LPL Financial Holdings Inc.
Form 10-K
February 26, 2014

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

x	ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2013
or	
o	TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from________to

Commission file number 001-34963

LPL Financial Holdings Inc.
(Exact name of registrant as specified in its charter)

Delaware	20-3717839
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

75 State Street, Boston, MA 02109
(Address of principal executive offices; including zip code)

617-423-3644
(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 — $.001 par value per share	NASDAQ Global Select Market

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

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

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

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 x No o

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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. (Check one):

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes o No x

As of June 28, 2013, the aggregate market value of the voting stock held by non-affiliates of the registrant was $2.6 billion. For purposes of this information, the outstanding shares of Common Stock owned by directors and executive officers of the registrant were deemed to be shares of the voting stock held by affiliates.

The number of shares of common stock, par value $0.001 per share, outstanding as of February 19, 2014 was 100,343,788.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders are incorporated by reference into Part III.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended (the "Exchange Act"), with the Securities and Exchange Commission (the "SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's internet site at http://www.sec.gov.

On our Internet website, http://www.lpl.com, we post the following recent filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. Hard copies of all such filings are available free of charge by request via email (investor.relations@lpl.com), telephone (617) 897-4574, or mail (LPL Financial Investor Relations at 75 State Street, 24th Floor, Boston, MA 02109). The information contained or incorporated on our website is not a part of this Annual Report on Form 10-K.

When we use the terms "LPLFH", "we", "us", "our", and the "firm" we mean LPL Financial Holdings Inc., a Delaware corporation, and its consolidated subsidiaries, taken as a whole, as well as any predecessor entities, unless the context otherwise indicates.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Annual Report on Form 10-K regarding the Company's future financial and operating results, growth, business strategy, plans, liquidity, ability and plans to repurchase shares and pay dividends in the future, including statements regarding projected costs, projected savings, projected expenses and anticipated improvements to the Company's operating model, services, and technology as a result of the Service Value Commitment, as well as any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. These forward-looking statements are based on the Company's historical performance and its plans, estimates and expectations as of February 25, 2014. The words "anticipates," "believes," "expects," "may," "plans," "predicts," "will" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future results, plans, intentions or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive and other factors, which may cause actual financial or operating results, levels of activity, or the timing of events, to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in general economic and financial market conditions, including retail investor sentiment; fluctuations in the value of assets under custody; effects of competition in the financial services industry; changes in the number of the Company's financial advisors and institutions, and their ability to market effectively financial products and services; changes in interest rates and fees payable by banks participating in the Company's cash sweep program, including the Company's success in negotiating agreements with current or additional counterparties; the Company's success in integrating the operations of acquired businesses; execution of the Company's plans related to the Service Value Commitment, including the Company's ability to successfully transform and transition business processes to third party service providers; the Company's success in negotiating and developing commercial arrangements with third party service providers that will enable the Company to realize the service improvements and efficiencies expected to result from the Service Value Commitment; the performance of third party service providers to which business processes are transitioned from the Company; the Company's ability to control operating risks, information technology systems risks and sourcing risks; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by self-regulatory organizations; and the other factors set forth in Part I, Item 1A - “Risk Factors”. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this annual report, even if its estimates change, and you should not rely on statements contained herein as representing the Company's views as of any date subsequent to the date of this annual report.

PART I

Item 1. Business

General Corporate Overview

We are the nation's largest independent broker-dealer, a top custodian for registered investment advisors ("RIAs"), and a leading independent consultant to retirement plans. We provide an integrated platform of brokerage and investment advisory services to more than 13,600 independent financial advisors and financial advisors at more than 700 financial institutions (our "advisors") throughout the United States, enabling them to provide their retail investors (their "clients") with objective financial advice through a lower-risk model. We also support approximately 4,500 financial advisors who are affiliated and licensed with insurance companies through customized clearing services, advisory platforms and technology solutions.

We support a diverse client base through our subsidiary companies. LPL Financial LLC ("LPL Financial") is a clearing broker-dealer and an investment advisor that primarily transacts business as an agent for our advisors on behalf of their clients through a broad array of financial products and services. Fortigent Holdings Company, Inc. and its subsidiaries ("Fortigent") is a leading provider of solutions and consulting services to RIAs, banks and trust companies that serve high-net-worth clients. The Private Trust Company, N.A. ("PTC") manages trusts for high-net-worth clients.

While our services are diverse, our singular focus is to provide advisors with the front-, middle- and back-office support they need to serve the large and growing market for independent investment advice. We believe we are the only company that offers advisors the unique combination of an integrated technology platform, comprehensive self-clearing services and open architecture access to leading financial products, all delivered in an environment unencumbered by conflicts from product manufacturing, underwriting or market-making.

For over 20 years we have served and supported the independent advisor market. We are a market leader with the largest independent advisor base and we believe we have the fourth largest overall advisor base in the United States. Through our advisors, we are also one of the largest distributors of financial products in the United States with over $73 billion in sales of mutual funds, annuities and advisory services. Our significant scale combined with our differentiated focus on the independent market has created a competitive advantage that enables ongoing growth through the attraction and retention of advisors. We are also able to continually reinvest in and improve resources to help our advisors manage the increasing complexity of the financial advisory and brokerage business, improve productivity and achieve their own goals for long-term growth. We currently have 3,185 employees with primary offices in Boston, Charlotte and San Diego.

Our Business

We believe that independent, objective financial guidance is a fundamental need for everyone. To fulfill that need, we enable our advisors to focus on what they do best — build personal, long-term client relationships that serve as the foundation for turning life's aspirations into financial realities. With our support, our advisors are able to provide their clients with high-quality independent financial advice and investment solutions. We help our advisors manage the complexity of their businesses by providing a comprehensive integrated technology platform, customized custody and clearing services and an open-architecture product platform that offers financial management and investment solutions from over 790 providers. We offer no proprietary products of our own. Because we do not offer proprietary products, we enable the independent financial advisors, banks and credit unions with whom we partner to offer their clients truly objective, low-conflict advice.

Our business is dedicated exclusively to our advisors; we are not a market-maker nor do we offer investment banking or underwriting services. Additionally, we offer our advisors the highest average payout ratios among the five largest U.S. broker-dealers, as ranked by number of advisors, which we believe provides us with a significant competitive advantage.

Our flexible model attracts many different types of advisors, such as independent financial advisors, RIAs, advisors focused on serving retirement plans and advisors at small and mid-sized financial institutions. Furthermore, we believe that we are the only independent broker-dealer with an integrated platform supporting RIAs.

Our revenues are derived primarily from commission and advisory fees generated by our advisors. We also generate asset-based revenues from our financial product sponsor relationships, cash sweep programs and omnibus processing and networking services. Under our self-clearing platform, we custody the majority of client assets invested in these products. Our custody activities include providing statements, processing transactions and performing ongoing account management. In addition, we generate revenues from advisor- and technology-related fees.

Our Advisor Relationships

Our advisors build long-term relationships with their clients in communities across the U.S. by guiding them through the complexities of investment decisions, retirement solutions, financial planning and wealth-management. Our advisors support approximately 4.4 million client accounts. Our services support the evolution of our advisors' businesses over time and are designed to change as our advisors' needs change.

Our relationship with our advisors is expressed in our Commitment Creed, which for more than 20 years has set forth the guiding principles that have been the foundation for our culture and reflected our singular focus on the advisors we serve. The size and growth of our business are reflective of this focus.

Advisors licensed with LPL Financial as registered representatives and as investment advisory representatives are able to conduct both commission-based business on our brokerage platform and fee-based business on our corporate RIA platform. In order to be licensed with LPL Financial, advisors must be approved through our assessment process, which includes a thorough review of each advisor's education, experience and credit and compliance history. Approved advisors become registered with LPL Financial and enter into a representative agreement that establishes the duties and responsibilities of each party. Pursuant to the representative agreement, each advisor makes a series of representations, including that the advisor will disclose to all clients and prospective clients that the advisor is acting as LPL Financial's registered representative or investment advisory representative, that all orders for securities will be placed through LPL Financial, that the advisor will sell only products LPL Financial has approved and that the advisor will comply with LPL Financial policies and procedures as well as securities rules and regulations. These advisors also agree not to engage in any outside business activity without prior approval from us and not to act as an agent for any of our competitors.

