loss) income | (22,311) | (11,213) | 33,352 |
| Net loss attributable to noncontrolling interest | (42) | (62) | (81) |
| Net (loss) income attributable to the Company | $ (22,269) | $ (11,151) | $ 33,433 |
| Dividends declared on preferred stock | (30,438) | (28,108) | (17,244) |
| Net (loss) income available to common shareholders | $ (52,707) | $ (39,259) | $ 16,189 |
| Net (loss) income per share available to common shareholders (basic) | $ (0.29) | $ (0.21) | $ 0.09 |
| Net (loss) income per share available to common shareholders (diluted) | $ (0.29) | $ (0.21) | $ 0.08 |
| Weighted average common shares used in computation of per share data: | | | |
| Basic | 182,987,850 | 183,660,993 | 182,768,494 |
| Diluted | 182,987,850 | 183,660,993 | 206,512,437 |

See accompanying notes.

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

| | Preferred Stock | | Common Stock | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Noncontrolling Interest | Total |
| Balance—December 31, 2013 | 6,189,497 | $ 1 | 181,433,815 | $ 18 | $350,780 | $(157,438) | $ 52 | $193,413 |
| Issuance of common stock under employee stock purchase plan | — | — | 89,581 | — | 291 | — | — | 291 |
| Exercise of stock options (net of 43,535 shares tendered in payment of exercise price) | — | — | 2,282,060 | — | 2,969 | — | — | 2,969 |
| Exercise of warrants | — | — | 13,333 | — | 22 | — | | 22 |
| Stock-based compensation to consultants and independent financial advisors | — | — | — | — | 6,440 | — | — | 6,440 |
| Stock-based compensation to employees | — | — | — | — | 4,099 | — | — | 4,099 |
| Issuance of restricted stock | — | — | 14,409 | — | 2 | — | — | 2 |
| Repurchase and retirement of common stock | — | — | (2,846,395) | — | (9,535) | — | — | (9,535) |
| Third party investment in noncontrolling interest | — | — | — | — | — | — | 40 | 40 |
| Common stock issued in Highland acquisition | — | — | 2,540,762 | — | 7,953 | — | — | 7,953 |
| Common stock issued in KMS acquisition | — | — | 1,440,922 | — | 6,052 | — | — | 6,052 |
| Preferred stock issued, net of underwriting discount and expenses of $2,531 | 4,906,734 | — | — | — | 108,617 | — | — | 108,617 |
| Preferred stock dividends declared and paid | — | — | — | — | (17,244) | — | — | (17,244) |
| Net income (loss) | — | — | — | — | — | 33,433 | (81) | 33,352 |
| Balance—December 31, 2014 | 11,096,231 | $ 1 | 184,968,487 | $ 18 | $460,446 | $(124,005) | $ 11 | $336,471 |
| Issuance of common stock under employee stock purchase plan | — | — | 192,978 | — | 545 | — | | 545 |
| Exercise of stock options | — | — | 1,194,425 | — | 1,471 | — | — | 1,471 |
| Exercise of warrants, net of 196,518 shares tendered in payment of exercise price | — | — | 449,482 | — | — | — | — | — |
| Stock-based compensation to consultants and independent financial advisors | — | — | — | — | 3,183 | — | — | 3,183 |
| Stock-based compensation to employees | — | — | — | — | 5,576 | — | — | 5,576 |
| Issuance of restricted stock | — | — | 1,206,081 | 1 | — | — | — | 1 |
| Repurchase and retirement of common stock | — | — | (5,673,415) | — | (16,355) | — | — | (16,355) |
| Third party investment in noncontrolling interest | — | — | — | — | — | — | 80 | 80 |
| Preferred stock issued, net of underwriting discount and expense of $1,972 | 3,586,790 | — | — | — | 84,380 | — | — | 84,380 |
| Preferred stock dividends declared and paid | — | — | — | — | (28,108) | — | — | (28,108) |
| Net loss | — | — | — | — | — | (11,151) | (62) | (11,213) |

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

| | Preferred Stock | | Common Stock | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Shares | Amount | Additional Paid-in Capital | Accumulated Deficit | Noncontrolling Interest | Total |
| Balance—December 31, 2015 | 14,683,021 | $ 1 | 182,338,038 | $ 19 | $511,138 | $(135,156) | $ 29 | $376,031 |
| Issuance of common stock under employee stock purchase plan | — | — | 210,330 | — | 481 | — | — | 481 |
| Exercise of stock options (net of 1,129,195 shares tendered in payment of exercise price) | — | — | 3,920,950 | — | 2,580 | — | — | 2,580 |
| Exercise of warrants, net of 846,789 shares tendered in payment of exercise price | — | — | 12,389,544 | — | 17,976 | — | — | 17,976 |
| Stock-based compensation to consultants and independent financial advisors | — | — | — | — | 50 | — | — | 50 |
| Stock-based compensation to employees | — | — | — | — | 5,261 | — | — | 5,261 |
| Issuance of restricted stock | — | — | 1,331,000 | — | — | — | — | — |
| Repurchase and retirement of common stock, including 901,691 shares surrendered for tax withholding of $2,038 | — | — | (6,132,124) | — | (14,749) | — | — | (14,749) |
| Third party investment in noncontrolling interest | — | — | — | — | — | — | 40 | 40 |
| Preferred stock issued, net of underwriting discount and expense of $723 | 1,161,895 | — | — | — | 27,580 | — | — | 27,580 |
| Preferred stock dividends declared and paid | — | — | — | — | (30,438) | — | — | (30,438) |
| Net loss | — | — | — | — | — | (22,269) | (42) | (22,311) |
| Balance—December 31, 2016 | 15,844,916 | $ 1 | 194,057,738 | $ 19 | $519,879 | $(157,425) | $ 27 | $362,501 |

See accompanying notes.

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | **2016** | **2015** | **2014** |
| Cash flows from operating activities: | | | |
| Net (loss) income | $ (22,311) | $ (11,213) | $ 33,352 |
| Adjustments to reconcile net (loss) income to net cash provided by operating activities: | | | |
| Change in fair value of contingent consideration | 216 | (55) | (12) |
| Adjustment to deferred rent | 213 | 37 | (357) |
| Amortization of intangible assets | 20,703 | 20,650 | 14,056 |
| Depreciation and other amortization | 7,631 | 6,427 | 4,341 |
| Loss on extinguishment of debt | — | 252 | 548 |
| Amortization of debt discount | 620 | 666 | 501 |
| Amortization of debt issue cost | 253 | 376 | 393 |
| Amortization of retention and forgivable loans | 5,472 | 9,238 | 11,041 |
| Deferred income taxes | 9,096 | (400) | (25,521) |
| Benefit attributable to reduction of goodwill | — | 78 | 68 |
| Non-cash interest expense on forgivable loan | 43 | 21 | 98 |
| Gain on forgiveness of accrued interest under forgivable loans | (408) | (619) | (839) |
| Gain on forgiveness of principal of note payable under forgivable loans | (2,143) | (3,928) | (3,929) |
| Non-cash compensation expense | 5,311 | 8,759 | 10,541 |
| Loss on write-off of receivable from subtenant | — | 855 | — |
| Loss on write-off of furniture, fixtures and leasehold improvements, net | 1 | 9 | 9 |
| (Increase) decrease in operating assets, net of effects of acquisitions: | | | |
| Securities owned, at fair value | 536 | 1,989 | (522) |
| Receivables from clearing brokers | 2,974 | (5,076) | (5,907) |
| Receivables from other broker-dealers | 1,297 | (362) | 338 |
| Other receivables, net | (6,070) | 19 | (7,014) |
| Notes receivable from financial advisors, net | (11,116) | (9,828) | (5,442) |
| Cash surrender value of life insurance | (963) | 1,172 | 1,951 |
| Other assets | 1,191 | (5,381) | (39) |
| Increase (decrease) in operating liabilities, net of effects of acquisitions: | | | |
| Securities sold, but not yet purchased, at fair value | 144 | 8 | 147 |
| Accrued compensation | (2,816) | 5,632 | (803) |
| Accrued interest | (177) | 292 | 102 |
| Commissions and fees payable | 599 | 2,139 | 8,272 |
| Deferred compensation liability | 36 | (429) | (2,003) |
| Accounts payable and accrued liabilities | 3,914 | (2,009) | (6,515) |
| **Net cash provided by operating activities** | 14,246 | 19,319 | 26,855 |
| Cash flows from investing activities: | | | |
| Acquisition of SSN, net of cash received | — | (16,919) | — |
| Acquisition of Highland, net of cash received | — | — | (3,353) |
| Acquisition of KMS, net of cash received | — | — | (4,292) |
| Other business acquisitions | (4,097) | (2,603) | (1,621) |
| Purchases of fixed assets | (7,132) | (8,298) | (7,447) |
| (Increase) decrease in restricted assets | — | (391) | 100 |
| **Net cash used in investing activities** | (11,229) | (28,211) | (16,613) |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Cash flows from financing activities: | | | |
| Issuance of Series A preferred stock | 27,580 | 84,380 | 108,617 |
| Issuance of common stock | 3,061 | 2,016 | 3,282 |
| Series A preferred stock dividends paid | (30,438) | (28,108) | (17,244) |
| Repurchases of common stock | (14,749) | (16,355) | (9,535) |
| Principal repayments on notes payable including, in 2014, repayment of $21,834 of Highland's assumed debt | (7,516) | (17,639) | (42,369) |
| Principal borrowings (repayments) under a revolving credit facility, net | (114) | 495 | (275) |
| Term loan repayments | (628) | (387) | — |
| Third party investment in subsidiary | 40 | 80 | 40 |
| **Net cash (used in) provided by financing activities** | (22,764) | 24,482 | 42,516 |
| Net (decrease) increase in cash and cash equivalents | (19,747) | 15,590 | 52,758 |
| Cash and cash equivalents, beginning of period | 118,677 | 103,087 | 50,329 |
| **Cash and cash equivalents, end of period** | $ 98,930 | $118,677 | $103,087 |
| Supplemental cash flow information: | | | |
| Interest paid | $ 3,523 | $ 3,807 | $ 5,920 |
| Taxes paid | 1,036 | 2,313 | 2,554 |
| Acquisition of Sunset: | | | |
| Assets acquired | $ — | $ — | $ 4,380 |
| Liabilities assumed | — | — | — |
| Net assets acquired | — | — | 4,380 |
| Payable to seller | — | — | (2,759) |
| Net cash paid in acquisition | $ — | $ — | $ 1,621 |
| Acquisition of Highland: | | | |
| Assets acquired | $ — | $ — | $ 65,882 |
| Liabilities assumed | — | — | (54,316) |
| Net assets acquired | — | — | 11,566 |
| Stock issued in acquisition | — | — | (7,953) |
| Cash paid in acquisition | — | — | 3,613 |
| Cash acquired in acquisition | — | — | (260) |
| Net cash paid in acquisition | $ — | $ — | $ 3,353 |
| Acquisition of KMS: | | | |
| Assets acquired | $ — | $ — | $ 39,844 |
| Liabilities assumed | — | — | (15,284) |
| Net assets acquired | — | — | 24,560 |
| Stock issued in acquisition | — | — | (6,052) |
| Promissory note | — | — | (7,508) |
| Cash paid in acquisition | — | — | 11,000 |
| Cash acquired in acquisition | — | — | (6,708) |
| Net cash paid in acquisition | $ — | $ — | $ 4,292 |

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

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Acquisition of SSN: | | | |
| Assets acquired | $ — | $ 61,759 | $ — |
| Liabilities assumed | — | (14,472) | — |
| Net assets acquired | — | 47,287 | — |
| Due to selling shareholders | — | (3,590) | — |
| Promissory note | — | (18,697) | — |
| Cash paid in acquisition | — | 25,000 | — |
| Cash acquired in acquisition | — | (8,081) | — |
| Net cash paid in acquisition | $ — | $ 16,919 | $ — |
| Acquisition of Dalton: | | | |
| Assets acquired | $ — | $ 2,689 | $ — |
| Payable to seller | — | (589) | — |
| Net cash paid in acquisition | $ — | $ 2,100 | $ — |
| Acquisition of Select: | | | |
| Assets acquired | $ — | $ 2,019 | $ — |
| Payable to seller | — | (1,516) | — |
| Net cash paid in acquisition | $ — | $ 503 | $ — |
| Acquisition of Wall Street Financial Group: | | | |
| Assets acquired | $ 3,468 | — | — |
| Payable to seller | (2,276) | — | — |
| Net cash paid in acquisition | $ 1,192 | $ — | $ — |
| Acquisition of Foothill Securities Inc: | | | |
| Assets acquired | $ 5,571 | — | — |
| Payable to seller | (2,666) | — | — |
| Net cash paid in acquisition | $ 2,905 | $ — | $ — |
| Non-cash financing activities: | | | |
| Cancellation of promissory notes as consideration for exercise price of warrants | $ 17,976 | $ — | $ — |

See accompanying notes.

## 1. Description of Business

Ladenburg Thalmann Financial Services Inc. (the "Company" or "LTS") is a holding company. Its principal operating subsidiaries are Securities America, Inc. (collectively with related companies, "Securities America"), Triad Advisors, Inc. ("Triad"), Investacorp, Inc. (collectively with related companies, "Investacorp"), KMS Financial Services, Inc. ("KMS"), which the Company acquired in October 2014, Securities Service Network, Inc. ("SSN"), which the Company acquired in January 2015, Ladenburg Thalmann & Co. Inc. ("Ladenburg"), Ladenburg Thalmann Asset Management Inc. ("LTAM"), Premier Trust, Inc. ("Premier Trust") and Highland Capital Brokerage, Inc. ("Highland"), which the Company acquired in July 2014.

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

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

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

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

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

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

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned, except for one subsidiary organized in 2013, which is 80% owned, after elimination of all significant intercompany balances and transactions.

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

**Use of Estimates**

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

**Cash Equivalents**

The Company considers all highly liquid financial instruments with an original maturity of three months or less to be cash equivalents. Cash equivalents at December 31, 2016 and 2015 consist of money market funds which are carried at fair value of $43,484 and $31,894, respectively. Fair value is based on quoted prices in active markets (Level 1).