In return for the services we provide to advisors, including, among others, transaction processing and technology services to support their daily activities, we typically retain a range of 10 to 15 percent of the commission and advisory revenue generated by our advisors and pay out the remaining 85 to 90 percent directly to them. Advisors are also entitled to receive annual production bonuses, based on their individual and branch production. In addition, advisors pay certain fees directly to us relating to technology and platform access, insurance coverage and licensing fees, as well as administrative fees. The registered representative agreement, which covers such fees, is terminable by us or the advisor without cause on 30 days' notice and by us for cause immediately upon notice.

LPL Financial also supports over 280 stand-alone RIA practices ("Independent RIAs") with over 2,000 advisors who conduct their advisory business through separate entities by establishing their own RIAs, rather than using our corporate RIA. These Independent RIAs engage us for technology, clearing, compliance related and custody services, as well as access to certain of our investment platforms. These advisors retain 100% of their advisory fees. In return, we charge separate fees for custody, trading and support services to the Independent RIAs. In addition, Independent RIAs seeking to operate a hybrid model carry their brokerage license exclusively with LPL Financial and access our fully-integrated brokerage platform under standard terms.

Our advisors average over 15 years of industry experience. This level of industry experience allows us to focus on supporting and enhancing our advisors' businesses without needing to provide basic training or subsidizing advisors who are new to the industry. Our independent advisors join us from a broad range of firms including wirehouses, regional and insurance broker-dealers, banks and other independent firms. Our flexible business platform allows our advisors to choose the most appropriate business model to support their clients, whether they conduct brokerage business, offer brokerage and fee-based services on our corporate RIA platforms or provide fee-based services through their own RIAs.

The majority of our advisors are entrepreneurial independent contractors who deliver their services through over 4,000 branch offices. They are primarily located in rural and suburban areas and as such are viewed as local providers of independent advice. Approximately 77% of these advisors operate under their own business name. We assist these advisors with their own branding, marketing and promotion, and regulatory review.

We believe we are the market leader in providing support to over 2,200 financial advisors at approximately 700 banks and credit unions nationwide. For these institutions, whose core capabilities may not include investment and financial planning services, or who find the technology, infrastructure and regulatory requirements to be cost prohibitive, we provide their financial advisors with the services they need to be successful, allowing the institutions to focus more energy and capital on their core businesses. In addition, we have expanded our technology and wealth management solutions to support trust departments at such institutions, which enables them to more efficiently manage their assets.

A subset of our advisors provides advice and serves group retirement plans primarily for small and mid-size businesses. These approximately 1,500 advisors serve over 20,800 retirement plans representing $60.6 billion in retirement plan assets custodied at various custodians. LPL Financial provides these advisors with marketing tools and technology capabilities, which are designed for retirement solutions.

We also provide support to approximately 4,500 additional financial advisors who are affiliated and licensed with insurance companies. These arrangements allow us to provide outsourced customized clearing, advisory platforms and technology solutions that enable the financial advisors at these insurance companies to offer a breadth of services to their client base in an efficient manner.

Through our subsidiary Fortigent, we provide unique solutions and consulting services aimed to assist RIAs, banks and trust companies serving high-net-worth clients by providing them with sophisticated investment advice and helping them build their wealth management practices.

Our Value Proposition

The core of our business is dedicated to meeting the evolving needs of our advisors and providing the platform and tools to grow and enhance the profitability of their businesses. Our Service Value Commitment expresses our dedication to continuous improvement in the processes, systems and resources we leverage to meet these needs. In February 2013, we announced the next phase of evolution of our Service Value Commitment, which is designed to create a better service experience for our advisors, evolve our operating model to simplify processes and enhance our ability to invest in areas that are differentiators for our business by lowering our costs in areas where work can be performed more effectively by outsourcing partners specializing in this work.

We support our advisors by providing front-, middle- and back-office solutions through the four pillars of our distinct value proposition: integrated technology solutions, comprehensive clearing and compliance services, practice management programs and training and independent research. The comprehensive and automated nature of our offering enables our advisors to focus on their clients while successfully and efficiently managing the complexities of running their own practice.

Integrated Technology Solutions

We provide our technology and service to advisors through BranchNet, our proprietary, integrated technology platform that is server-based and web-accessible. Using the BranchNet workstation as their core technology platform, our advisors can effectively manage all critical aspects of their businesses while remaining highly efficient and responsive to their clients' needs. Time-consuming processes, such as account opening and management, document imaging, transaction execution, and account rebalancing, are automated to improve efficiency and accuracy. We believe BranchNet allows our advisors to transact and monitor their business more efficiently, lowering operating costs for their business.

Through BranchNet, our advisors have direct access to a fully integrated array of tools and support systems, including:

- comprehensive account lookup for accounts;
- straight-through processing of trade orders and account maintenance requests; and
- secure and reliable data maintenance.

In addition to the account management capabilities of BranchNet, our Resource Center, which is embedded within BranchNet, provides advisors with access to our research, training, compliance and support services, as well as the ability to review products and develop marketing materials, including:

- direct access to financial product information and exclusive research commentaries; detailed regulatory requirements; valuable marketing tools; operational information; comprehensive training and technical support;
- client management and business development tools;
- trading and research tools; and
- business management resources.

Many advisors also subscribe to premium features, such as performance reporting, financial planning and customized websites. Select third-party resources have been integrated into our technology software, which

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enables seamless access to important tools, broadens our range of offerings and reduces duplicate operational functions. Once on BranchNet, advisors have the ability to choose which services suit their business plan, purchasing only the services that they believe are needed to grow their business.

Comprehensive Clearing and Compliance Services

We custody and clear the majority of our advisors' transactions, providing a simplified and streamlined advisor experience and expedited processing capabilities. Our self-clearing platform enables us to better control client data, more efficiently process and report trades, facilitate platform development, reduce costs and ultimately enhance the service experience for our advisors and their clients. Our self-clearing platform also enables us to serve a wider range of advisors, including Independent RIAs.

Because we are self-clearing, we can address all facets of securities transaction processing, including:

- order routing, trading support, execution and clearing, and position keeping;
- regulatory and tax compliance and reporting; and
- investment accounting and recordkeeping.

All of these services are backed by our service center and operations organizations focused on providing timely, accurate and consistent support. Our employees share a passion for maximizing our advisors' ease of doing business and thereby enhancing their ability to serve their clients. Each employee is highly committed to delivering a level of service unmatched in our competitive space.

Service360, a service paradigm available to the majority of our advisors and Independent RIAs, offers a small team-based approach. This service model emphasizes personal accountability and empowerment within each Service360 team. Service360 currently serves over 9,700 advisors.

We continue to make substantial investments in our compliance function to provide our advisors with a strong framework through which to understand and operate within regulatory guidelines as well as guidelines established by our firm. These investments include hiring and retaining experienced compliance and risk professionals and technology-related expenditures. Our compliance and risk management tools are integrated into our technology platform to further enhance the overall effectiveness and scalability of our control environment. All of this enables us to maintain our long term track-record of strong regulatory compliance, as evidenced by the number of regulatory events reported in Financial Industry Regulatory Authority, Inc.'s ("FINRA") BrokerCheck Reports.

Our team of approximately 370 risk and compliance employees assist our advisors through:

- training and advising advisors on new products, new regulatory guidelines, compliance and risk management tools, security policies and procedures, anti-money laundering and best practices;
- supervising sales practice activities and facilitating the oversight activities for branch managers;
- conducting technology-enabled surveillance of trading activities and sales practices;
- overseeing and monitoring of registered investment advisory activities;
- inspecting branch offices and advising on how to strengthen compliance procedures; and
- continuing to invest in technology assisted supervisory tools.

Practice Management Programs and Training

Our practice management programs are designed to help financial advisors in independent practices and financial institutions, as well as all levels of financial institution leadership, enhance and grow their businesses. Our experience gives us the ability to benchmark the best practices of successful advisors and develop customized recommendations to meet the specific needs of an advisor's business and market. Because of our scale, we are able to dedicate an experienced group of approximately 190 practice management professionals who counsel our advisors to build and better manage their business and client relationships through one-on-one support as well as group training. In addition, we hold over 110 conferences and group training events around the country annually for the benefit of our advisors.

Our practice management and training services include:

- personalized business consulting that helps advisors and program leadership enhance the value and operational efficiency of their businesses;
- advisory and brokerage consulting and financial planning to support advisors in growing their businesses with our broad range of products and fee-based offerings, as well as wealth management services to assist advisors serving

high-net-worth clients with comprehensive estate, tax, philanthropic, and financial planning processes;

- marketing strategies, including campaign templates, to enable advisors to build awareness of their services and capitalize on opportunities in their local markets;
- succession planning and an advisor loan program for advisors looking to either sell their own or buy another practice;
- transition services to help advisors establish independent practices and migrate client accounts to us; and
- training and educational programs on topics including technology, use of advisory platforms and business development.

Independent Research

We provide our advisors with integrated access to comprehensive research on a broad range of investments and market analysis, including on mutual funds, separate accounts, alternative investments and annuities, asset allocation strategies, financial markets and the economy. We take our research and create packaged, discretionary portfolios, for which we serve as a portfolio manager, that are available through the LPL Financial turnkey advisory asset management platforms. Our research team consists of approximately 35 professionals with an average of 11 years of industry experience providing unbiased and low-conflict advice. Our research operation is designed to empower our advisors to provide their clients with thoughtful advice in a timely manner. Our research team actively works with our product due diligence group to effectively scrutinize the financial products offered through our platform. Our lack of proprietary products or investment banking services helps ensure that our research remains unbiased and objective. A substantial portion of our research is approved by our Marketing Regulatory Review organization for use with clients, allowing our advisors to leverage these materials to help clients understand complex investment topics and make informed decisions.

Our research enables advisors to:

- keep abreast of changes in markets, investments and the global economy, through our daily market update call and email, published materials, social media content and media presence;
- proactively respond to emerging trends;
- leverage the expertise and experience of our research team in building individual investment portfolios; and
- seek specific advice through our ASK (accurate, swift and knowledgeable) Research Team, a group of research professionals dedicated exclusively to advisor investment-research inquiries via phone and email.

With a focus on performance, service and transparency, our research team utilizes a wide spectrum of available tools to deliver timely perspectives on the ever-changing economic marketplace and products, enabling advisors to help their clients understand and adjust to the latest developments. Through its objective recommendations and portfolio management, the research group helps advisors meet a broad range of investor needs effectively, which in turn allows advisors to focus on their clients and growing their practice.

We also offer independent investment research through our wholly-owned subsidiary, Fortigent. Fortigent's research team consists of approximately 12 dedicated professionals who provide objective advice and guidance on macro-economic analysis, capital markets assumptions, and strategic and tactical asset allocation. Fortigent also provides robust third-party asset manager search, selection and monitoring services for both traditional and alternative strategies across all investment access points (ETFs, mutual funds, separately managed accounts, unified managed accounts and limited partnerships). Fortigent's targeted client base consists of independent advisors (RIAs), banks and trust companies that target primarily taxable high-net-worth investors and families. In addition, Fortigent also provides model management services for both traditional and alternative investment portfolios.

Our Economic Value Proposition

We offer a compelling economic value proposition to independent advisors that is a key factor in our ability to attract and retain advisors and their practices. The independent channels pay advisors a greater share of brokerage commissions and advisory fees than the captive channels — generally 80-90% compared to 30-50%. Through our scale and operating efficiencies, we are able to offer our advisors what we believe to be the highest average payout ratios among the five largest U.S. broker-dealers, ranked by number of advisors, providing us with a significant competitive advantage.

Furthermore, we believe our superior technology and service platforms enable our advisors to operate their practices with a greater focus on generating revenue opportunities and at a lower cost than other independent advisors. As a result, we believe our practice owners earn meaningfully more pre-tax profit than practice owners affiliated with other independent brokerage firms. We attribute this difference in profitability in part to lower fixed costs driven by the need for fewer support staff at our associated practices. Finally, as business owners, our independent financial advisors, unlike captive advisors, also have the opportunity to build equity in their own businesses.

Our Product and Solution Access

We do not manufacture any financial products. Instead, we provide our advisors open architecture access to a broad range of commission, fee-based, cash and money market products and services. Our product due diligence group conducts extensive diligence on substantially all of our product offerings, including annuities, mutual funds, exchange-traded funds, and alternative investments, including real estate investment trusts. Our platform provides access to over 11,000 financial products, manufactured by over 790 product sponsors. Typically, we enter into arrangements with these product sponsors pursuant to the sponsor’s standard distribution agreement.

The sales and administration of these products are facilitated through BranchNet and our Resource Center, which together allow our advisors to access client accounts, product information, asset allocation models, investment recommendations, and economic insight as well as to perform trade execution.

The following table presents a breakdown of the assets of advisors to whom we provide advisory and brokerage services as of December 31, 2013 (dollars in billions):

	Advisory	Brokerage	Total Assets
Independent advisors' assets custodied by LPL Financial	$117.6	$257.9	$375.5
Independent RIAs' assets custodied by LPL Financial	34.0	28.9	62.9
Total advisors' assets custodied by LPL Financial	$151.6	$286.8	$438.4

Advisors with Independent RIA firms have the ability to conduct investment advisory business using our platform and tools, and carry a brokerage license with LPL Financial to support brokerage accounts as well.

Of the $151.6 billion of advisory assets under custody, $113.6 billion are mutual funds. Brokerage sales of financial products were over $29 billion, including over $11 billion in mutual funds and $18 billion in annuities. This sales volume is illustrative of our scale and significant distribution capabilities, as we can offer leading products and services with attractive economics to our advisors.

Commission-Based Products

Commission-based products are those for which we and our advisors receive an upfront commission and, for certain products, a trailing commission. Our brokerage offerings include variable and fixed annuities, mutual funds, equities, alternative investments such as non-traded real estate investment trusts and business development companies, retirement and 529 education savings plans, fixed income and insurance. Our insurance offering is provided through LPL Insurance Associates, Inc. (“LPLIA”), a brokerage general agency which provides personalized advance case design, point-of-sale service and product support for a broad range of life, disability and long-term care products. As of December 31, 2013, the total assets in our commission-based products were $286.8 billion.

Fee-Based Advisory Platforms and Support

We have been an innovator in fee-based advisory solutions since the introduction of our Strategic Asset Management platform in 1991. Today, LPL Financial has five fee-based advisory platforms that provide centrally managed or customized solutions from which advisors can choose to meet the investment needs of their mass affluent and high-net-worth clients. The fee structure aligns the interests of our advisors with their clients, while establishing a recurring revenue stream for the advisor and for us. Our fee-based platforms provide access to no-load/load-waived mutual funds, exchange-traded funds, stocks, bonds, conservative option strategies, unit investment trusts and institutional money managers and no-load multi-manager variable annuities. As of December 31, 2013, the total assets under custody in these platforms were $151.6 billion.

Cash Sweep Programs

We assist our advisors in managing their clients' cash balances through two primary cash sweep programs depending on account type: a money market sweep vehicle involving money market fund providers and an insured bank deposit sweep vehicle. Our insured bank deposit sweep vehicle allocates client cash balances across multiple non-affiliated banks to provide advisors with up to $1.5 million ($3.0 million joint) of insurance through the Federal Deposit Insurance Corporation ("FDIC"). As of December 31, 2013, the total assets in our cash sweep programs, which are held within brokerage and advisory accounts, were approximately $24.9 billion, with $7.5 billion held in a money market sweep vehicle and $17.4 billion in an insured bank deposit sweep vehicle.