**Revenue Recognition**

Commissions revenue results from transactions in equity securities, mutual funds, variable annuities and other financial products and services. Most of the commission and advisory fee revenue generated by independent contractor financial advisors is paid to the advisors as commissions and fees for initiating the transactions.

Commission revenue is generated from front-end sales commissions that occur at the point of sale, as well as trailing commissions. Front-end sales commission revenue and related clearing and other expenses on transactions introduced to its clearing broker are recognized on a trade date basis. Front-end sales commissions and related expenses on transactions initiated directly between the financial advisors and product sponsors are recognized upon receipt of notification from sponsors of the commission earned. Commission revenue also includes 12b-1 fees, and fixed and variable product trailing fees, collectively considered as trailing fees, which are recurring in nature. These trailing fees are earned based on a percentage of the current market value of clients' investment holdings in trail eligible assets. Because trail commission revenues are generally paid in arrears, management estimates commission revenues earned during each period. These estimates are based on a number of factors including investment holdings and the applicable commission rate and the amount of trail commission revenue received in prior periods. Estimates are subsequently adjusted to actual based on notification from the sponsors of trail commissions earned.

Commissions are also earned on the sale of insurance policies. Commissions are generally paid each year as long as the client continues to use the product. 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, renewal commissions are received 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 notification is first received that such commissions have been earned.

Advisory fee revenue represents fees charged by registered investment advisors to their clients based upon the value of advisory assets. Advisory fees are recorded as earned. Since advisory fees are based on assets under management, significant changes in the fair value of these assets will have an impact on the fees earned in future periods. Incentive fees are also earned based upon the performance of investment funds and accounts.

Investment banking revenue consists of underwriting revenue, strategic advisory revenue and private placement fees. Underwriting revenues arise from securities offerings in which Ladenburg acts as an underwriter and include management fees, selling concessions and underwriting fees, net of related syndicate expenses. Underwriting revenues are recorded at the time the underwriting is completed and the income is reasonably determined. Strategic advisory revenue primarily consists of success fees on completed mergers and acquisitions transactions, and retainer and periodic fees earned by advising buyers and sellers in transactions. Fees are also earned for related strategic advisory work and other services such as providing fairness opinions and valuation analyses. Strategic advisory revenues are recorded when the transactions or the services (or, if applicable, separate components thereof) to be performed are substantially complete, the fees are determinable and collection is reasonably assured. Private placement fees, net of expenses, are recorded on the closing date of the transaction.

Principal transactions revenue includes realized and unrealized net gains and losses resulting from investments in equity securities and equity-linked warrants received from certain investment banking assignments.

Interest is recorded on an accrual basis and dividends are recorded on an ex-dividend date basis.

Service fees and other income principally includes amounts charged to independent financial advisors for processing of securities trades and for providing administrative and compliance services and also includes marketing allowances earned from product sponsor programs. All such amounts are recorded as earned.

**Fixed Assets**

Fixed assets are carried at cost net of accumulated depreciation and amortization. Depreciation is provided by the straight-line method over the estimated useful lives of the related assets. Leasehold improvements are amortized on a straight-line basis over the lease term, or their estimated useful lives, whichever is shorter.

**Share-Based Compensation**

The Company measures the cost of employee, officer and director services received in exchange for an award of equity instruments, including stock options and restricted stock, based on the grant-date fair value of the award. The cost is recognized as compensation expense over the service period, which would normally be the vesting period of the equity instruments.

Compensation expense for share-based awards granted to independent contractors is measured at their vesting date fair value. The compensation expense recognized each period is based on the awards' estimated value at the most recent reporting date.

**Intangible Assets**

Intangible assets are amortized over their estimated useful lives, generally on a straight-line basis. Intangible assets subject to amortization are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Company assesses the recoverability of its intangible assets by determining whether the unamortized balance can be recovered over the assets' remaining life through undiscounted forecasted cash flows. If undiscounted forecasted cash flows indicate that the unamortized amounts will not be recovered, an adjustment will be made to reduce such amounts to fair value determined based on forecasted future cash flows discounted at a rate commensurate with the risk associated with achieving such cash flows. Future cash flows are based on trends of historical performance and the Company's estimate of future performance, giving consideration to existing and anticipated competitive and economic conditions. See Note 7.

**Goodwill**

Goodwill, which was recorded in connection with acquisitions of subsidiaries (see Notes 3 and 8), is not subject to amortization and is tested for impairment annually, or more frequently if events or changes in circumstances indicate that the asset may be impaired. The impairment test consists of a comparison of the fair value of the reporting unit with its carrying amount. Fair value is typically based upon forecasted future cash flows discounted at a rate commensurate with the risk involved or market based comparables. If the carrying amount of the reporting unit exceeds its fair value then an analysis will be performed to compare the implied fair value of goodwill with the carrying amount of goodwill. An impairment loss will be recognized in an amount equal to the excess of the carrying amount over the implied fair value. After an impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis. Accounting guidance on the testing of goodwill for impairment allows entities the option of performing a qualitative assessment to determine the likelihood of goodwill impairment and whether it is necessary to perform such two-step quantitative impairment test.

**Recent Accounting Pronouncements**

In July 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-11. Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a similar Tax Loss, or Tax Credit Carryforward Exists. The update requires the netting of unrecognized tax benefits against a deferred tax asset for the loss or other carryforward that would apply in settlement of an uncertain tax positions. The Company adopted the amended accounting guidance effective as of January 1, 2014, which did not have any impact on the Company's 2014 financial statements.

In April 2014, the FASB issued ASU 2014-08 which changes the requirements for reporting discontinued operations. A disposal of a component of an entity or a group of components of an entity is required to be reported in discontinued operations if the disposal represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results. ASU 2014-08, which is to be applied prospectively to all new disposals of components and new classifications as held for sale, became effective in annual periods beginning on or after December 15, 2014 and interim periods within those annual periods with early adoption allowed. The Company adopted ASU 2014-08 effective as of January 1, 2015, which did not have any impact on the Company's 2015 financial statements.

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

In June 2014, the FASB issued ASU 2014-12, Compensation-Stock Compensation (Topic 718), which requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. ASU 2014-12 became effective for the Company for annual periods and interim periods beginning after December 15, 2015. The adoption of ASU 2014-12 in the quarter ended March 31, 2016 did not have any impact on the Company's consolidated financial statements.

In February 2015, the FASB issued ASU 2015-02, Amendments to the Consolidation Analysis, which is effective for fiscal years and interim periods within those years, beginning after December 15, 2015. Early adoption is permitted. ASU 2015-02 amends: the assessment of whether a limited partnership is a variable interest entity; the effect that fees paid to a decision maker have on the consolidation analysis; how variable interests held by a reporting entity's related parties or de facto agents affect its consolidation conclusion; and for entities other than limited partnerships, clarifies how to determine whether the equity holders as a group have power over an entity. In 2015, the Company adopted ASU 2015-02, which did not have any impact on the Company's consolidated financial statements and footnote disclosure.

In April 2015, the FASB issued ASU No. 2015-03, Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs, which requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The ASU requires retrospective adoption and is effective for interim and annual periods beginning after December 15, 2015. The adoption of ASU 2015-03 in the quarter ended March 31, 2016 did not have a material impact on the Company's consolidated statement of financial condition.

In September 2015, the FASB issued ASU 2015-16, Business Combination (Topic 805): Simplifying the Accounting for Measurement Period Adjustments, which requires adjustments to provisional amounts initially recorded in a business combination that are identified during the measurement period to be recognized in the reporting period in which the adjustment amounts are determined. This includes any effect on earnings of changes in depreciation, amortization, or other income effects as a result of the change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. ASU 2015-16 also requires the disclosure of the nature and amount of measurement-period adjustments recognized in the current period, including separately the amounts in current-period income statement line items that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. The guidance is effective for the Company beginning January 1, 2016. The adoption of ASU 2015-16 in the quarter ended March 31, 2016 did not have any impact on the Company's consolidated financial statements.

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

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

In March 2016, the FASB amended the existing accounting standards for stock-based compensation, ASU 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. The amendments impact several aspects of accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. The Company is required to adopt the amendments in the first quarter of 2017, with early adoption permitted. The manner of application varies by the various provisions of the guidance, with certain provisions applied on a retrospective or modified retrospective approach, while others are applied prospectively. The Company has not elected early adoption and is currently assessing the impact that the adoption of these amendments and the transition alternatives will have on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, Classification of Certain Cash Receipts and Cash Payments (“ASU 2016-15”). ASU 2016-15 is intended to reduce diversity in practice on how certain cash receipts and payments are presented and classified in the statement of cash flows. The standard provides guidance in a number of situations including, among others, settlement of zero-coupon bonds, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, and distributions received from equity method investees. ASU 2016-15 also provides guidance for classifying cash receipts and payments that have aspects of more than one class of cash flows. ASU 2016-15 is effective for the Company’s fiscal year beginning January 1, 2018. Early adoption is permitted. The standard requires application using a retrospective transition method. The Company is currently assessing the impact the adoption of ASU 2016-15 will have on its consolidated financial statements.

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

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

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, an amendment to simplify the subsequent quantitative measurement of goodwill by eliminating step two from the goodwill impairment test. As amended, an entity will recognize an impairment charge for the amount by which the carrying amount of a reporting unit exceeds its fair value, not to exceed the total amount of goodwill allocated to the reporting unit. An entity still has the option to perform the qualitative test for a reporting unit to determine if the quantitative impairment test is necessary. This amendment is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019. Entities should apply the amendment prospectively. Early adoption is permitted, including in an interim period, for impairment tests performed after January 1, 2017. The Company is currently assessing the impact the adoption of ASU 2017-04 will have on its consolidated financial statements.

**(Dollars in thousands, except share and per share amounts)**

## 3. Acquisitions

### SSN

On January 2, 2015, the Company acquired the capital stock of Securities Service Network, Inc. ("SSN') and an affiliated company, Renaissance Capital Corporation ("RCC"). SSN is an independent broker-dealer, registered investment advisor and insurance agency based in Knoxville, TN. RCC is a corporation that owns fixed assets leased to SSN. The purchase price was approximately $47,287, including $25,000 principal amount of secured short-term promissory notes, which bore interest at 0.41% per annum and were paid in full on the business day following the closing date, and $20,000 principal amount of secured four-year promissory notes, bearing interest at 1.74% per annum and payable in equal quarterly installments of principal and interest (valued at $18,697 based on imputed interest rate of 5.10%). The promissory notes are secured by a pledge of the shares of SSN and RCC purchased in the acquisition pursuant to a stock pledge agreement. The Company paid approximately $3,590 subsequent to the closing date, which is included in the purchase price above, based on the amount by which the aggregate net worth of SSN and RCC as of the closing date of the acquisition exceeded a targeted amount. Legal and other related acquisition costs of approximately $51 and $523 were incurred and charged to expenses in 2015 and 2014, respectively.

The Company conducted a valuation study to determine the acquisition-date fair value of assets acquired and liabilities assumed and related allocation of purchase price of SSN. The following table summarizes the fair value of assets acquired and liabilities assumed at the acquisition date:

| | |
|---|---|
| Cash | $ 8,081 |
| Securities owned, at fair value | 158 |
| Receivables from clearing broker | 630 |
| Other receivables, net | 11,711 (2) |
| Fixed assets, net | 57 |
| Notes receivable | 225 |
| Identifiable intangible assets | 30,901 |
| Goodwill | 9,282 (1) |
| Other assets | 714 |
| Total assets acquired | 61,759 |
| Commissions and fees payable | (12,562) (2) |
| Deferred income | (44) |
| Accounts payable and accrued liabilities | (1,866) (1) |
| Total liabilities assumed | (14,472) |
| Total purchase price | **$ 47,287** |

(1) Increased by $484 from amounts originally reported.
(2) Increased by $9,100 from amounts originally reported.

(Dollars in thousands, except share and per share amounts)

The Company has elected under Section 338 of the Internal Revenue Code to treat the acquisition as an asset acquisition and, accordingly, goodwill will be deductible for income tax purposes over 15 years. Goodwill was assigned to the independent brokerage and advisory services segment.

Factors that contributed to a purchase price resulting in the recognition of goodwill includes SSN's strategic fit with the Company's existing businesses, including the resulting synergies and economies of scale expected from the acquisition.

Identifiable intangible assets as of the acquisition date consist of:

| | | Estimated Useful Life (years) |
|---|---|---|
| Relationships with financial advisors | $26,654 | 20 |
| Technology | 2,080 | 12.5 |
| Trade name | 1,756 | 9 |
| Non-compete agreements | 411 | 3 |
| Total identifiable intangible assets | **$30,901** | |

Fair value amounts (Level 3 inputs) were determined using an income approach for relationships with financial advisors and non-compete agreements, the relief from royalty method for trade names and the cost approach for developed technology.

**KMS**

On October 15, 2014, the Company acquired KMS, a Seattle-based independent broker-dealer and registered investment advisor, pursuant to a Stock Purchase Agreement, dated as of August 8, 2014, by and among the Company, KMS and the shareholders of KMS. Under the terms of the purchase agreement, on the closing date, the Company paid the KMS shareholders $24,560, consisting of $11,000 in cash, $8,000 principal amount of four-year promissory notes, bearing interest at 1.84% per annum and payable in equal quarterly installments of principal and interest (valued at $7,508 based on an imputed interest rate of 5.50%), and 1,440,922 shares of the Company's common stock valued at $6,052 (based on the closing price at the date of acquisition), which are subject to certain transfer restrictions, in exchange for all of the issued and outstanding capital stock of KMS. The notes contain customary events of default, which if uncured, entitle the holders to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, the notes. Legal and other related acquisition costs of approximately $520 were incurred and charged to expense in 2014.