Retirement Services

We offer a retirement solution that is fee-based and which allows qualified advisors to provide consultation and advice to plan sponsors using our corporate RIA. We also offer a retirement solution that provides for commission-based services. Both solutions deliver a comprehensive suite of products and services, which we believe have been instrumental in gaining new and larger retirement plan business. In 2013, we launched our Worksite Financial Solutions platform, which furnishes our advisors with the ability to serve Individual Retirement Account ("IRA") rollovers in an efficient and compliant manner. Our advisors, whether through our corporate RIA or through their own independent RIA, serve over 20,800 retirement plans representing $60.6 billion in retirement plan assets, which are custodied with various custodians. These retirement plan assets are custodied with 30 third-party providers of retirement plan administrative services who provide us with reporting feeds. There are additional retirement plan assets supported by our advisors, custodied with third party providers who do not provide reporting feeds to us, and we estimate the total assets in retirement plans (including such additional assets) served by our advisors to be between $95.0 billion and $105.0 billion. The retirement assets are not included in our reported brokerage and advisory assets.

Other Services

We provide a number of tools and services that enable advisors to maintain and grow their practices. Through our subsidiary, PTC, we provide administrative and custodial services to trusts for estates and families. Under our unique model, an advisor may provide the trust with investment management services. Administrative services for the trust are provided by PTC. We also provide open architecture investment management solutions to trust departments of financial institutions through LPL Financial's Concord Trust and Wealth Solutions division ("Concord"). At December 31, 2013, Concord supported $10.6 billion in trust assets for 29 institutions.

In addition, we are a leading provider of solutions and consulting services to registered investment advisors, banks and trust companies that serve high-net-worth clients through Fortigent. At December 31, 2013, $73.9 billion of assets were supported by Fortigent. The assets supported by Concord and Fortigent are not custodied by LPL Financial and are therefore not included in our reported brokerage and advisory assets.

Our Financial Model

Our financial model has inherent resilience, and our overall financial performance is a function of the following dynamics of our business:

- Our revenues stem from diverse sources, including advisor-generated commission and advisory fees as well as fees from product manufacturers, omnibus and networking services, cash sweep balances and other ancillary services. Revenues are not concentrated by advisor, product or geography. For the year ended December 31, 2013, no single relationship with our independent advisor practices, banks, credit unions, or insurance companies accounted for more than 3% of our net revenues, and no single advisor accounted for more than 1% of our net revenues.

- The majority of our revenue base is recurring in nature, with approximately 65% recurring revenue in 2013.

(1) Transaction and fee revenues include individual advisor and account fees.

- The largest variable component of our cost base is directly linked to revenues generated by our advisors. Furthermore, the payout percentages are tied to advisor productivity levels.
- We actively manage our expense base in order to achieve efficient, scalable and sustainable growth.
- A proportion of our revenues, such as software licensing and account and client fees, are not correlated with the equity financial markets.
- Our operating model is scalable and can deliver expanding profit margins over time.
- We are able to operate with low capital expenditures and limited capital requirements, and as a result generate substantial free cash flow, which we have committed to investing in our business as well as returning value to shareholders. During 2013, we used cash flows to fund $219.1 million of share repurchases and to pay $68.0 million in quarterly dividends.
- We continue to invest in our business during difficult market conditions to position us for long-term growth.

Our Competitive Strengths

- Market Leadership Position and Significant Scale. We are the established leader in the independent advisor market, which is our core business focus. Our scale enables us to benefit from the following dynamics:
- Continual Reinvestment. We actively reinvest in our comprehensive technology platform and practice management support, which further improves the productivity of our advisors.
- Pricing Power. As one of the largest distributors of financial products in the United States, we are able to obtain attractive economics from product manufacturers.
- Payout Ratios to Advisors. Among the five largest U.S. broker-dealers by number of advisors, we offer the highest average payout ratios to our advisors.

The combination of our ability to reinvest in our business and maintain highly competitive payout ratios has enabled us to attract and retain advisors. This, in turn, has driven our growth and led to a continuous cycle of reinvestment that reinforces our established scale advantage.

- Unique Value Proposition:

Independent Advisors. We deliver a comprehensive and integrated suite of products and services to support the practices of our independent advisors. We believe we are the only institution that offers a low-conflict, open architecture and scalable platform. The benefits of our purchasing power lead to high average payouts and greater economics to our advisors. Our platform also creates an entrepreneurial opportunity that empowers independent advisors to build equity in their businesses. This generates a significant opportunity to attract and retain highly qualified advisors who are seeking independence.

Institutions. We provide solutions to financial institutions, such as regional banks, credit unions and insurers, who seek to provide a broad array of services for their clients. We believe many institutions find the technology, infrastructure and regulatory requirements associated with delivering financial advice to be cost-prohibitive. We provide comprehensive solutions that enable financial advisors at these institutions to offer financial advice.

- Flexibility of Our Business Model. Our business model allows our advisors the freedom to choose how they conduct their business, which helps us attract and retain advisors from multiple channels, including wirehouses, regional broker-dealers and other independent broker-dealers. Our accommodating platform serves a variety of independent advisor models, including independent financial advisors, RIAs and Independent RIAs. The flexibility of our business model makes it easy for our advisors to transition among independent advisor models and product mix as their business evolves and preferences change within the market. Our business model provides advisors with a multitude of customizable service and technology offerings, which allows them to increase their efficiency, focus on their clients and grow their practice.

- Ability to Serve over 90% of Retail Assets. Our historic focus has been on advisors who serve the mass-affluent market (investors with $100,000 or greater in investable assets). We have designed and integrated all aspects of our platforms and services to profitably meet the needs of these advisors. We believe there continues to be an attractive opportunity in the mass-affluent market, in part because wirehouses have not typically focused on this space. Although we have grown through our focus in this area, the flexibility of our platform, along with our acquisition of Fortigent, allow us to expand our breadth of services to better support the high-net-worth market. As of December 31, 2013, our advisors supported accounts with more than $1 million in assets that in the aggregate represented $80.2 billion in advisory and brokerage assets, 18.3% of our total assets custodied. Although our advisors' average production is typically below that of some of the wirehouse channel firms, our array of integrated technology and services can support advisors with significant production and can compete directly with wirehouses and custodians. Based on Cerulli Associates' wealth tiers, our growth and expansion now allows us to serve each tier between the mass market and high-net-worth market, accounting for approximately 91% of retail assets.

- Experienced and Committed Senior Management Team. We have an experienced and committed senior management team that provides stable leadership and strategic vision for our business. On average, our senior management has 21 years of industry experience. The team has a proven track record of success as demonstrated in the Company's financial performance through the recent market downturn. Having played a significant role in the building out of the business, senior management also has a fundamental and thorough understanding of the operations. The management team is aligned with stockholders and holds significant equity ownership in the Company; certain of our senior executives are subject to mandatory stock ownership guidelines.

Our Sources of Growth

We expect to increase our revenue and profitability by benefiting from favorable industry trends and by executing strategies to accelerate our growth beyond that of the broader markets in which we operate.

Favorable Industry Trends

- Growth in Investable Assets. According to Cerulli Associates, over the past five years, assets under management for the market segments in the United States that we address grew 3.0% per year, while retirement assets are expected to grow 6.3% per year over the next five years (in part due to the retirement of the baby boomer generation and the resulting assets that are projected to flow out of retirement plans and into individual retirement accounts). In addition, IRA assets are projected to grow from $5.9 trillion as of 2013 to $8.2 trillion by 2017. In addition to the retirement of the baby boomer generation, there is a general need in the United States for greater and smarter retirement savings as well as increased regulatory pressures on 401(k) plan sponsors.

(1) Cerulli Quantitative Update - The State of U.S. Retail and Institutional Asset Management, November 2013.
(2) Cerulli Quantitative Update - Retirement Markets, November 2013.

- Increasing Demand for Independent Financial Advice. Retail investors, particularly in the mass-affluent market, are increasingly seeking financial advice from independent sources. We are highly focused on helping independent advisors meet the needs of the mass-affluent market, which constitutes a significant and underserved portion of investable assets, according to Cerulli Associates, and we believe presents significant opportunity for growth.
- Advisor Migration to Independence. Independent channels are gaining market share from captive channels. We believe that we are not just a beneficiary of this secular shift, but an active catalyst in the movement to independence. There is an increased shift towards advisors seeking complete independence by forming an RIA and registering directly with the SEC. However, these advisors are generally interested in retaining assets in brokerage accounts. This shift is leading to significant growth in Independent RIA advisors.
- Macroeconomic Trends. While the current macroeconomic environment has exhibited volatility recently, we anticipate an appreciation in asset prices and a rise in interest rates over the long term. We expect that our business will benefit from growth in advisory and brokerage assets as well as increasing interest rates.

Executing Our Growth Strategies

- Attracting New Advisors to Our Platform. We intend to grow the number of advisors — either those who are independent or who are aligned with financial institutions — who are served by our platform. We have a 4.3% market share of the approximately 310,000 financial advisors in the United States, according to Cerulli Associates, and we have the ability to attract seasoned advisors of any practice size and from any channel, including wirehouses, regional broker-dealers and other independent broker-dealers.

Channel	Advisors	Market Share
Independent Broker-Dealer(1)	78,886	25.6%
Insurance Broker-Dealer	88,115	28.7%
Wirehouse	49,913	16.2%
Regional Broker-Dealer	30,628	10.0%
RIA(1)	27,839	9.0%
Bank Broker-Dealer	13,728	4.5%
Dually registered RIAs(1)	18,513	6.0%
Total	307,622	100%

(1) The 18,513 advisors classified as dually registered RIAs are advisors who are both licensed through independent broker-dealers and registered as investment advisors. Including the 18,513 dually registered advisors, advisors in the Independent Broker-Dealer channel represent 31.6% of the advisor population. Including the 18,513 dually registered advisors, advisors in the RIA channel represent 15.0% of the advisor population.

- Increasing Productivity of Existing Advisor Base. The productivity of advisors increases over time as we enable them to add new clients, gain shares of their clients' investable assets, and expand their existing practices with additional advisors. We facilitate these productivity improvements by helping our advisors better manage their practices in an increasingly complex external environment, which results in assets per advisor improving over time.
- Ramp-up of Newly-Attracted Advisors. We primarily attract experienced advisors who have established practices. In our experience, it takes an average of four years for newly recruited advisors to fully re-establish their practices and associated revenues. This seasoning process creates accelerated growth of revenue from new advisors.
- Our Business Model has Inherent Economies of Scale. The largely fixed costs necessary to support our advisors delivers higher marginal profitability as client assets and revenue grow. Historically, this dynamic has been demonstrated through the growth in our operating margins. Our 2013 announcement about evolving our Service Value Commitment is reflective of our dedication to continuously transforming our business by enhancing the quality and speed of our operational processing while improving our cost structure by lowering costs in areas that are not differentiators for our business.

- Expansions of our Product & Service Offerings. Through internal development, as well as synergies obtained from opportunistic acquisitions, we have expanded our capabilities and product and servicing offerings in order to ensure we continue to provide a premium platform for our advisors to grow and enhance the profitability of their businesses. Presented below are a few examples of our expanded capabilities and product and service offerings.

Streamlined Office	Advisor Essentials	Social Media	Retirement U	Account View
Suite of solutions, incorporating eSignature, Remote Deposit and iDoc, that can save advisors time and money, and enhance their clients' experience. eSignature allows advisors and their clients to provide electronic signatures on the most commonly used operational forms. Remote Deposit is a mobile solution that provides an easy, fast, convenient and secure way to deposit client checks into LPL Financial accounts. iDoc acts as an online vault, in which advisors can store documents electronically and securely.	A strategic educational curriculum designed to help advisors create and run a profitable and productive practice, this program is tailored for advisors new to the business, staff who are on a career path to become a financial advisor, or producers who have not yet reached a club level at LPL Financial.	Our platform helps our advisors harness the power of social networking on three levels: begin learning how to use social media to augment their marketing efforts, connect with their clients and prospects by sharing valuable content to grow their network, and enhance their efforts by tracking activity and improving results. Our Content Library includes articles on a variety of topics that advisors can post directly to their social media site.	A strategic educational curriculum that provides advisors and staff members with the training they need to access and effectively utilize Retirement resources of LPL Financial. The program is designed to enhance knowledge in the following four areas: Client Service, Office Management, Technology, Sales & Marketing.	We introduced new functionalities for the customer account access portal, Account View, including the ability for advisors to customize client-facing web pages in Account View with their practices' own brand. Account View has been organized to reflect the way customers think about their finances - their portfolio, accounts, positions, transactions, and statements. Advisors can now access Account View on mobile devices, so they can remain connected to their crucial financial information from anywhere their mobile devices have connectivity.

- Opportunities for Strategic, Value-Creating Acquisitions. We have a proven history of expanding our business through opportunistic acquisitions. In 2011 and 2012, we completed several transactions providing scale and entry to adjacent markets. We will continue to evaluate acquisition opportunities based on strategic merit and the ability to create value for our shareholders. Our scalable business model and operating platform make us an attractive acquirer in a fragmented and consolidating market.

Competition

We believe we offer a unique and dedicated value proposition to independent financial advisors and financial institutions. This value proposition is built upon the delivery of our services through our scale, independence and integrated technology, the sum of which we believe is not replicated in the industry. As a result we believe that we do not have any direct competitors that offer our unique business model. For example, because we do not have any proprietary manufacturing products, we do not view firms that manufacture asset management products and other financial products as direct competitors.

We compete to attract and retain experienced and productive advisors with a variety of financial firms. Within the independent channel, the industry is highly fragmented, comprised primarily of small regional firms that rely on third-party custodians and technology providers to support their operations. The captive wirehouse channel tends to consist of large nationwide firms with multiple lines of business that have a focus on the highly competitive high-net-worth investor market. Competitors in this channel include Morgan Stanley; Merrill Lynch, Pierce, Fenner, & Smith Incorporated; UBS Financial Services Inc.; and Wells Fargo Advisors, LLC. Competition for advisors also includes regional firms, such as Edward D. Jones & Co., L.P. and Raymond James Financial Services, Inc. RIAs, who are licensed directly with the SEC and not through a broker-dealer, choose third-party firms to provide custodial services. Competitors in this space include Charles Schwab & Co., Fidelity Brokerage Services LLC and TD Ameritrade.

Those competitors that do not offer a complete clearing solution for advisors are frequently supported by third-party clearing and custody oriented firms. Pershing LLC, a subsidiary of Bank of New York Mellon, National Financial Services LLC, a subsidiary of Fidelity Investments, and J.P. Morgan Clearing Corp., a subsidiary of J.P. Morgan Chase & Co., offer custodial services and technology solutions to independent firms and RIAs who are not self-clearing. These clearing firms and their affiliates and other providers also offer an array of service, technology and reporting tools. Albridge Solutions, a subsidiary of Bank of New York Mellon, Advent Software, Inc., Envestnet, Inc., and Morningstar, Inc., provide an array of research, analytics and reporting solutions.

Our advisors compete for clients with financial advisors of brokerage firms, banks, insurance companies, asset management and investment advisory firms. In addition, they also compete with a number of firms offering direct to investor on-line financial services and discount brokerage services, such as Charles Schwab & Co. and Fidelity Brokerage Services LLC.

Employees

As of December 31, 2013, we had 3,185 full-time employees. None of our employees are subject to collective bargaining agreements governing their employment with us. Our continued growth is dependent, in part, on our ability to recruit and retain talented employees. That is why we strive to provide an environment conducive to learning, growth, satisfaction and achievement. We offer ongoing learning opportunities and programs that empower employees to drive their development and careers. Our work environment provides employees with opportunities to collaborate and share their knowledge and insights with peers, managers and stakeholders. Through these initiatives, we work to help all employees to be engaged and empowered.