(Dollars in thousands, except share and per share amounts)

The Company conducted a valuation study to determine the acquisition-date fair value of assets acquired and liabilities assumed and related allocation of purchase price of KMS. The following table summarizes the fair value of assets acquired and liabilities assumed at the date of aquisition:

| | |
|---|---|
| Cash | $ 6,708 |
| Securities owned, at fair value | 599 |
| Receivables from clearing broker | 1,462 |
| Other receivables, net | 2,101 |
| Fixed assets, net | 192 |
| Restricted assets | 150 |
| Identifiable intangible assets | 10,859 |
| Goodwill | 13,269 |
| Other assets | 4,504 |
| Total assets acquired | 39,844 |
| Accrued compensation | (826) |
| Commissions and fees payable | (2,772) |
| Deferred compensation liability | (587) |
| Notes payable | (600) |
| Accounts payable and accrued liabilities | (6,516) |
| Deferred taxes payable | (3,983) |
| Total liabilities assumed | (15,284) |
| Total purchase price | **$ 24,560** |

A deferred tax liability has been recorded for the excess of financial statement basis over tax basis of the acquired assets and assumed liabilities with a corresponding increase to goodwill. Goodwill, which is non-deductible for income tax purposes, was assigned to the independent brokerage and advisory services segment. Factors that contributed to a purchase price resulting in the recognition of goodwill includes KMS' strategic fit with the company's existing businesses, including the resulting synergies and economies of scale expected from the acquisition.

Identifiable intangible assets as of the acquisition date consist of:

| | | Estimated Useful Life (years) |
|---|---|---|
| Relationships with financial advisors | $ 9,192 | 20 |
| Trade names | 1,112 | 9 |
| Non-compete agreements | 555 | 5 |
| Total identifiable intangible assets | **$10,859** | |

Fair value amounts (Level 3 inputs) were determined using an income approach for representative relationships and non-compete agreements and the relief from royalty method for trade names.

**Highland**

On July 31, 2014, the Company acquired HCHC Holdings, Inc. ("HCHC"), which is the parent company of Highland. Highland is an independent insurance broker that delivers life insurance, annuities and long-term care solutions to investment and insurance providers. Under the Agreement and Plan of Merger, dated

(Dollars in thousands, except share and per share amounts)

July 31, 2014, by and among the Company, HCHC, HCHC Acquisition Inc. ("HCHC Acquisition"), a wholly-owned subsidiary of the Company, and the stockholders of HCHC, HCHC merged with and into HCHC Acquisition, with HCHC Acquisition remaining as the surviving corporation and a wholly-owned subsidiary of the Company.

The Company paid the HCHC shareholders $11,566, consisting of $3,613 in cash and 2,540,762 shares of the Company's common stock, which are subject to certain transfer restrictions, valued at $7,953 (based on the closing price at the date of the acquisition). Also, the Company caused all indebtedness owed by certain HCHC subsidiaries under a credit agreement (in the amount of $21,834) to be repaid. Legal and other acquisition related costs of approximately $566 were incurred and charged to expense in 2014.

The Company conducted a valuation study to determine the acquisition-date fair value of assets acquired and liabilities assumed and related allocation of purchase price of Highland. The following table summarizes the fair value of assets acquired and liabilities assumed at the date of acquisition:

| | |
|---|---|
| Cash | $ 260 |
| Receivables | 6,070 |
| Identifiable intangible assets | 45,587 |
| Goodwill | 11,515 |
| Other assets | 2,450 |
| Total assets acquired | 65,882 |
| Commissions and fees payable | (1,450) |
| Notes payable-current | (21,834) |
| Notes payable-long term | (7,000) |
| Accounts payable and accrued liabilities | (6,777) |
| Deferred taxes payable, net | (17,255) |
| Total liabilities assumed | (54,316) |
| Total purchase price | **$ 11,566** |

A deferred tax liability has been recorded for the excess of financial statement basis over tax basis of the acquired assets and assumed liabilities with a corresponding increase to goodwill. Goodwill, which is non-deductible for income tax purposes, was assigned to the insurance brokerage segment. Factors that contributed to a purchase price resulting in the recognition of goodwill include Highland's strategic fit with the Company's existing businesses, including the resulting synergies and economies of scale expected from the acquisition.

Identifiable intangible assets as of the acquisition date consist of:

| | | Estimated Useful Life (years) |
|---|---|---|
| Technology | $ 949 | 4 |
| Renewals revenue | 39,503 | 8 |
| Trade names | 2,864 | 9 |
| Non-solicitation agreement | 2,271 | 3 |
| Total identifiable intangible assets | **$45,587** | |

(Dollars in thousands, except share and per share amounts)

Fair value amounts (Level 3 inputs) were determined using a cost approach for technology, an income approach for renewals revenue and non-solicitation agreements and the relief from royalty method for trade names.

The accompanying consolidated financial statements include the results of operations of Highland, KMS and SSN from their dates of acquisition; July 31, 2014, October 15, 2014 and January 2, 2015, respectively. The following unaudited pro forma information represents the Company's consolidated results of operations as if the acquisitions of KMS, Highland and KMS had occurred at the beginning of 2014. The pro forma net loss reflects amortization of the amounts ascribed to identifiable intangible assets acquired in the acquisitions, elimination of Highland's interest expense related to notes repaid on the date of acquisition and interest expense on notes issued in the KMS and SSN acquisitions. Also, $21,238 of non-recurring income tax benefit resulting from the acquisitions of Highland and KMS has been excluded from the pro forma results in 2014.

| | Year Ended December 31, 2014 |
|---|---|
| Revenue | $ 1,130,420 |
| Net income | 12,754 |
| Net loss available to common shareholders | (4,409) |
| Basic and diluted net loss per share available to common shareholders | (0.02) |
| Weighted average common shares outstanding: | |
| Basic and diluted [(1)] | 185,370,262 |

(1) Includes 3,981,684 shares of Company common stock issued in connection with the acquisitions of Highland and KMS.

The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations that would have been reported had the acquisitions of KMS, Highland and SSN been completed as of the beginning of 2014, nor should it be taken as indicative of the Company's future consolidated results of operations.

Revenues and net income for SSN from the date of acquisition through December 31, 2015, included in the accompanying statements of operations were $116,207 and $1,629, respectively.

Combined revenues and net loss for Highland and KMS for the period from dates of acquisition, July 31, 2014 and October 15, 2014, respectively, through December 31, 2014, included in the accompanying statements of operations were $46,004 and $59, respectively.

## Other

In September 2016, Securities America Financial Corporation ("SAFC"), which is the parent of Securities America, purchased certain assets of the broker-dealer business of Wall Street Financial Group, Inc. ("Wall Street"), which was deemed to be a business acquisition. Relationships with certain registered representatives and investment advisor representatives including their client accounts were acquired. The consideration for the transaction was $3,468, consisting of cash of $1,192 and contingent consideration having a fair value of $2,276, for which a liability was recognized based on the estimated acquisition-date fair value of the potential earn-out.

The liability was valued using a Monte Carlo simulation based option pricing model. The fair value measurement of the earn-out, which relates to the three-year period following closing, is based on unobservable inputs (Level 3) and reflects the Company's own assumptions. The purchase price was allocated as follows: $3,070 to identifiable intangibles and $398 to goodwill.

In December 2016, SAFC, purchased certain assets of the broker-dealer business of Foothill Securities, Inc. ("Foothill"), which was deemed to be a business acquisition. Relationships with certain registered representatives and investment advisor representatives including their client accounts were acquired. The consideration for the transaction was $5,571, consisting of cash of $2,905 and contingent consideration having a fair value of $2,666, for which a liability was recognized based on the estimated acquisition-date fair value of the potential earn-out.

The liability was valued using a Monte Carlo simulation based option pricing model. The fair value measurement of the earn-out, which relates to the three-year period following closing, is based on unobservable inputs (Level 3) and reflects the Company's own assumptions. The purchase price was allocated as follows: $4,640 to identifiable intangibles and $931 to goodwill.

In December 2014, Securities America purchased certain assets related to the broker-dealer business of Sunset Financial Services, Inc. ("Sunset") from Kansas City Life Insurance Company that was deemed to be a business acquisition. According to the agreement, certain registered representatives and investment advisor representatives and their client accounts and related goodwill were acquired.

The consideration for the transaction was $4,380, consisting of cash of $1,621 and contingent consideration having a fair value of $2,759, for which a liability was recognized based on the estimated acquisition-date fair value of the potential earn-out.

The liability was valued using an income-based approach discounting to present value the earn-out's probability weighted expected payout using three earn-out scenarios. The fair value measurement of the earn-out which relates to a four-year period, is based on unobservable inputs (Level 3) and reflects the Company's own assumptions. The purchase price was allocated as follows: $4,359 to identifiable assets and $21 to goodwill.

In July 2015, Highland purchased certain assets of the insurance brokerage business of Select Brokerage Services Inc. ("Select") that was deemed to be a business acquisition. The consideration for the transaction was $2,019, consisting of cash of $503 paid upon closing, a deferred payment of $504 due on the first anniversary of the closing date and contingent consideration having a fair value of $1,012 for which a liability was recognized based on estimated acquisition-date fair value of the potential earn-out.

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 four-year period, is based on unobservable inputs (Level 3) and reflects the Company's own assumptions. The purchase price was allocated $2,019 to identifiable intangible and other assets.

In June 2015, Securities America purchased certain assets of the broker-dealer business of Dalton Strategic Investment Services, Inc. ("Dalton") that was deemed to be a business acquisition. Relationships with certain registered representatives and investment advisor representatives including their client accounts were acquired. The consideration for the transaction was $2,689, consisting of cash of $2,100 and contingent consideration having a fair value of $589, for which a liability was recognized based on the estimated acquisition-date fair value of the potential earn-out.

The liability was valued using an income-based approach discounting to present value the earn-out's probability weighted expected payout using three earn-out scenarios. The fair value measurement of the earn-out which relates to a three-year period, is based on unobservable inputs (Level 3) and reflects the

Company's own assumptions. The purchase price was allocated as follows: $2,675 to identifiable intangible and other assets and $14 to goodwill.

Results of operations relating to Wall Street, Foothill, Sunset, Select and Dalton, which are included in the accompanying consolidated statements of operations from their respective dates of acquisition, were not material. In addition, based on materiality, pro forma results were not presented.

## 4. Fair Value of Assets and Liabilities

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

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

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

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

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

The following tables presents the carrying values and estimated fair values at December 31, 2016 and December 31, 2015 of financial assets and liabilities, excluding financial instruments that are carried at fair value on a recurring basis, and information is provided on their classification within the fair value hierarchy.

(Dollars in thousands, except share and per share amounts)

Such instruments are carried at amounts that approximate fair value due to their short-term nature and generally negligible credit risk.

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

(1) Carrying value approximates fair value, which is determined based on a valuation technique to convert future cash payments or forgiveness transactions to a single discounted preset value amount.
(2) Excludes contingent consideration liabilities of $7,144.
(3) Estimated fair value based on then current rates at which similar amounts of debt could be borrowed.

| | December 31, 2015 | | | |
|---|---|---|---|---|
| **Assets** | Carrying Value | Level 1 | Level 2 | Total Estimated Fair Value |
| Cash and cash equivalents | $118,677 | $118,677 | $ — | $118,677 |
| Receivables from clearing brokers | 44,466 | — | 44,466 | 44,466 |
| Receivables from other broker-dealers | 2,150 | — | 2,150 | 2,150 |
| Notes receivables, net (1) | 26,967 | — | 26,967 | 26,967 |
| Other receivables, net | 48,564 | — | 48,564 | 48,564 |
| | **$240,824** | **$118,677** | **$122,147** | **$240,824** |
| **Liabilities** | | | | |
| Accrued compensation | $ 29,115 | $ — | $ 29,115 | $ 29,115 |
| Commissions and fees payable | 59,995 | — | 59,995 | 59,995 |
| Accounts payable and accrued liabilities (2) | 27,991 | — | 27,991 | 27,991 |
| Accrued interest | 823 | — | 823 | 823 |
| Notes payable, net (3) | 53,921 | — | 50,416 | 50,416 |
| | **$171,845** | **$ —** | **$168,340** | **$168,340** |

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

(Dollars in thousands, except share and per share amounts)

(2) Excludes contingent consideration liabilities of $2,813.
(3) Estimated fair value based on then current rates at which similar amounts of debt could be borrowed.

The following tables presents the financial assets and liabilities measured at fair value on a recurring basis at December 31, 2016 and December 31, 2015:

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

| | December 31, 2015 | | | | |
|---|---|---|---|---|---|
| | Carrying Value | Level 1 | Level 2 | Level 3 | Total Estimated Fair Value |
| **Assets** | | | | | |
| Certificates of deposit | $ 359 | $ 359 | $ — | $ — | $ 359 |
| Debt securities | 1,125 | — | 1,125 | — | 1,125 |
| U.S. Treasury notes | 101 | — | 101 | — | 101 |
| Common stock and warrants | 1,885 | 927 | 958 | — | 1,885 |
| Other investments | 609 | — | 609 | — | 609 |
| Total | **$4,079** | **$1,286** | **$2,793** | **$ —** | **$4,079** |
| **Liabilites** | | | | | |
| Contingent consideration payable | $2,813 | $ — | $ — | $2,813 | $2,813 |
| Debt securities | 30 | — | 30 | — | 30 |
| U.S. Treasury notes | 200 | — | 200 | — | 200 |
| Common stock | 8 | 8 | — | — | 8 |
| Total | **$3,051** | **$ 8** | **$ 230** | **$2,813** | **$3,051** |

As of December 31, 2016 and December 31, 2015, approximately $3,161 and $3,383, respectively, of securities owned were deposited with clearing brokers and may be sold or hypothecated by the clearing brokers pursuant to clearing agreements with such clearing brokers. Securities sold, but not yet purchased, at fair value represents obligations of the Company's subsidiaries to purchase the specified financial instrument at the then current market price. Accordingly, these transactions result in off-balance-sheet risk as the Company's subsidiaries' ultimate obligation to repurchase such securities may exceed the amount recognized in the consolidated statements of financial condition.

(Dollars in thousands, except share and per share amounts)

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

Warrants are carried at a discount to fair value as determined by using the Black-Scholes option pricing model due to illiquidity. This model takes into account the underlying securities current market values, the underlying securities market volatility, the terms of the warrants, exercise prices, and risk-free return rate. As of December 31, 2016 and December 31, 2015, the fair values of the warrants were $252 and $545, respectively, and are included in common stock and warrants (level 2) above.

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

Other investments consist principally of equity interests in non-traded Real Estate Investment Trusts, which are valued based on pricing available from buyers in the secondary market.

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

| | |
|---|---|
| Fair value of contingent consideration as of December 31, 2013 | $ 589 |
| Payments | (124) |
| Change in fair value of contingent consideration | (12) |
| Fair value of contingent consideration in connection with 2014 acquisition | 2,759 |
| Fair value of contingent consideration as of December 31, 2014 | 3,212 |
| Payments | (1,945) |
| Change in fair value of contingent consideration | (55) |
| Fair value of contingent consideration in connection with 2015 acquisitions | 1,601 |
| Fair value of contingent consideration as of December 31, 2015 | 2,813 |
| Payments | (827) |
| Change in fair value of contingent consideration | 216 |
| Fair value of contingent consideration in connection with 2016 acquisitions | 4,942 |
| Fair value of contingent consideration as of December 31, 2016 | $ 7,144 |

## 5. Net Capital Requirements

The Company's broker-dealer subsidiaries are subject to the SEC's Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital. Each of Securities America, Triad, Investacorp, KMS and Ladenburg has elected to compute its net capital under the alternative method allowed by this rule, and, at December 31, 2016, each had a $250 minimum net capital requirement. At December 31, 2016, Securities America had regulatory net capital of $5,192, Triad had regulatory net capital of $11,262, Investacorp had regulatory net capital of $7,293, KMS had regulatory net capital of $5,517 and Ladenburg had regulatory net capital of $22,523.

(Dollars in thousands, except share and per share amounts)

SSN has elected to compute its net capital under the basic method allowed by the Net Capital Rule and at December 31, 2016, it had net capital of $7,739, which was $6,918 in excess of its required net capital of $821, and had a net capital ratio of 1.59 to 1.

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

On February 26, 2016, Triad sent written notification to FINRA of a net capital deficiency of $1,579 at January 31, 2016, which arose from changing its methodology of recognizing intra-quarterly revenue and related commission expense. Such methodology resulted in the recording of a non-allowable asset for purposes of computing net capital.
At February 29, 2016, the deficiency had been cured through the amortization of the non-allowable asset and Triad has taken steps to prevent recurrence. Also, the Company contributed $2,500 to Triad to increase its capital for purposes of maintaining excess net capital prospectively.

Premier Trust, chartered by the state of Nevada, is subject to regulation by the Nevada Department of Business and Industry Financial Institutions Division. Under Nevada law, Premier Trust must maintain minimum stockholders' equity of at least $1,000, including at least $250 in cash. At December 31, 2016, Premier Trust had stockholders' equity of $1,766, including at least $250 in cash.

## 6. Fixed Assets

Components of fixed assets, net included in the consolidated statements of financial condition were as follows:

| | December 31, | |
|---|---|---|
| | **2016** | **2015** |
| Cost: | | |
| Leasehold improvements | $ 4,829 | $ 4,656 |
| Computer equipment | 16,782 | 14,260 |
| Furniture and fixtures | 3,418 | 3,251 |
| Software | 19,161 | 14,089 |
| Other | 4,063 | 5,043 |
| | 48,253 | 41,299 |
| Less: accumulated depreciation and amortization | (27,000) | (19,546) |
| Total | $ 21,253 | $ 21,753 |

(Dollars in thousands, except share and per share amounts)

## 7. Intangible Assets

At December 31, 2016 and 2015, intangible assets subject to amortization consisted of the following:

| | Weighted-Average Estimated Useful Life (years) | December 31, 2016 | | December 31, 2015 | |
|---|---|---|---|---|---|
| | | Gross Carrying Amount | Accumulated Amortization | Gross Carrying Amount | Accumulated Amortization |
| Technology | 7.9 | $ 25,563 | $15,754 | $ 25,563 | $12,488 |
| Relationships with financial advisors | 15.5 | 117,995 | 40,505 | 110,671 | 32,028 |
| Vendor relationships | 7 | 3,613 | 3,613 | 3,613 | 3,613 |
| Covenants not-to-compete | 3.9 | 6,421 | 4,638 | 6,035 | 3,347 |
| Customer accounts | 8.3 | 2,029 | 1,971 | 2,029 | 1,765 |
| Trade names | 7.7 | 16,910 | 10,017 | 16,910 | 7,790 |
| Renewal revenue | 7.9 | 41,381 | 12,481 | 41,381 | 7,263 |
| Relationships with investment banking clients | 4 | 2,586 | 2,586 | 2,586 | 2,586 |
| Leases | 6 | 861 | 861 | 861 | 861 |
| Referral agreement | 6.6 | 124 | 119 | 124 | 101 |
| Other | 6 | 67 | 67 | 67 | 67 |
| Total | | $217,550 | $92,612 | $209,840 | $71,909 |

Aggregate amortization expense amounted to $20,703, $20,650 and $14,056 for the years ended December 31, 2016, 2015 and 2014, respectively. The weighted-average amortization period for total amortizable intangibles at December 31, 2016 is 9.83 years. Estimated amortization expense for each of the five succeeding years and thereafter is as follows:

| | |
|---|---|
| 2017 | $ 20,703 |
| 2018 | 19,918 |
| 2019 | 16,444 |
| 2020 | 14,857 |
| 2021 | 10,144 |
| Thereafter | 42,872 |
| | $124,938 |

(Dollars in thousands, except share and per share amounts)

## 8. Goodwill

Changes to the carrying amount of goodwill during the years ended December 31, 2016 and 2015 are as follows:

| | Ladenburg | Independent Brokerage and Advisory Services | Insurance Brokerage | Total |
|---|---|---|---|---|
| Balance as of January 1, 2015 | $301 | $103,422 | $11,515 | $115,238 |
| Benefit applied to reduce goodwill | — | (78) | — | (78) |
| Adjustments related to allocation of KMS and Highland purchase price | — | (68) | 1,184 | 1,116 |
| Business acquisitions | — | 9,296 | — | 9,296 |
| Balance as of December 31, 2015 | $301 | $112,572 | $12,699 | $125,572 |
| Correction related to Securities America acquisition purchase price allocation [(1)] | — | (2,870) | — | (2,870) |
| Business acquisitions | — | 1,329 | — | 1,329 |
| Balance as of December 31, 2016 | $301 | $111,031 | $12,699 | $124,031 |

(1) During 2016, the Company corrected the allocation of purchase price related to Securities America acquisition, which resulted in a decrease of $2,870 in goodwill and related decrease in deferred tax liability.

The annual impairment tests performed at December 31, 2016 and 2015, based on quantitative assessments, did not indicate that the carrying value of goodwill had been impaired. However, changes in circumstances or business conditions could result in an impairment of goodwill.

## 9. Notes Receivable from Financial Advisors

From time to time, the Company's broker-dealer subsidiaries may make loans to their financial advisors. These loans are primarily given to newly-recruited advisors to assist in the transition process. In connection with the Securities America acquisition in 2011, the Company made retention loans aggregating $20,000 to Securities America's financial advisors. The notes receivable balance is comprised of unsecured non-interest-bearing and interest-bearing loans (interest of up to 10.0%) to the financial advisors. These notes have various schedules for repayment or forgiveness and mature at various dates through 2024. The notes are amortized over the forgiveness period which generally ranges from 3 to 5 years. Receivables are continually evaluated for collectability and possible write-offs and an allowance for doubtful accounts is provided where a loss is considered probable. As of December 31, 2016 and 2015, the allowance amounted to $371 and $461, respectively.

## 10. Deferred Compensation Plan

Securities America has a deferred compensation plan which allowed certain members of management and qualified financial advisors to defer a portion of their compensation and commissions. Participants were able to elect various distribution options, but must be a plan participant for five years before any distributions can be made.

Securities America has purchased variable life insurance contracts with cash surrender values that are designed to replicate the gains and losses of the deferred compensation liability and are held in a consolidated Rabbi Trust. The cash surrender values of the life insurance contracts held in the Rabbi Trust are intended to informally fund a portion of the deferred compensation liability. Securities America is the owner and beneficiary of these policies, for which the aggregated cash surrender value totaled $10,210 and $9,247 as of December 31, 2016 and 2015, respectively. The deferred compensation liability of $17,247 and $17,211 as of December 31, 2016 and 2015, respectively, reflects the current value of the deferred compensation benefits, which is subject to change with market value fluctuations. The deferred compensation liability is equal to the theorized value of the underlying employee investment fund elections in the plan. Changes in the value of the assets or liabilities are recognized in the consolidated statements of operations.

(Dollars in thousands, except share and per share amounts)

## 11. Income Taxes

The provision for income taxes for 2016, 2015 and 2014 consisted of the following:

| | Federal | State and Local | Total |
|---|---|---|---|
| **2016:** | | | |
| Current | $ — | $ 929 | $ 929 |
| Deferred | 8,992 | 104 | 9,096 |
| | $ 8,992 | $ 1,033 | $ 10,025 |
| **2015:** | | | |
| Current | $ (1,491) | $ 1,331 | $ (160) |
| Deferred | (1,623) | 1,223 | (400) |
| Benefit applied to reduce goodwill | — | 78 | 78 |
| | $ (3,114) | $ 2,632 | $ (482) |
| **2014:** | | | |
| Current | $ 947 | $ 1,160 | $ 2,107 |
| Deferred | (21,012) | (4,509) | (25,521) |
| Benefit applied to reduce goodwill | — | 68 | 68 |
| | $(20,065) | $(3,281) | $(23,346) |

The difference between the income taxes expected at the U.S. federal statutory income tax rate of 35% and the reported income tax expense (benefit) is summarized as follows:

| | 2016 | 2015 | 2014 |
|---|---|---|---|
| (Loss) income before income taxes | $(12,286) | $(11,695) | $ 10,006 |
| (Benefit) expense under statutory U.S. tax rates | (4,300) | (4,093) | 3,502 |
| Increase (decrease) in taxes resulting from: | | | |
| Increase (decrease) in valuation allowance | 12,540 | 79 | (28,590) |
| Nondeductible items | 1,323 | 1,701 | 818 |
| State taxes, net of federal benefit | 671 | 1,600 | 689 |
| Other, net | (209) | 231 | 235 |
| Income tax expense (benefit) | $ 10,025 | $ (482) | $(23,346) |

The Company accounts for income taxes under the asset and liability method, which requires the recognition of tax benefits or expense on the temporary differences between the tax basis and financial statement basis of its assets and liabilities as well as tax loss carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates expected to apply to taxable income in the years in which those differences are expected to be recovered or settled.

**(Dollars in thousands, except share and per share amounts)**

Significant components of the Company's deferred tax assets and liabilities as of December 31, 2016 and December 31, 2015 are as follows:

| | 2016 | 2015 |
|---|---|---|
| Deferred tax assets (liabilities): | | |
| Net operating loss carryforwards | $ 14,132 | $ 13,197 * |
| AMT credit carryforward | 76 | 76 |
| Accrued expenses | 5,084 | 4,501 |
| Compensation and benefits | 18,333 | 19,674 |
| Deferred compensation liability | 6,496 | 6,494 |
| Securities owned | 900 | 770 |
| Total deferred tax assets | 45,021 | 44,712 |
| Valuation allowance | (13,766) | (1,226) * |
| Net deferred tax assets | 31,255 | 43,486 |
| Fixed assets | (6,025) | (4,699) |
| Intangibles | (25,097) | (34,100) |
| Goodwill | (10,775) | (9,103) |
| Total deferred liabilities | (41,897) | (47,902) |
| Net deferred tax liability | $(10,642) | $ (4,416) |

* Reclassified from amounts previously reported.

As a result of the Highland and KMS acquisitions in 2014 and intended inclusion of such entities in the Company's consolidated federal and certain combined state and local income tax returns, deferred federal and a substantial portion of deferred state and local tax liabilities assumed in the acquisitions (see Note 3) are able to offset the reversal of the Company's pre-existing deferred tax assets. Accordingly, the Company's deferred tax valuation allowance at December 31, 2013 which amounted to $28,590 was reduced to the extent of $21,238 of the deferred tax liability recorded in the acquisitions and recorded as a deferred tax benefit in the 2014 consolidated statement of operations. Further, after utilization of a portion of the Company's net operating loss carryforward to offset taxable income for 2014 and a corresponding reversal of $5,760 of the valuation allowance, the remaining valuation allowance of $1,592 was reversed and recorded as a deferred tax benefit in the 2014 consolidated statement of operations. Management's decision for such reversal was based on income from operations in 2014 as well as reductions in interest expense due to repayment of debt from proceeds of preferred stock and expectation of future taxable income, including future reversals of existing taxable temporary differences. Based on such available evidence, management concluded that it was more likely than not that the Company's deferred tax assets at December 31, 2014 would be realized and no valuation allowance was required.

At December 31, 2016, the Company had a consolidated federal net operating loss carryforward of approximately $48,410, which expires in various years from 2018 to 2036. The annual utilization of the net operating loss carryforward may be limited in future years due to the change in ownership provisions prescribed by Section 382 of the U.S. Internal Revenue Code. In addition, the Company has a Florida state net operating loss carryforward of approximately $42,978 expiring between 2028 and 2033; a New York state net operating loss carryforward of approximately $63,924 expiring in 2036 and a New York City net operating loss carryforward of approximately $61,775 expiring in 2036. Deferred tax assets related to net operating loss carryforwards do not include tax deductions of approximately $11,205 related to equity compensation that was greater than the compensation recognized for financial reporting.