Our Corporate Structure

LPL Financial Holdings Inc. is the parent company of our collective businesses. Our broker-dealer subsidiary, LPL Financial, was formed in 1989. In 2005, investment funds affiliated with TPG Global, LLC ("TPG Capital") and Hellman & Friedman LLC ("H&F") acquired a majority ownership stake in LPL Financial Holdings Inc., with the remaining interest owned primarily by our founders, senior management and advisors. In 2013, investment funds affiliated with H&F effected distributions of shares of our common stock to their respective partners and no longer own shares of our common stock. At December 31, 2013, investment funds affiliated with TPG Capital owned approximately 17% of the outstanding shares of our common stock. Following the February 2014 repurchase of shares by us from TPG Capital and TPG Capital's simultaneous sale of shares to a private investor, TPG Capital owned approximately 13% of the outstanding shares of our common stock.

In recent years we have grown our business through a number of opportunistic acquisitions. We strengthened our position as a leading independent broker-dealer through our 2007 acquisition of Pacific Select Group, LLC (renamed LPL Independent Advisor Services Group, LLC) and its wholly owned subsidiaries: Mutual Service Corporation (“MSC”), Associated Financial Group, Inc. (“AFG”), Associated Securities Corp. (“Associated”), Associated Planners Investment Advisory, Inc. (“APIA”) and Waterstone Financial Group, Inc. (“WFG,” and together with MSC, AFG, Associated, and APIA, the “Affiliated Entities”). In 2009, we consolidated the operations of the Affiliated Entities with those of LPL Financial. The consolidation involved the transfer of securities licenses of certain registered representatives associated with the Affiliated Entities and their client accounts. Following the completion of these transfer activities, the registered representatives and client accounts that transferred became associated with LPL Financial.

Our acquisitions of UVEST Financial Services Group, Inc. (“UVEST”), and IFMG Securities, Inc., Independent Financial Marketing Group, Inc. and LSC Insurance Agency of Arizona, Inc. (collectively “IFMG”) further expanded our reach in offering financial services through banks, savings and loan institutions and credit unions nationwide. In March 2011, we committed to a corporate restructuring plan to enhance our service offering, while generating efficiencies by consolidating the operations of UVEST with those of LPL Financial (See Item 7 — “Management’s Discussion and Analysis” for further discussion).

Our acquisition of certain assets of National Retirement Partners, Inc. (“NRP”) in February 2011 enhanced our capabilities in the group retirement space. Our NRP advisors expanded our base of advisors who offer retirement products, consulting and investment services to retirement plan sponsors and plan participants as well as comprehensive financial services to plan participants. In June 2011, we acquired Concord Capital Partners, Inc. ("CCP") and its subsidiaries, which provided technology and open architecture investment management solutions for trust departments of financial institutions. Through this acquisition, we sought the ability to support both the brokerage and trust business lines of current and prospective financial institutions. In April 2012, we acquired all of the outstanding common stock of Fortigent. Fortigent provides high-net-worth solutions and consulting services to registered investment advisors, banks, and trust companies. This strategic acquisition has further enhanced our capabilities and offers an extension of our existing services for wealth management advisors. (See Item 7 —

"Management's Discussion and Analysis" for further discussion of our acquisitions of NRP, CCP and Fortigent.)
Our subsidiary, Independent Advisers Group Corporation ("IAG"), offers an investment advisory solution to insurance companies to support their financial advisors who are licensed with them. Our subsidiary, LPLIA, operates as a brokerage general agency which offers life, long-term care and disability insurance sales and

services. Through our subsidiary PTC, we offer trust administration, investment management oversight and RIA custodial services for estates and families.

Regulation

The financial services industry is subject to extensive regulation by U.S. federal, state, and international government agencies as well as various self-regulatory organizations. We take an active leadership role in the development of the rules and regulations that govern our industry. Given the turmoil in the financial services industry in 2008 and 2009, we anticipate continued heightened scrutiny and significant modifications in these rules and regulations. We strive to be at the forefront of influencing this change. We have also invested heavily, with the benefit of our scale, in our compliance functions to monitor our adherence to the numerous legal and regulatory requirements applicable to our business.

Broker-Dealer Regulation

LPL Financial is a broker-dealer registered with the SEC, a member of FINRA and various other self-regulatory organizations and a participant in various clearing organizations including the Depository Trust Company, the National Securities Clearing Corporation and the Options Clearing Corporation. LPL Financial is registered as a broker-dealer in each of the 50 states, the District of Columbia, Puerto Rico and the U.S. Virgin Islands.

Broker-dealers are subject to rules and regulations covering all aspects of the securities business, including sales and trading practices, public offerings, publication of research reports, use and safekeeping of clients' funds and securities, capital adequacy, recordkeeping and reporting, and the conduct of directors, officers and employees. Broker-dealers are also regulated by state securities administrators in those jurisdictions where they do business. Compliance with many of the rules and regulations applicable to us involves a number of risks because rules and regulations are subject to varying interpretations, among other reasons. Regulators make periodic examinations and review annual, monthly and other reports on our operations, track record and financial condition. Violations of rules and regulations governing a broker-dealer's actions could result in censure, penalties and fines, the issuance of cease-and-desist orders, the suspension or expulsion from the securities industry of such broker-dealer, its financial advisor(s) or its officers or employees, or other similar adverse consequences. The rules of the Municipal Securities Rulemaking Board, which are enforced by the SEC and FINRA, apply to the municipal securities activities of LPL Financial.

Our margin lending is regulated by the Federal Reserve Board's restrictions on lending in connection with client purchases and short sales of securities, and FINRA rules also require our subsidiaries to impose maintenance requirements based on the value of securities contained in margin accounts. In many cases, our margin policies are more stringent than these rules.

Significant new rules and regulations continue to arise as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was enacted in July 2010. Provisions of the Dodd-Frank Act that may impact our business include, but are not limited to, the potential implementation of a more stringent fiduciary standard for broker-dealers and the potential establishment of a new self-regulatory organization for investment advisors. Compliance with these provisions is likely to result in increased costs. Moreover, to the extent the Dodd-Frank Act impacts the operations, financial condition, liquidity and capital requirements of financial institutions with whom we do business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us. The ultimate impact that the Dodd-Frank Act will have on us, the financial industry and the economy cannot be known until all such applicable regulations called for under the Dodd-Frank Act have been finalized and implemented.

Investment Adviser Regulation

As investment advisers registered with the SEC, our subsidiaries LPL Financial, IAG and Fortigent, LLC are subject to the requirements of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and the regulations promulgated thereunder, including examination by the SEC's staff. Such requirements relate to, among other things, fiduciary duties to clients, performance fees, maintaining an effective compliance program, solicitation arrangements, conflicts of interest, advertising, limitations on agency cross and principal transactions between the advisor and advisory clients, recordkeeping and reporting requirements, disclosure requirements and general anti-fraud provisions. The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act, ranging from fines and censure to termination of an investment adviser's registration. Investment advisers also are subject to certain state securities laws and regulations. Failure to comply with the Advisers Act or other federal and state securities laws and regulations could result in investigations, sanctions, profit disgorgement, fines or other similar consequences.

Retirement Plan Services Regulation

Certain of our subsidiaries, including LPL Financial, Fortigent, PTC, IAG and LPLIA, are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") or Section 4975 of the Internal Revenue Code (the "Code"), and to regulations promulgated under ERISA or the Code, insofar as they provide services with respect to plan clients, or otherwise deal with plan clients that are subject to ERISA or the Code. ERISA imposes certain duties on persons who are "fiduciaries" (as defined in Section 3(21) of ERISA) and prohibits certain transactions involving plans subject to ERISA and fiduciaries or other service providers to such plans. Non-compliance with these provisions may expose an ERISA fiduciary or other service provider to liability under ERISA, which may include monetary penalty as well as equitable remedies for the affected plan. Section 4975 of the Code prohibits certain transactions involving plans (as defined in Section 4975(e)(1), which includes individual retirement accounts and Keogh plans) and service providers, including fiduciaries, to such plans. Section 4975 imposes excise taxes for violations of these prohibitions.

Commodities and Futures Regulation

LPL Financial is licensed as a futures commission merchant (“FCM”) with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association (“NFA”). Although licensed as an FCM, LPL Financial clears commodities and futures products through ADM Investor Services International Limited (“ADM”), and all commodities accounts and related client positions are held by ADM. LPL Financial is regulated by the CFTC and NFA. Violations of the rules of the CFTC and the NFA could result in remedial actions including fines, registration terminations or revocations of exchange memberships.