(Dollars in thousands, except share and per share amounts)

Goodwill for tax purposes recognized in connection with the acquisition of Triad by the Company, all of which is tax deductible, exceeded the amount of goodwill recognized in the financial statements. Authoritative accounting guidance in effect when the acquisition was consummated requires the tax benefit for the excess goodwill to be recognized when realized and applied first to reduce goodwill and thereafter reduce non-current intangible assets with the remaining benefit recognized as a reduction of income tax expense.

In assessing the Company's ability to recover its deferred tax assets, the Company evaluated whether it is more likely than not that some portion or the entire deferred tax asset will be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible and/or net operating losses can be utilized. The Company considered all positive and negative evidence when determining the amount of the net deferred tax assets that are more likely than not to be realized. This evidence includes, but is not limited to, historical earnings, scheduled reversal of taxable temporary differences, tax planning strategies and projected future taxable income. Based on these considerations the Company believes it was more likely than not that it will not realize the benefit of its deferred tax assets with the exception of certain state net operating losses as of December 31, 2015. With respect to 2016 a significant piece of objective negative evidence evaluated was the cumulative loss incurred over the three-year period ended December 31, 2016. On the basis of this evaluation, the Company determined that its deferred tax assets were not realizable on a more-likely-than-not basis and recorded a valuation allowance against its deferred tax assets. As such, the Company's valuation allowance increased by $12,540 during 2016.

In accordance with ASC 350-10, the Company does not amortize indefinite lived-intangibles and goodwill for financial reporting purposes. The Company does amortize the indefinite-lived intangibles and goodwill for tax purposes to the extent the Company has tax basis in such items. The deferred tax liability of $10,642 primarily relates to the tax effects of differences between the financial reporting and tax basis of intangible assets and goodwill that are not expected to reverse during the Company's net operating loss carryforward period, as reversal will occur when such assets are dispose of or impaired which period is not determinable.

The Company applied the "more-likely-than-not" recognition threshold to all tax positions taken or expected to be taken in a tax return, which resulted in unrecognized state tax benefits as of December 31, 2016 and December 31, 2015. The Company has elected to classify interest and penalties that would accrue with respect to unrecognized tax benefits as interest and other expense, respectively.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

| | 2016 | 2015 |
|---|---|---|
| Balance at January 1, | $423 | $— |
| Increases in tax positions for prior years | 9 | 268 |
| Increases in tax positions for current years | 71 | 155 |
| Balance at December 31, | $503 | $423 |

Of the amounts reflected in the above table at December 31, 2016, the entire amount would reduce the Company's annual effective tax rate if recognized. As of December 31, 2016, the Company accrued interest and penalties of approximately $150. As of December 31, 2016, the Company does not anticipate a significant change in unrecognized tax benefits within 12 months of the reporting date.

The Company files income tax returns in the United States and various state jurisdictions. The Company's tax years 2012 through 2016 remain open to examination by most taxing authorities.

(Dollars in thousands, except share and per share amounts)

Prior to being acquired by the Company in November 2011, Securities America was included in consolidated federal and state income tax returns filed by its parent Ameriprise Financial, Inc. (“Ameriprise”). Accordingly, Securities America is jointly, with other members of the consolidated group, and severally liable for any additional taxes that may be assessed against the group. In connection with the acquisition, Ameriprise has agreed to indemnify the Company for any such assessments imposed on any members of the group other than Securities America. Ameriprise has disclosed that in 2016 the IRS completed auditing its U.S. Income Tax Returns for 2008 through 2011.

However, the years 2010 and 2011 remain open because of certain un-agreed upon issues. Ameriprise or certain of its subsidiaries’ state income tax returns are currently under examination by various jurisdictions for years ranging from 1997 through 2011.

## 12. Notes Payable

Notes payable consisted of the following:

| | December 31, | |
|---|---|---|
| | 2016 | 2015 |
| Notes payable to clearing firm under forgivable loans | $ 4,285 | $ 6,429 |
| Notes payable to finance Securities America acquisition, net of $172 of unamortized discount | — | 17,804 |
| Notes payable under subsidiary’s term loan with bank | 153 | 564 |
| Note payable under subsidiary’s revolver with bank | 620 | 950 |
| Notes payable by subsidiary to certain former shareholders of Highland | 6,738 | 6,738 |
| Notes payable to KMS’s former shareholders, net of $221 and $343 of unamortized discount in 2016 and 2015, respectively | 3,852 | 5,711 |
| Notes payable to SSN’s former shareholders, net of $651 and $977 unamortized discount in 2016 and 2015, repectively | 10,769 | 15,378 |
| Other | — | 600 |
| Less: Unamortized debt issuance costs | — | (253) |
| Total | $26,417 | $53,921 |

### Revolving Credit Agreement

In 2007, the Company entered into a $40,000 revolving credit agreement with Frost Gamma Investments Trust (“Frost Gamma”), an affiliate of the Company’s chairman of the board and principal shareholder. Borrowings of up to $40,000 are permitted under the Frost Gamma credit agreement and bear interest at a rate of 11% per annum, payable quarterly. The Company may repay outstanding amounts at any time prior to the maturity date of August 25, 2021, without penalty, and may re-borrow up to the full amount of the agreement. At December 31, 2016 and 2015, the Company had no outstanding balance under the revolving credit agreement. The Company borrowed and repaid $25,000 in November 2016. Interest expense amounted to $113, $0 and $364 in 2016, 2015 and 2014, respectively.

The note issued under the credit agreement contains customary events of default, which, if uncured, entitle the holder to accelerate the due date of the unpaid principal amount of, and all accrued and unpaid interest on, such note. Under the revolving credit agreement, Frost Gamma received a warrant to purchase 2,000,000 shares of LTS common stock. The warrant is exercisable at any time prior to October 19, 2017 at an exercise price of $1.91 per share. The warrant, which is classified as debt issue cost, was valued at $3,200 based on the Black-Scholes option pricing model, and is being amortized under the straight-line method over the remaining term of the revolving credit agreement.

**NFS Forgivable Loans**

On November 4, 2011, the primary clearing firm of the Company's subsidiaries, National Financial Services LLC ("NFS"), a Fidelity Investments® company, provided the Company with a seven-year, $15,000 forgivable loan. The Company used the forgivable loan proceeds to fund expenses related to the Securities America acquisition. Interest on the loan accrues at the average annual Federal Funds effective rate plus 6% per annum, subject to the maximum rate of 11% per annum. If Securities America meets certain annual clearing revenue targets set forth in the loan agreement, the principal balance of the loan will be forgiven in seven equal yearly installments of $2,143 through November 2018. Interest payments due with respect to each such year will also be forgiven if the annual clearing revenue targets are met. Any principal amounts not forgiven will be due in November 2018, and any interest payments not forgiven are due annually. If during the loan term any principal amount is not forgiven, the Company may have such principal forgiven in future years if Securities America exceeds subsequent annual clearing revenue targets. The Company continues to expense interest under this loan agreement until such time as such interest is forgiven.
Upon meeting annual revenue targets, principal and interest, respectively, of $2,143 and $408 in 2016, $2,143 and $525 in 2015 and $2,143 and $652 in 2014, were forgiven and included in other income.

In connection with the entering into the new forgivable loan, Securities America and the Company's other broker-dealer subsidiaries amended their clearing agreements with NFS to, among other things, extend the term of those agreements through November 2018. Also, the Company and NFS amended the terms of the 2009 forgivable loan made by NFS to the Company such that the remaining principal balance of $7,143 and the related accrued interest will be forgiven, subject to the terms and conditions of the loan, in four equal annual installments commencing in November 2012 without the Company being required to satisfy the annual clearing revenue targets previously established. The Company expensed interest under the 2009 NFS agreement until such interest was forgiven. The principal balance of the 2009 forgivable loan was reduced to $0 in November 2015. On November 4, 2015, the final remaining principal and interest installment of $1,786 and $94, respectively, were forgiven and included in other income. The amounts of principal and interest forgiven and included in other income in 2014 were $1,786 and $187.

The forgivable loan agreements contain covenants, including limitations on the incurrence of additional indebtedness, maintenance of minimum adjusted shareholders' equity levels and a prohibition on the termination of the Company's $40,000 revolving credit agreement prior to its current maturity. Upon the occurrence of an event of default, the outstanding principal and interest under the loan agreements may be accelerated and become due and payable. If the clearing agreements are terminated prior to the loan maturity date, all amounts then outstanding must be repaid on demand. The loan agreements are secured by the Company's, but not its subsidiaries', deposits and accounts held at NFS or its affiliates, which amounted to $21,708 at December 31, 2016.

**Premier Trust Note**

On September 1, 2010, as part of the consideration paid for Premier Trust, the Company issued a five-year, non-negotiable promissory note in the aggregate principal amount of $1,161 to a subsidiary of Premier Trust's former shareholder. The note bore interest at 6.5% per annum, payable in 20 equal quarterly installments and was fully paid in September 2015.

**Securities America Notes**

On November 4, 2011 (the "Closing Date"), in connection with the Securities America acquisition, the Company entered into a loan agreement with various lenders (the "Lenders"), under which the Lenders provided a loan to the Company in an aggregate principal amount of $160,700 (the "November 2011 Loan"), a portion of which was used to fund the cash purchase price payable on the Closing Date. Interest on the November 2011 Loan was payable quarterly at 11% per annum. The remaining balance of the loan, together with accrued and unpaid interest thereon, was paid on November 10, 2016. On the Closing Date, the Company paid a one-time aggregate funding fee of $804 to the Lenders and issued warrants to purchase an aggregate of 10,713,332 shares of the Company's common stock.

The warrants were valued at $9,428 utilizing the Black-Scholes option pricing model. The value of the warrants were credited to additional paid-in capital with a corresponding reduction in the carrying value of the notes as debt discount, which was amortized over the term of the notes by the interest method.

On October 26, 2016, holders of the remaining unexercised warrants to purchase an aggregate of 10,699,999 shares of our common stock exercised such warrants in full. Each holder paid the exercise price by cancellation of indebtedness represented by the remaining balance of the promissory note held by such lender. Accordingly, promissory notes with an aggregate remaining outstanding balance of $17,976 were canceled and no indebtedness related to the November 2011 Loan remains outstanding.

The Company used the net proceeds from the sale of Series A Preferred Stock during the year ended December 31, 2015 and 2014 (see Note 15) to prepay $11,852 and $20,022, respectively, principal amount of the remaining aggregate principal amount of the November 2011 Loan. In connection with the prepayment, the Company recorded a loss on extinguishment of debt for the years ended December 31, 2015 and 2014 of $252 and $548, respectively, which included unamortized discounts and the write-off of debt issuance costs.

Interest paid to Frost Nevada, Vector Group Ltd ("Vector") and the Company's president and chief executive officer and director amounted to $1,779, $198 and $0 in 2016, $2,034, $226 and $0 in 2015 and $4,334, $482 and $6 in 2014, respectively.

**Bank Loans—Securities America**

On November 6, 2013, SAFC, entered into a loan agreement with a third-party financial institution for a term loan in the aggregate principal amount of approximately $1,709. The term loan bears interest at 5.5%, has a 54-month term and is collateralized by Securities America's non-forgivable financial advisor note portfolio. At December 31, 2016 and 2015 respectively, $153 and $564 were outstanding under this loan.

On November 6, 2013, SAFC entered into a revolving credit agreement with the same third-party. Pursuant to this loan agreement, up to $1,500 aggregate principal amount of lending is available, subject to certain conditions. Any additional loans would bear interest at 5.5% per annum over a 5-year term. On November 24, 2015, the loan agreement was amended to reflect an additional $1,000 in addition to any outstanding amounts at the time the amendment was executed allowing for $1,950 total borrowing. The interest rate and terms established in the original credit agreement remain unchanged. At December 31, 2016 and 2015 respectively, $620 and $950 were outstanding under this loan.

The loan agreement contains certain affirmative and negative covenants, including covenants regarding Securities America's client asset levels and number of financial advisors.

**Promissory Notes—Highland**

As of July 31, 2014, the date of the Highland acquisition, Highland had $21,834 payable under a credit agreement that was repaid by the Company. As of December 31, 2016 and 2015, HCHC Acquisition, as successor in interest to Highland's parent, had outstanding $6,738 of its 10% promissory notes due February 26, 2019. Accrued interest on the promissory notes is payable quarterly.

**Promissory Notes—KMS**

On October 15, 2014, as part of the consideration paid for the acquisition of KMS, the Company issued four-year promissory notes to the former shareholders of KMS in the aggregate principal amount of $8,000, bearing interest at 1.84% per annum and payable in equal quarterly installments of principal and interest which were valued at $7,508 based on an imputed interest rate of 5.5%. The carrying value of promissory notes at December 31, 2016 and 2015, respectively net of $221 and $343 unamortized discount, amounts to $3,852 and $5,711. The former shareholders of KMS who hold such notes at December 31, 2016, include KMS's chairman $2,065, president $1,213, chief compliance officer $445, vice president-brokerage operations $160, chief technology officer $154 and vice president-licensing and administration $36. Total interest expense to former shareholders who are current officers of KMS was $90, $126 and $31 respectively, for the years ended 2016, 2015 and 2014.

**Promissory Notes—SSN**

On January 2, 2015, as part of the consideration paid for the acquisition of SSN, the Company issued four-year promissory notes to the former shareholders of SSN in the aggregate principal amount of $20,000, bearing interest at 1.74% per annum and payable in equal quarterly installments of principal and interest, which were valued at $18,697 based on an imputed interest rate of 5.1%. The carrying value of promissory notes at December 31, 2016 and 2015, respectively, net of $651 and $977 of unamortized discount, amounts to $10,769 and $15,378. The former shareholders of SSN who hold such notes include SSN's president and chief executive officer $228, chief compliance officer $57, chief financial officer $34 and vice president-trading $11. Total interest expense to former shareholders who are current officers of SSN was $7 and $9 respectively, for the years ended 2016 and 2015.

**Other**

KMS had a subordinated note payable to a current officer of KMS, in the amount of $600 which was paid in August 2016 plus monthly interest at prime plus one percent.

The prime rate was 3.50% at both December 31, 2016 and 2015. Total interest paid on the note in 2016 and 2015, respectively, was $16 and $26. The note was subordinated to present and future creditors of KMS.

## 13. Commitments and Contingencies

**Operating Leases**

The Company and certain of its subsidiaries are obligated under several non-cancelable lease agreements for office space, expiring in various years through January 2030. Certain leases have provisions for escalation based on specified increases in costs incurred by the landlord. The Company is a sublessor to third parties for a portion of its office space as described below. The subleases expire at various dates through August 2020. As of December 31, 2016, minimum lease payments (net of lease abatement and exclusive of escalation charges) and sublease rentals are as follows:

(Dollars in thousands, except share and per share amounts)

| Year Ending December 31, | Lease Commitments | Sublease Rentals | Net |
|---|---|---|---|
| 2017 | $ 7,688 | $ 54 | $ 7,634 |
| 2018 | 6,850 | 54 | 6,796 |
| 2019 | 6,632 | 52 | 6,580 |
| 2020 | 5,725 | 28 | 5,697 |
| 2021 | 3,950 | — | 3,950 |
| Thereafter | 21,691 | — | 21,691 |
| Total | $52,536 | $188 | $52,348 |

Deferred rent of $1,764 and $1,551 at December 31, 2016 and 2015, respectively, represents lease incentives related to the value of landlord financed improvements together with the difference between rent payable calculated over the life of the leases on a straight-line basis (net of lease incentives), and rent payable on a cash basis.

**Litigation and Regulatory Matters**

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

During the period from March 2015 to February 2016, eight arbitration claims and one lawsuit (U.S. District Court for the Middle District of Alabama) were filed against Triad and others by a total of 45 individuals concerning purported misrepresentations and unsuitability of trading in their advisory accounts. All or most of the transactions at issue were effected through an investment advisory firm not affiliated with Triad or the Company. The lawsuit was transferred to arbitration. All of the arbitration claims were settled during the period from February 2016 to February 2017; the amounts paid by Triad in connection with those settlements were not material.

In September 2015, a client of a former Triad registered representative filed an arbitration claim concerning the suitability of investments in tenant-in-common interests purchased through Section 1031 tax-deferred exchanges, and seeking compensatory damages totaling $3,714 and other relief. In April 2016, the parties entered into a settlement agreement resolving the claims; the amount paid by Triad in connection with the settlement was not material.

In September 2015, Securities America was named as a defendant in lawsuits brought by the bankruptcy trustee of a broker-dealer (U.S. Bankruptcy Court for the District of Minnesota) and a putative class action by the shareholders of that broker-dealer (U.S. District Court for the District of Minnesota). The lawsuits allege that certain of the debtor broker-dealer's assets were transferred to Securities America in June 2015 for inadequate consideration. In October 2016, a settlement was reached with the bankruptcy trustee resolving those claims; the amount paid in connection with the settlement was not material. The remaining complaint seeks an unspecified amount of compensatory damages, and other relief. Securities America intends to vigorously defend against these claims.

Commencing in October 2013, certain states have requested that Securities America provide information concerning the suitability of purchases of non-traded REIT securities by their residents. Securities America has complied with the requests. From March to December 2016, Securities America received additional correspondence from three such states concerning sales of non-traded REIT securities to its residents. The Company does not believe that any action is warranted in connection with such state notice and believes that no material outcome would result if an action were commenced.

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

In January 2016, an amended complaint was filed in the U.S. District Court for the Southern District of Texas against Plains All American Pipeline, L.P. and related entities as well as their officers and directors. The amended complaint added Ladenburg and other underwriters of securities offerings in 2013 and 2014 that in the aggregate raised approximately $2,900,000 as defendants to the purported class action. Ladenburg was one of the underwriters of the October 2013 initial public offering. The complaints allege, among other things, that the offering materials were misleading based on representations concerning the maintenance and integrity of the issuer's pipelines, and that the underwriters are liable for violations of federal securities laws. The plaintiffs seek an unspecified amount of compensatory damages, as well as other relief. Motions to dismiss are currently pending. Ladenburg intends to vigorously defend against these claims.

During the period from May to July 2016, four arbitration claims were filed against Ladenburg by former customers concerning purported unauthorized trading, excessive trading and mishandling of their accounts by a former Ladenburg registered representative. Also, in December 2016, Ladenburg received notice of an additional unfiled claim by a former customer concerning similar activity by the former Ladenburg registered representative. The total amount of compensatory damages asserted in these five claims is in excess of $5,500. Ladenburg intends to vigorously defend against these claims.

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

In November 2016, a consolidated class action complaint was filed in U.S. District Court for the Western District of Washington against CTI Biopharma Corp., its directors and officers, as well as the underwriters of two securities offerings in 2015 that raised approximately $105,000. Ladenburg was one of the underwriters of the offerings. The complaint alleges, among other things, that the offering materials were misleading in their descriptions of safety results of Phase 3 clinical drug trials for the issuer's lead drug candidate for myelofibrosis, and that the underwriters are liable for violations of federal securities laws. The plaintiffs seek an unspecified amount of compensatory damages, as well as other relief. Motions to dismiss are currently pending. Ladenburg intends to vigorously defend against these claims.

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

The Company had accrued liabilities in the amount of approximately $4,396 at December 31, 2016 and $1,358 at December 31, 2015 for certain pending matters. For other pending matters, the Company was unable to estimate a range of possible loss; however, in the opinion of management, after consultation with counsel, the ultimate resolution of these matters is not expected to have a material adverse effect on the Company's consolidated financial position, results of operations or liquidity.

## 14. Off-Balance-Sheet Risk and Concentration of Credit Risk

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

The clearing operations for the Securities America, Triad, Investacorp, KMS, SSN and Ladenburg securities transactions are provided by three clearing brokers. At December 31, 2016 and December 31, 2015, amounts due from these clearing brokers were $41,492 and $44,466, respectively, which represents a substantial concentration of credit risk should these clearing brokers be unable to fulfill their obligations.

In the normal course of business, Securities America, Triad, Investacorp, KMS, SSN and Ladenburg may enter into transactions in financial instruments with off-balance sheet risk. As of December 31, 2016 and December 31, 2015, Securities America, Triad and Ladenburg sold securities that they do not own and will therefore be obligated to purchase such securities at a future date. These obligations have been recorded in the statements of financial condition at the market values of the related securities, and such entities will incur a loss if, at the time of purchase, the market value of the securities has increased since the applicable date of sale.

(Dollars 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.

## 15. Shareholders' Equity

### Repurchase Program

In March 2007, the Company's board of directors authorized the repurchase of up to 2,500,000 shares of the Company's common stock from time to time on the open market or in privately negotiated transactions, depending on market conditions. In October 2011, the board approved an amendment to the repurchase program to permit the purchase of up to an additional 5,000,000 shares, and another amendment was made in November 2014 to permit the repurchase of an additional 10,000,000 shares. On November 7, 2016, an amendment to the stock repurchase program was approved to permit the repurchase of up to an additional 10,000,000 shares. Since inception through December 31, 2016, 17,500,000 shares of common stock have been repurchased for $44,690 under the program, including 5,230,433 shares repurchased for $12,711 in 2016 and 5,673,415 shares repurchased for $16,355 in 2015. As of December 31, 2016, 10,000,000 shares remained available for purchase under the program.

### Warrants

As of December 31, 2016, outstanding warrants to acquire the Company's common stock were as follows:

| Expiration Date | Exercise Price | Number of Shares |
|---|---|---|
| 2017 | $1.91 | 2,000,000 |
| | | 2,000,000 |

In 2016, 13,236,333 warrants were exercised to purchase 12,389,544 shares of the Company's common stock, net of 846,789 shares tendered in payment of the exercise price. The intrinsic value on the date of exercise was $9,320. In 2015, 646,000 warrants were exercised to purchase 449,482 shares of the Company's common stock, net of 196,518 shares tendered in payment of the exercise price. The intrinsic value on the date of exercise was $966. In 2014, warrants were exercised to purchase 13,333 shares of the Company's common stock. The intrinsic value on the date of exercise was $23.

### Capital Stock

On May 21, 2013, the Company filed Articles of Amendment with the Department of State of the State of Florida to designate 5,290,000 shares of the Company's authorized preferred stock, par value $0.0001 per share, as shares of Series A Cumulative Redeemable Preferred Stock (the "Series A Preferred Stock") with the powers, designations, preferences and other rights as set forth therein (the "Articles of Amendment"). In addition, on June 24, 2013, the Company filed a further amendment to designate an additional 3,000,000 preferred shares as Series A Preferred Stock. In 2014, the Company filed articles of amendment to the Company's Articles of Incorporation to designate an additional 6,000,000 shares as Series A Preferred

Stock and to increase the authorized number of shares of common stock from 600,000,000 to 800,000,000. In May 2015, the Company filed an amendment to the Company's Articles of Incorporation to designate an additional 3,000,000 shares as Series A cumulative redeemable preferred stock ("Series A Preferred Stock"). On May 18, 2016, the Company's shareholders approved an amendment to the Company's Articles of Incorporation to increase the number of shares of preferred stock authorized from 25,000,000 to 50,000,000 and to increase the number of shares of common stock authorized from 800,000,000 to 1,000,000,000.

The Articles of Amendment provide that the Company will pay monthly cumulative dividends on the Series A Preferred Stock, in arrears, on the 28th day of each month (provided that if any dividend payment date is not a business day, then the dividend which would otherwise have been payable on that dividend payment date may be paid on the next succeeding business day without adjustment in the amount of the dividend) from, and including, the date of original issuance of the Series A Preferred Stock at 8.00% of the $25.00 per share liquidation preference per annum (equivalent to $2.00 per annum per share). The Articles of Amendment further provide that dividends will be payable to holders of record as they appear in the stock records of the Company for the Series A Preferred Stock at the close of business on the applicable record date, which shall be the 15th day of each month, whether or not a business day, in which the applicable dividend payment date falls.

The Series A Preferred Stock will not be redeemable before May 24, 2018, except upon the occurrence of a Change of Control (as defined in the Articles of Amendment). On or after May 24, 2018, the Company may, at its option, redeem any or all of the shares of the Series A Preferred Stock at $25.00 per share plus any accumulated and unpaid dividends to, but not including, the redemption date. Also, upon the occurrence of a Change of Control, the Company may, at its option, redeem any or all of the shares of Series A Preferred Stock within 120 days after the first date on which such Change of Control occurred at $25.00 per share plus any accumulated and unpaid dividends to, but not including, the redemption date. The Series A Preferred Stock has no stated maturity, is not subject to any sinking fund or mandatory redemption and will remain outstanding indefinitely unless repurchased or redeemed by the Company or converted into the Company's common stock in connection with a Change of Control by the holders of Series A Preferred Stock.

Upon the occurrence of a Change of Control, each holder of Series A Preferred Stock will have the right (subject to the Company's election to redeem the Series A Preferred Stock in whole or in part, as described above, prior to the Change of Control Conversion Date (as defined in the Articles of Amendment)) to convert some or all of the Series A Preferred Stock held by such holder on the Change of Control Conversion Date into a number of shares of the Company's common stock per share of Series A Preferred Stock determined by formula, in each case, on the terms and subject to the conditions described in the Articles of Amendment, including provisions for the receipt, under specified circumstances, of alternative consideration as described in the Articles of Amendment.

Except under limited circumstances, holders of the Series A Preferred Stock generally do not have any voting rights.

On June 24, 2013, June 13, 2014, November 21, 2014 and May 2015, the Company entered into Equity Distribution Agreements under which it could sell up to an aggregate of 12,000,000 shares of its Series A Preferred Stock from time to time in "at the market" offerings under Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"). During the years ended December 31, 2016, 2015 and 2014, the Company sold 1,161,895, 3,586,790 and 4,906,734 shares of Series A Preferred Stock, respectively, pursuant to the "at the market" offerings, which provided total gross proceeds to the Company of $28,303, $86,352 and $111,148, respectively, before deducting commissions paid to unaffiliated sales agents and offering expenses aggregating $723, $1,972 and $2,531, respectively.

(Dollars in thousands, except share and per share amounts)

For the years ended December 31, 2016, 2015 and 2014, the Company paid dividends of $30,438, $28,108 and $17,244, respectively, on its outstanding Series A Preferred Stock based on a monthly dividend of approximately $0.1667 per share.

## 16. Per Share Data

Basic net (loss) income per share is computed by dividing net (loss) income attributable to the Company, decreased with respect to net income or increased with respect to net loss by dividends declared on preferred stock by using the weighted-average number of common shares outstanding. The dilutive effect of incremental common shares potentially issuable under outstanding options, warrants and restricted shares is included in diluted earnings per share in 2014 utilizing the treasury stock method. A reconciliation of basic and diluted common shares use in the computation of per share data is as follows:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Basic weighted-average common shares outstanding—basic | 182,987,850 | 183,660,993 | 182,768,494 |
| Effect of dilutive securities: | | | |
| Options to purchase common stock | — | — | 15,411,800 |
| Warrants to purchase common stock | — | — | 8,331,539 |
| Restricted shares | — | — | 604 |
| Dilutive potential common shares | — | — | 23,743,943 |
| Weighted average common shares outstanding and dilutive potential common shares | 182,987,850 | 183,660,993 | 206,512,437 |

During 2016, 2015 and 2014, options, warrants and restricted stock to purchase 41,191,772, 57,494,385 and 3,215,621 common shares, respectively, were not included in the computation of diluted (loss) income per share as the effect would be anti-dilutive.

## 17. Stock Compensation Plans

### Employee Stock Purchase Plan

Under the Company's amended and restated Qualified Employee Stock Purchase Plan, a total of 10,000,000 shares of common stock are available for issuance. As currently administered by the Company's compensation committee, all full-time employees may use a portion of their salary to acquire shares of LTS common stock under this purchase plan at a 5% discount from the market price of LTS' common stock at the end of each option period. Option periods have been set at three month periods and commence on January 1, April 1, July 1 and October 1 of each year and end on March 31, June 30, September 30 and December 31 of each year. The plan is intended to qualify as an "employee stock purchase plan" under Section 423 of the Internal Revenue Code. During 2016, 210,330 shares of LTS common stock were issued to employees under this plan, at prices ranging from $2.19 to $2.38; during 2015, 192,978 shares of LTS common stock were issued to employees under this plan, at prices ranging from $2.00 to $3.67; and during 2014, 89,581 shares of LTS common stock were issued to employees under this plan, at prices ranging from $2.87 to $4.03. These share issuances resulted in a capital contribution of $481, $545 and $291 for 2016, 2015 and 2014, respectively.

(Dollars in thousands, except share and per share amounts)

**Amended and Restated 1999 Performance Equity Plan and 2009 Incentive Compensation Plan**

In 1999, the Company adopted the 1999 Performance Equity Plan (as amended and restated, the "1999 Plan") and in 2009 the Company adopted the 2009 Incentive Compensation Plan (the "2009 Plan"), which provide for the grant of stock options and other awards to designated employees, officers and directors and certain other persons performing services for the Company and its subsidiaries, as designated by the board of directors. The 1999 Plan provides for the granting of up to 25,000,000 awards with an annual limit on grants to any individual of 1,500,000. In 2014, the 2009 Plan was amended to provide for the granting of up to 45,000,000 awards with an annual limit on grants to any individual of 1,500,000. Awards under the plans include stock options, stock appreciation rights, restricted stock, deferred stock, stock reload options and/or other stock-based awards. The compensation committee of the Company's board of directors administers the plans. Stock options granted under the 2009 Plan may be incentive stock options and non-qualified stock options. An incentive stock option may be granted only through August 27, 2019 under the 2009 Plan and may only be exercised within ten years of the date of grant (or five years in the case of an incentive stock option granted to an optionee who at the time of the grant possesses more than 10% of the total combined voting power of all classes of stock of LTS ("10% Shareholder")). Incentive stock options may no longer be granted under the 1999 Plan. The exercise price of both incentive and non-qualified options may not be less than 100% of the fair market value of LTS' common stock at the date of grant, provided, that the exercise price of an incentive stock option granted to a 10% Shareholder shall not be less than 110% of the fair market value of LTS' common stock at the date of grant. As of December 31, 2016, 17,716,165 and 2,314,206 shares of common stock were available for issuance under the 2009 Plan and the 1999 Plan, respectively.

A summary of the status of the 1999 Plan at December 31, 2016 and changes during the year ended December 31, 2016 are presented below:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding, December 31, 2015 | 15,254,501 | $1.48 | | |
| Exercised | (3,077,000) | 0.94 | | |
| Forfeited | (10,000) | 2.80 | | |
| Expired | (45,000) | 1.45 | | |
| Options outstanding, December 31, 2016 | 12,122,501 | $1.62 | 2.22 | $10,181 |
| Vested or expected to vest, December 31, 2016 | 12,122,501 | $1.62 | 2.22 | $10,181 |
| Options exercisable, December 31, 2016 | 12,122,501 | $1.62 | 2.22 | $10,181 |

(Dollars in thousands, except share and per share amounts)

A summary of the status of the 2009 Plan at December 31, 2016 and changes during the year ended December 31, 2016 are presented below:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding, December 31, 2015 | 21,380,009 | $2.20 | | |
| Granted | 1,330,000 | 2.57 | | |
| Exercised | (558,145) | 1.52 | | |
| Forfeited | (315,811) | 1.89 | | |
| Options outstanding, December 31, 2016 | 21,836,053 | $2.24 | 5.88 | $11,306 |
| Vested or expected to vest, December 31, 2016 | 21,818,147 | $2.24 | 5.87 | $11,306 |
| Options exercisable, December 31, 2016 | 17,328,303 | $2.04 | 5.37 | $10,707 |

**Non-Plan Options**

The Company has granted stock options to newly-hired employees in conjunction with their employment agreements or in connection with acquisitions, which are outside of the option plans. A summary of the status of these options at December 31, 2016 and changes during the year ended December 31, 2016 are presented below:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding, December 31, 2015 | 4,415,000 | $1.63 | | |
| Exercised | (1,415,000) | 1.05 | | |
| Options outstanding, December 31, 2016 | 3,000,000 | $1.91 | 0.80 | $1,590 |
| Vested or expected to vest, December 31, 2016 | 3,000,000 | $1.91 | 0.80 | $1,590 |
| Options exercisable, December 31, 2016 | 3,000,000 | $1.91 | 0.80 | $1,590 |

The weighted-average grant date fair value of employee and director options granted during the years ended December 31, 2016, 2015 and 2014 was $1.07, $2.79 and $1.85, respectively. The fair value of each option award was estimated on the date of grant using the Black-Scholes option pricing model using the following weighted-average assumptions:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| Dividend yield | — % | — % | — % |
| Expected volatility | 50.38% | 61.10% | 64.94% |
| Risk-free interest rate | 1.67% | 1.63% | 2.02% |
| Expected life (in years) | 6.11 | 6.15 | 6.40 |

(Dollars in thousands, except share and per share amounts)

The weighted average expected life for the 2016, 2015 and 2014 grants to employees and directors reflects the alternative simplified method permitted by authoritative guidance, which defines the expected life as the average of the contractual term of the options and the weighted-average vesting period for all option tranches. The Company estimates the expected term for stock options awarded to independent financial advisors using the contractual term. Expected volatility for the 2016 and 2015 option grants is based on the historical volatility of the common stock of the Company over the same number of years as the expected life, prior to the option grant date. Expected volatility in 2014 was based on blended volatility comprised of the historical volatility of the common stock of the Company and its peers over the same number of years as the expected life, prior to the option grant date.

**Restricted Stock Awards**

A summary of the restricted stock awards at December 31, 2016 and changes during the year ended December 31, 2016 is presented below:

| | Restricted Stock | Weighted-Average Grant Date Fair Value Per Share |
|---|---|---|
| Nonvested at December 31, 2015 | 1,208,542 | $3.91 |
| Issued during 2016 | 1,341,000 | 2.23 |
| Vested during 2016 | (306,323) | 3.91 |
| Forfeited during 2016 | (10,000) | 2.64 |
| Nonvested at December 31, 2016 | 2,233,219 | 2.92 |

Restricted stock awards issued in 2016 vest in four equal annual installments.

As of December 31, 2016, there was $8,716 of total unrecognized compensation cost related to non-vested share-based compensation arrangements. This cost is expected to be recognized over the vesting periods of the options and restricted stock, which on a weighted-average basis is approximately 2.22 years.

The total intrinsic value of options exercised during the years ended December 31, 2016, 2015 and 2014 amounted to $6,556,$2,595 and $4,640, respectively. The fair value of restricted stock vested in 2015 was $1,197.

Non-cash compensation expense relating to stock options was calculated using the Black-Scholes option pricing model, amortizing the value calculated over the vesting period and applying a forfeiture percentage as estimated by the Company’s management, using historical information. The Company has elected to recognize compensation cost for option awards that have graded vesting schedules on a straight line basis over the requisite service period for the entire award.

For the years ended December 31, 2016, 2015 and 2014, non-cash compensation expense relating to share-based awards granted to employees, consultants and advisors amounted to $5,311, $8,759 and $10,541, respectively.

## 18. Noncontrolling Interest

During the quarter ended March 31, 2013, Arbor Point Advisors, LLC (“APA”), a newly-formed registered investment advisor, began operations. Investment advisory services of APA are provided through licensed and qualified individuals who are investment advisor representatives of APA. Securities America holds an 80% interest in APA and an unaffiliated entity owns a 20% interest. As Securities America is the controlling managing member of APA, the financial statements of APA are included in the Company's consolidated financial statements and amounts attributable to the 20% unaffiliated investor are recorded as a noncontrolling interest.

(Dollars in thousands, except share and per share amounts)

## 19. Segment Information

The Company has three operating segments. The independent brokerage and advisory services segment includes the broker-dealer and investment advisory services provided by Securities America, Triad, Investacorp, KMS and SSN to their independent contractor financial advisors and wealth management services provided by Premier Trust. The Ladenburg segment includes the investment banking, sales and trading and asset management services and investment activities conducted by Ladenburg and LTAM. The insurance brokerage segment includes the wholesale insurance brokerage activities conducted by Highland, which delivers life insurance, fixed and equity indexed annuities, as well as long-term care solutions to investment and insurance providers.

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

Segment information for the years ended December 31, 2016, 2015 and 2014 is as follows:

| | Independent Brokerage and Advisory Services | Ladenburg | Insurance Brokerage | Corporate | Total |
|---|---|---|---|---|---|
| **2016** | | | | | |
| Revenues | $1,003,282 | $49,425 | $50,483 | $ 3,763 | $1,106,953 |
| Income (loss) before income taxes | 15,071 | (3,674) | (6,074) | (17,609) [(1)] | (12,286) |
| EBITDA, as adjusted [(2)] | 47,977 | (1,676) | 2,255 | (12,785) | 35,771 |
| Identifiable assets | 423,288 | 38,665 | 54,166 | 29,884 | 546,003 |
| Depreciation and amortization | 20,406 | 703 | 7,161 | 64 | 28,334 |
| Interest | 2,828 | 4 | 682 | 748 | 4,262 |
| Capital expenditures | 6,784 | 139 | 209 | — | 7,132 |
| Non-cash compensation | 1,010 | 537 | 245 | 3,519 | 5,311 |

(Dollars in thousands, except share and per share amounts)

| | Independent Brokerage and Advisory Services | Ladenburg | Insurance Brokerage | Corporate | Total |
|---|---|---|---|---|---|
| **2015** | | | | | |
| Revenues | $1,035,365 | $61,841 | $49,573 | $ 5,339 | $1,152,118 |
| Income (loss) before income taxes | 7,735 | 3,095 | (6,701) | (15,824) (1) | (11,695) |
| EBITDA, as adjusted (2) | 46,462 | 6,052 | 1,170 | (9,639) | 44,045 |
| Identifiable assets | 417,367 | 44,050 | 61,689 | 50,999 | 574,105 |
| Depreciation and amortization | 19,373 | 703 | 6,949 | 52 | 27,077 |
| Interest | 3,532 | 7 | 683 | 947 | 5,169 |
| Capital expenditures | 7,341 | 87 | 783 | 87 | 8,298 |
| Non-cash compensation | 3,836 | 638 | 239 | 4,046 | 8,759 |
| **2014** | | | | | |
| Revenues | $ 816,581 | $73,298 | $26,164 | $ 5,210 | $ 921,253 |
| Income (loss) before income taxes | 10,520 | 14,846 | (841) | (14,519) (1) | 10,006 |
| EBITDA, as adjusted (2) | 50,596 | 16,174 | 2,315 | (7,907) | 61,178 |
| Identifiable assets | 350,187 | 39,845 | 67,941 | 52,141 | 510,114 |
| Depreciation and amortization | 14,978 | 665 | 2,743 | 11 | 18,397 |
| Interest | 5,460 | 67 | 297 | 1,166 | 6,990 |
| Capital expenditures | 6,058 | 1,002 | 253 | 134 | 7,447 |
| Non-cash compensation | 6,751 | 612 | 116 | 3,062 | 10,541 |

(1) Includes interest on revolving credit and forgivable loan notes, compensation, professional fees and other general and administrative expenses.

(2) The following table reconciles income (loss) before income taxes to EBITDA, as adjusted, for the years ended December 31, 2016, 2015 and 2014:

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **(Loss) income before income taxes** | (12,286) | (11,695) | 10,006 |
| Adjustments: | | | |
| Interest income | (672) | (254) | (245) |
| Change in fair value of contingent consideration | 216 | (55) | (12) |
| Loss on extinguishment of debt | — | 252 | 548 |
| Interest expense | 4,262 | 5,169 | 6,990 |
| Depreciation and amortization | 28,334 | 27,077 | 18,397 |
| Non-cash compensation expense | 5,311 | 8,759 | 10,541 |
| Amortization of retention and forgivable loans | 5,472 | 9,238 | 11,041 |
| Financial advisor recruiting expense | 1,882 | 2,387 | 1,489 |
| Acquisition-related expense | 1,357 | 940 (5) | 2,342 |
| Loss attributable to noncontrolling interest | 42 | 62 | 81 |
| Other | 1,853 (3) | 2,165 (4) | — |
| EBITDA, as adjusted | $ 35,771 | $ 44,045 | $61,178 |

(Dollars in thousands, except share and per share amounts)

| | Year Ended December 31, | | |
|---|---|---|---|
| | 2016 | 2015 | 2014 |
| **EBITDA, as adjusted** | | | |
| Independent Brokerage and Advisory Services | $ 47,977 | $46,462 | $50,596 |
| Ladenburg | (1,676) | 6,052 | 16,174 |
| Insurance Brokerage | 2,255 | 1,170 | 2,315 |
| Corporate | (12,785) | (9,639) | (7,907) |
| Total segments | $ 35,771 | $44,045 | $61,178 |

(3) Includes loss on severance costs of $755, excise and franchise tax expense of $508 and compensation expense that may be paid in stock of $586.

(4) Includes loss on write-off of receivable from subtenant of $855, compensation expense that may be paid in stock of $532, rent expense due to default by subtenant of $468 and excise and franchise tax expense of $310.

(5) Includes $409 for acquisition-related expense that was previously included in professional services expense and other expense.

## 20. Related Party Transactions

Effective as of October 1, 2015, Investacorp's lease with Frost Real Estate Holdings, LLC ("FREH"), an entity affiliated with the Company's chairman of the board and principal shareholder, in an office building in Miami, Florida, was renewed and now expires in September 2020. The lease provides for aggregate payments during the five-year term of approximately $2,420 and minimum annual payments of $484. Rent expense under such lease amounted to $522, $382 and $351 in 2016, 2015 and 2014, respectively.

Ladenburg's principal executive offices are located in the same office building in Miami, Florida, where approximately 14,050 square feet of office space is leased from FREH. Ladenburg's lease was renewed in March 2013 and now expires in February 2018 with two optional five-year extensions. In November 2016 the lease was amended and the rentable square footage was reduced from 18,146 to 14,050. The lease provides for aggregate payments during the remaining term of approximately $575 and minimum annual payment of $493. Rent expense under such lease amounted to $706, $734 and $734 in 2016, 2015 and 2014, respectively.

The Company is a party to an agreement with Vector, where Vector has agreed to make available to the Company the services of Vector's Executive Vice President to serve as the President and Chief Executive Officer of the Company and to provide certain other financial, tax and accounting services, including assistance with complying with Section 404 of the Sarbanes-Oxley Act of 2002 and assistance in the preparation of tax returns. Various executive officers and directors of Vector and its subsidiary New Valley serve as members of the board of directors of the Company and Vector and its subsidiaries own approximately 7.83% of the Company's common stock at December 31, 2016. In consideration for such services, the Company agreed to pay Vector an annual management fee plus reimbursement of expenses and to indemnify Vector. The agreement is terminable by either party upon 30 days' prior written notice. The Company paid Vector $850 in 2016, $850 in 2015 and $850 in 2014 under the agreement and pays Vector at a rate of $850 per year in 2017.

In 2015, the Company entered into a Consulting Services Agreement with Nextt Advisors Inc., a corporation owned solely by the son-in-law (the "Consultant") of the Company's President and Chief Executive Officer. Upon the expiration of the 2015 agreement, the Company in 2016 entered in a new

(Dollars in thousands, except share and per share amounts)

Consulting Services Agreement with the Consultant. Pursuant to the agreement, the Company pays the Consultant $16 per month in connection with the Consultant's provision of professional services to the Company. The Company paid the Consultant $186 under the agreement in 2016 and $13 in 2015.

SSN has an operating lease for office facilities with Cogdill Capital LLC, an entity in which SSN's Chief Executive Officer and Chief Financial Officer are members who own a minority percentage of such entity, which expires in March 2020. Rent expense under such lease amounted to $276 in 2016 and $268 in 2015.

The Company is a party to an agreement with Castle Brands Inc. ("Castle") under which the Company provides certain administrative, legal and financial services to Castle. The Company's President and Chief Executive Officer, who is also a director of the Company, is also the President and Chief Executive Officer and a director of Castle. Various Company directors serve as directors of Castle and the Company and Castle have the same principal shareholder. The Company received $173 and $171 under this agreement in 2016 and 2015, respectively.

See Note 12 for information regarding loan transactions involving related parties.

## 21. Quarterly Financial Data (Unaudited)

| | Quarters | | | |
|---|---|---|---|---|
| | 1st | 2nd | 3rd | 4th |
| **2016:** | | | | |
| Revenues | $ 265,796 | $ 269,775 | $ 274,323 | $ 297,059 |
| Expenses (1) | 272,124 | 271,302 | 281,162 | 294,435 |
| (Loss) income before item shown below | (6,328) | (1,527) | (6,839) | 2,624 |
| Change in fair value of contingent consideration | (57) | (49) | (72) | (38) |
| (Loss) income before income taxes | $ (6,385) | $ (1,576) | $ (6,911) | $ 2,586 |
| Net income (loss) | $ 2,384 | $ (17,801) | $ (7,515) | $ 621 |
| Loss attributable to noncontrolling interest | 18 | 14 | 1 | 9 |
| Net income (loss) attributable to the Company | $ 2,402 | $ (17,787) | $ (7,514) | $ 630 |
| Dividends declared on preferred stock | (7,345) | (7,389) | (7,780) | (7,924) |
| Net loss available to common shareholders | $ (4,943) | $ (25,176) | $ (15,294) | $ (7,294) |
| Basic loss per common share | $ (0.03) | $ (0.14) | $ (0.08) | $ (0.04) |
| Diluted loss per common share | $ (0.03) | $ (0.14) | $ (0.08) | $ (0.04) |
| Basic weighted average common shares | 181,363,446 | 180,674,937 | 181,032,730 | 188,837,490 |
| Diluted weighted average common shares | 181,363,446 | 180,674,937 | 181,032,730 | 188,837,490 |

(1) Includes a $1,355, $1,341, $1,300 and $1,315 charge for non-cash compensation in the first, second, third and fourth quarters of 2016 respectively.

(Dollars in thousands, except share and per share amounts)

| | Quarters | | | |
|---|---|---|---|---|
| | 1st | 2nd | 3rd | 4th |
| **2015:** | | | | |
| Revenues | $ 278,823 | $ 296,748 | $ 282,214 | $ 294,333 |
| Expenses (1) | 284,146 | 299,581 | 285,363 | 294,778 |
| Loss before item shown below | (5,323) | (2,833) | (3,149) | (445) |
| Change in fair value of contingent consideration | 31 | — | — | 24 |
| Loss before income taxes | $ (5,292) | $ (2,833) | $ (3,149) | $ (421) |
| Net loss | $ (3,572) | $ (2,477) | $ (2,937) | $ (2,227) |
| Loss attributable to noncontrolling interest | 20 | 8 | 11 | 23 |
| Net loss attributable to the Company | $ (3,552) | $ (2,469) | $ (2,926) | $ (2,204) |
| Dividends declared on preferred stock | (6,332) | (7,152) | (7,289) | (7,335) |
| Net loss available to common shareholders | $ (9,884) | $ (9,621) | $ (10,215) | $ (9,539) |
| Basic loss per common share | $ (0.05) | $ (0.05) | $ (0.06) | $ (0.05) |
| Diluted loss per common share | $ (0.05) | $ (0.05) | $ (0.06) | $ (0.05) |
| Basic weighted average common shares | 184,998,551 | 184,743,052 | 183,519,768 | 181,423,440 |
| Diluted weighted average common shares | 184,998,551 | 184,743,052 | 183,519,768 | 181,423,440 |

(1) Includes a $3,260, $2,424, $242 and $2,833 charge for non-cash compensation in the first, second, third and fourth quarters of 2015, respectively.

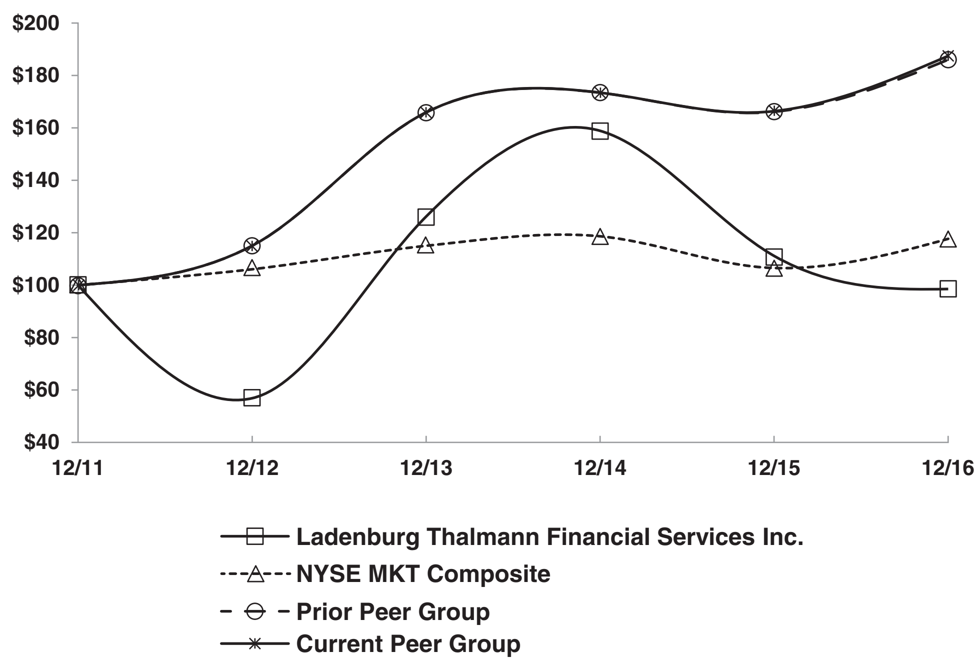
**Stock Price Performance Graph**

The graph below compares the cumulative total return of our common stock for the five-year period ending December 31, 2016 with the cumulative total return of companies comprising the NYSE MKT Composite Index, a customized peer group composed of twelve companies ("Current Peer Group") and a customized peer group composed of eleven companies used during the year ended December 31, 2015 ("Prior Peer Group"). Our Current Peer Group consists of the companies included in the Prior Peer Group, Calamos Asset Management Inc., Cowen Group, Inc., FBR & Co., Greenhill & Co., Inc., INTL FCStone Inc., Investment Technology Group, Inc., JMP Group Inc., LPL Financial Holdings Inc., Oppenheimer Holdings Inc., Piper Jaffray Companies and Raymond James Financial Inc., plus the addition of B. Riley Financial Inc.

The graph plots the growth in value of an initial investment of $100 in each of our common stock, the NYSE MKT Composite Index, the Prior Peer Group and the Current Peer Group and assumes reinvestment of all dividends, if any. We have not paid any dividends on our common stock and, therefore, the cumulative total return calculation for our common stock is based solely on stock price appreciation.

**COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN***

Among Ladenburg Thalmann Financial Services Inc., the NYSE MKT Composite Index, Prior Peer Group and Current Peer Group




*$100 invested on 12/31/11 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

| | 12/11 | 12/12 | 12/13 | 12/14 | 12/15 | 12/16 |
|---|---|---|---|---|---|---|
| Ladenburg Thalmann Financial Services Inc. | 100.00 | 56.45 | 126.21 | 159.27 | 111.29 | 98.39 |
| NYSE MKT Composite | 100.00 | 106.15 | 115.07 | 118.71 | 106.60 | 117.67 |
| Prior Peer Group | 100.00 | 115.06 | 166.35 | 173.91 | 166.53 | 186.53 |
| Current Peer Group | 100.00 | 115.11 | 166.38 | 174.00 | 166.73 | 188.04 |

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# LADENBURG THALMANN FINANCIAL SERVICES INC.

## CORPORATE INFORMATION

### OFFICERS

Phillip Frost, M.D.
*Chairman of the Board*

Howard M. Lorber
*Vice Chairman of the Board*

Richard J. Lampen
*President and Chief Executive Officer*

Mark Zeitchick
*Executive Vice President*

Adam Malamed
*Executive Vice President and Chief Operating Officer*

Joseph Giovanniello, Jr.
*Senior Vice President – Corporate and Regulatory Affairs and Secretary*

Doreen Griffith
*Senior Vice President – Chief Information Officer*

Brian L. Heller
*Senior Vice President – Business and Legal Affairs*

Brett H. Kaufman
*Senior Vice President and Chief Financial Officer*

Paul Lofties
*Senior Vice President – Wealth Management*

Carly P. Maher
*Senior Vice President – Enterprise Initiatives*

Doug Baxley
*Vice President – Retirement and Fiduciary Services*

Bradley H. Brodie
*Vice President – Legal Affairs*

Diane M. Chillemi
*Vice President – Accounting and Finance*

Oksana Poznak
*Vice President – Strategic Relationships*

Craig A. Timm
*Vice President – Business Risk Management and Chief Risk Officer*

### OFFICERS OF SUBSIDIARIES

**Ladenburg Thalmann & Co. Inc.**

Peter H. Blum
*Co-Chief Executive Officer*

David Rosenberg
*Co-Chief Executive Officer*

**Ladenburg Thalmann Asset Management Inc.**

Philip Blancato
*President*

**Investacorp, Inc.**

Patrick Farrell
*Chief Executive Officer*

**Triad Advisors, Inc.**

Jeffrey L. Rosenthal
*Chief Executive Officer*

**Premier Trust, Inc.**

Mark Dreschler
*Chief Executive Officer*

**Securities America, Inc.**

James Nagengast
*Chief Executive Officer*

**Highland Capital Brokerage, Inc.**

Jim Gelder
*Chief Executive Officer*

**KMS Financial Services, Inc.**

Eric Westberg
*Chief Executive Officer*

**Securities Service Network, Inc.**

Wade Wilkinson
*Chief Executive Officer*

### BOARD OF DIRECTORS

Henry C. Beinstein
*Partner, Gagnon Securities LLC*

Phillip Frost, M.D.
*Chairman & Chief Executive Officer, OPKO Health, Inc.*

Brian S. Genson
*President, Pole Position Investments*

Saul Gilinski
*Chief Executive Officer and President, Capscanada Corporation*

Dr. Richard M. Krasno
*Lead Independent Director, Ladenburg Thalmann Financial Services Inc.*

Richard J. Lampen
*President and Chief Executive Officer, Ladenburg Thalmann Financial Services Inc.*

Howard M. Lorber
*President and Chief Executive Officer, Vector Group Ltd.*

Jeffrey S. Podell
*Private Investor*

Jacqueline M. Simkin
*President, Simkin Management Inc.*

Mark Zeitchick
*Executive Vice President, Ladenburg Thalmann Financial Services Inc.*

**AUDITORS**

EisnerAmper LLP
New York, NY

**CORPORATE HEADQUARTERS**

4400 Biscayne Boulevard, 12th Floor
Miami, FL 33137
212.409.2000

**SUBSIDIARIES, LOCATIONS AND TELEPHONE NUMBERS**

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American Stock Transfer &
Trust Company
59 Maiden Lane
New York, NY 10038
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**COMMON AND PREFERRED STOCK**

Our Common Stock and 8% Series A Cumulative Redeemable Preferred Stock trade on the NYSE MKT under the symbols LTS and LTS PrA, respectively.

**ANNUAL REPORT ON FORM 10-K**

Copies of our Annual Report on Form 10-K can be accessed via our website at ir.stockpr.com/ladenburg/proxy-statements

**ADDITIONAL INFORMATION**

Copies of our filings with the U.S. Securities and Exchange Commission, and other information may be obtained at our website www.ladenburg.com or by contacting:

Ladenburg Thalmann Financial Services Inc.
4400 Biscayne Boulevard, 12th Floor
Miami, FL 33137
Attention: Investor Relations
212.409.2000

LADENBURG THALMANN
FINANCIAL SERVICES

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