Trust Regulation

Through our subsidiary, PTC, we offer trust, investment management oversight and custodial services for estates and families. PTC is chartered as a non-depository national banking association. As a limited purpose national bank, PTC is regulated and regularly examined by the Office of the Comptroller of the Currency (“OCC”). PTC files reports with the OCC within 30 days after the conclusion of each calendar quarter. Because the powers of PTC are limited to providing fiduciary services and investment advice, it does not have the power or authority to accept deposits or make loans. For this reason, trust assets under PTC’s management are not insured by the FDIC.

Because of its limited purpose, PTC is not a “bank” as defined under the Bank Holding Company Act of 1956. Consequently, neither its immediate parent, PTC Holdings, Inc., nor its ultimate parent, LPLFH, is regulated by the Board of Governors of the Federal Reserve System as a bank holding company. However, PTC is subject to regulation by the OCC and to various laws and regulations enforced by the OCC, such as capital adequacy, change of control restrictions and regulations governing fiduciary duties, conflicts of interest, self-dealing and anti-money laundering. For example, the Change in Bank Control Act, as implemented by OCC supervisory policy, imposes restrictions on parties who wish to acquire a controlling interest in a limited purpose national bank such as PTC or the holding company of a limited purpose national bank such as LPL Financial Holdings Inc. In general, an acquisition of 10% or more of our common stock, or another acquisition of “control” as defined in OCC regulations, may require OCC approval. These laws and regulations are designed to serve specific bank regulatory and supervisory purposes and are not meant for the protection of PTC, LPL Financial or its stockholders.

Regulatory Capital

The SEC, FINRA, CFTC and the NFA have stringent rules and regulations with respect to the maintenance of specific levels of net capital by regulated entities. Generally, a broker-dealer’s net capital is calculated as net worth plus qualified subordinated debt less deductions for certain types of assets. The net capital rule under the Exchange Act requires that at least a minimum part of a broker-dealer’s assets be maintained in a relatively liquid form. LPL Financial is also subject to the NFA's financial requirements and is required to maintain net capital that is in excess of or equal to the greatest of the NFA's minimum financial requirements. Currently the greatest NFA requirement is the minimum net capital calculated pursuant to the SEC's Uniform Net Capital Rule.

The SEC, FINRA, CFTC and NFA impose rules that require notification when net capital falls below certain predefined criteria. These broker-dealer capital rules also dictate the ratio of debt to equity in regulatory capital composition, and constrain the ability of a broker-dealer to expand its business under certain circumstances. If a broker-dealer fails to maintain the required net capital, it may be subject to suspension or revocation of registration by the applicable regulatory agency, and suspension or expulsion by these regulators ultimately could lead to the broker-dealer's liquidation. Additionally, the net capital rule and certain FINRA rules impose requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital, and that require prior notice to the SEC and FINRA for certain capital withdrawals. LPL Financial, which is subject to net capital rules has been, and currently is, in compliance with those rules and has net capital in excess of the minimum requirements.

Anti-Money Laundering and Sanctions Compliance

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, FCMs and other financial services companies. Financial institutions subject to the PATRIOT Act generally must have anti-money laundering procedures in place, monitor for and report suspicious activity, implement specialized employee training programs, designate an anti-money laundering compliance officer and are audited periodically by an independent party to test the effectiveness of compliance. In addition, sanctions administered by the U.S. Office of Foreign Asset Control prohibit U.S. persons from doing business with blocked persons and entities. We have established policies, procedures and systems designed to comply with these regulations.

Privacy

Regulatory activity in the areas of privacy and data protection continues to grow 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 they are 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.

Financial Information about Geographic Areas

Our revenues for the periods presented were derived from our operations in the United States.

Trademarks

Access Alts®, Access Overlay®, BranchNet®, Circle Wave Design logo, DO IT SMARTER®, Fortigent®, Integrated Advisory Services®, LPL®, LPL Career Match®, LPL Financial®, the LPL Financial logo, LPL Partners Program®, Manager Access Network®, Manager Access Select®, OMP®, National Retirement Partners®, NRP National Retirement Partners®, the NRP National Retirement Partners logo, Vista Active Portfolio Solutions®, and Veritat Advisors® are our registered trademarks.

Item 1A. Risk Factors

Risks Related to Our Business and Industry

We depend on our ability to attract and retain experienced and productive advisors.

We derive a large portion of our revenues from commissions and fees generated by our advisors. Our ability to attract and retain experienced and productive advisors has contributed significantly to our growth and success, and our strategic plan is premised upon continued growth in the number of our advisors. If we fail to attract new advisors or to retain and motivate our current advisors, replace our advisors who retire, or assist our retiring advisors with transitioning their practices to existing advisors, or if advisor migration away from wirehouses and to independent channels decreases or slows, our business may suffer.

The market for experienced and productive advisors is highly competitive, and we devote significant resources to attracting and retaining the most qualified advisors. In attracting and retaining advisors, we compete directly with a variety of financial institutions such as wirehouses, regional broker-dealers, banks, insurance companies and other independent broker-dealers. If we are not successful in retaining highly qualified advisors, we may not be able to recover the expense involved in attracting and training these individuals. There can be no assurance that we will be successful in our efforts to attract and retain the advisors needed to achieve our growth objectives.

Our financial condition and results of operations may be adversely affected by market fluctuations and other economic factors.

Significant downturns and volatility in equity and other financial markets have had and could continue to have an adverse effect on our financial condition and results of operations.

General economic and market factors can affect our commission and fee revenue. For example, a decrease in market levels can:

- reduce new investments by both new and existing clients in financial products that are linked to the stock market, such as variable life insurance, variable annuities, mutual funds and managed accounts;

- reduce trading activity, thereby affecting our brokerage commissions and our transaction revenue;

- reduce the value of advisory and brokerage assets, thereby reducing advisory fee revenue and asset-based fee income and

- motivate clients to withdraw funds from their accounts, reducing advisory and brokerage assets, advisory fee revenue and asset-based fee income.

Other more specific trends may also affect our financial condition and results of operations, including, for example, changes in the mix of products preferred by investors may result in increases or decreases in our fee revenues associated with such products, depending on whether investors gravitate towards or away from such products. The timing of such trends, if any, and their potential impact on our financial condition and results of operations are beyond our control.

In addition, because certain of our expenses are fixed, our ability to reduce them over short periods of time is limited, which could negatively impact our profitability.

Significant interest rate changes 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 our cash sweep programs, which are based on prevailing interest rates. In the current low interest rate environment, our revenue from our cash sweep programs has declined, and our revenue may decline further due to the expiration of contracts with favorable pricing terms, less favorable terms in future contracts with participants in our cash sweep programs, decreases in interest rates or clients moving assets out of our cash sweep programs. We may also be limited in the amount we can reduce interest rates payable to clients in our cash sweep programs and still offer a competitive return. A sustained low interest rate environment may have a negative impact upon our ability to negotiate contracts with new banks or renegotiate existing contracts on comparable terms with banks participating in our cash sweep programs.

Lack of liquidity or access to capital could impair our business and financial condition.

Liquidity, or ready access to funds, is essential to our business. We expend significant resources investing in our business, particularly with respect to our technology and service platforms. In addition, we must maintain certain levels of required capital. As a result, reduced levels of liquidity could have a significant negative effect on us. Some potential conditions that could negatively affect our liquidity include:

- illiquid or volatile markets;

- diminished access to debt or capital markets,
- unforeseen cash or capital requirements or
- regulatory penalties or fines, or adverse legal settlements or judgments (including, among others, risks associated with auction rate securities).

The capital and credit markets continue to experience varying degrees of volatility and disruption. In some cases, the markets have exerted downward pressure on availability of liquidity and credit capacity for businesses similar to ours. Without sufficient liquidity, we could be required to curtail our operations, and our business would suffer.

Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from the delayed receipt of client funds associated with the settlement of client transactions in securities markets. These timing differences are funded either with internally generated cash flow or, if needed, with funds drawn under our revolving credit facility, or uncommitted lines of credit at our broker-dealer subsidiary LPL Financial.

In the event current resources are insufficient to satisfy our needs, we may need to rely on financing sources such as bank debt. The availability of additional financing will depend on a variety of factors such as

- market conditions;
- the general availability of credit;
- the volume of trading activities;
- the overall availability of credit to the financial services industry;
- our credit ratings and credit capacity and
- the possibility that our lenders could develop a negative perception of our long-or short-term financial prospects if the level of our business activity decreases due to a market downturn. Similarly, our access to funds may be impaired if regulatory authorities or rating organizations take negative actions against us.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital required to operate our business. Such market conditions may limit our ability to satisfy statutory capital requirements, generate commission, fee and other market-related revenue to meet liquidity needs and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue different types of capital than we would otherwise, less effectively deploy such capital or bear an unattractive cost of capital, which could decrease our profitability and significantly reduce our financial flexibility.

If there is a default under the derivative instruments we use to hedge our foreign currency risk default, we may be exposed to risks we had sought to mitigate.

We, from time to time, use derivative instruments to hedge our foreign currency risk. In particular, our agreement with a third-party service provider, in connection with our Service Value Commitment, provides for an annual adjustment of the currency exchange rate between the U.S. dollar and the Indian rupee. We bear the risk of currency movement at each annual reset date, and the reset rate then applies for the subsequent 12-month period. To mitigate foreign currency risk arising from such annual adjustments, we use derivative financial instruments consisting solely of non-deliverable foreign currency contracts. However, if either we or our counterparties fail to honor our respective obligations under such derivative instruments, we could be subject to the risk of loss and our hedges of the foreign currency risk will be ineffective. That failure could have an adverse effect on our financial condition, results of operations and cash flows that could be material.

A loss of our marketing relationships with manufacturers of financial products could harm our relationship with our advisors and, in turn, their clients.

We operate on an open-architecture product platform offering no proprietary financial products. To help our advisors meet their clients' needs with suitable investment options, we have relationships with most of the industry-leading providers of financial and insurance products. We have sponsorship agreements with some manufacturers of fixed and variable annuities and mutual funds that, subject to the survival of certain terms and conditions, may be terminated by the manufacturer upon notice. If we lose our relationships with one or more of these manufacturers, our ability to serve our advisors and, in turn, their clients, and our business may be materially adversely affected. As an example, recently certain variable annuity product sponsors have ceased offering and issuing new variable annuity contracts. If this trend continues, we could experience a loss in the revenue currently generated from the sale of such products. In addition, certain features of such contracts have been eliminated by variable annuity product sponsors. If this trend continues, the attractiveness of these products would be reduced, potentially reducing the revenue we currently generate from the sale of such products

Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments.

We have made acquisitions and investments in the past and may pursue further acquisitions and investments in the future. These transactions are accompanied by risks. For instance, an acquisition could have a negative effect on our financial and strategic position and reputation or the acquired business could fail to further our strategic goals. Moreover, we may not be able to successfully integrate acquired businesses into ours, and therefore we may not be able to realize the intended benefits from an acquisition. We may have a lack of experience in new markets, products or technologies brought on by the acquisition and we may have an initial dependence on unfamiliar supply or distribution partners. An acquisition may create an impairment of relationships with customers or suppliers of the acquired business or our advisors or suppliers. For example, we acquired Fortigent in 2012, and we cannot guarantee that we will be successful in integrating the high net worth business into our existing offerings. All of these and other potential risks may serve as a diversion of our management's attention from other business concerns, and any of these factors could have a material adverse effect on our business.

Risks Related to Our Regulatory Environment

Regulatory developments and our failure to comply with regulations could adversely affect our business by increasing our costs and exposure to litigation, affecting our reputation and making our business less profitable.

Our business is subject to extensive U.S. regulation and supervision, including securities and investment advisory services. The securities industry in the United States is subject to extensive regulation under both federal and state laws. Our broker-dealer subsidiary, LPL Financial, is:

- registered as a broker-dealer with the SEC, each of the 50 states, and the District of Columbia, Puerto Rico and the U.S. Virgin Islands;
- registered as an investment advisor with the SEC;
- a member of FINRA;
- regulated by the CFTC with respect to the futures and commodities trading activities it conducts as an introducing broker and
- a member of the Chicago Stock Exchange.

Much of the regulation of broker-dealers has been delegated to self-regulatory organizations (“SROs”). The primary regulators of LPL Financial are FINRA, and for municipal securities, the Municipal Securities Rulemaking Board (“MSRB”). The CFTC has designated the National Futures Association ("NFA") as LPL Financial’s primary regulator for futures and commodities trading activities.

The SEC, FINRA, CFTC, OCC, various securities and futures exchanges and other U.S. governmental or regulatory authorities continuously review legislative and regulatory initiatives and may adopt new or revised laws and regulations. There can also be no assurance that other federal or state agencies will not attempt to further regulate our business. These legislative and regulatory initiatives may affect the way in which we conduct our business and may make our business model less profitable.

Our ability to conduct business in the jurisdictions in which we currently operate depends on our compliance with the laws, rules and regulations promulgated by federal regulatory bodies and the regulatory authorities in each of the states and other jurisdictions in which we do business. Our ability to comply with all applicable laws, rules and regulations is largely dependent on our establishment and maintenance of compliance, audit and reporting systems and procedures, as well as our ability to attract and retain qualified compliance, audit and risk management personnel. While we have adopted policies and procedures reasonably designed to comply with all applicable laws, rules and regulations, these systems and procedures may not be fully effective, and there can be no assurance that regulators or third parties will not raise material issues with respect to our past or future compliance with applicable regulations.

Our profitability could also be affected by rules and regulations that impact the business and financial communities generally and, in particular, our advisors' and their clients, including changes to the interpretation or enforcement of laws governing taxation (including the classification of independent contractor status of our advisors), electronic commerce, privacy and data protection. For instance, failure to comply with new rules and regulations, including in particular, rules and regulations that may arise pursuant to the Dodd-Frank Act, could subject us to regulatory actions or litigation and it could have a material adverse effect on our business, results of operations, cash flows or financial condition. Provisions of the Dodd-Frank Act that may impact our business include, but are not limited to, the potential implementation of a more stringent fiduciary standard for broker-dealers and the potential establishment of a new self-regulatory organization for investment advisors. Compliance with these provisions would likely result in increased costs. Moreover, to the extent the Dodd-Frank Act impacts the operations, financial condition, liquidity and capital requirements of financial institutions with which we do business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us. The ultimate impact that the Dodd-Frank Act will have on us, the financial industry and the economy cannot be known until all such applicable and regulations called for under the Dodd-Frank Act have been finalized and implemented.

In addition to Dodd-Frank Act rule promulgation, other proposals are currently under consideration by federal banking regulators that may have an impact upon our profitability. Global regulators are engaged in ongoing efforts to build upon the Basel capital accords, which set new capital and liquidity standards for global banking institutions ("Basel III"). Basel III is designed to strengthen bank capital requirements and introduce new regulatory requirements on bank liquidity. In October 2013, U.S. banking regulators issued a final rule implementing Basel III in the U.S. In November 2013, U.S. banking regulators issued a notice of proposed rulemaking to implement Basel III liquidity standards in the U.S. These new rules and proposals could negatively impact the attractiveness of cash deposits to banks who participate in our cash sweep programs, making it more difficult for us to renew existing contracts and negotiate new arrangements.

In addition, new rules and regulations could result in limitations on the lines of business we conduct, modifications to our business practices, increased capital requirements or additional costs. For example, the U.S. Department of Labor has stated that it plans to re-propose a rule that, if re-proposed and adopted as previously proposed, would broaden the circumstances under which we may be considered a "fiduciary" under Section 3(21) of ERISA and would impact the compensation we receive for retirement accounts.

We are subject to various regulatory requirements, which, if not complied with, could result in the restriction of the ongoing conduct or growth, or even liquidation of, parts of our business.

The business activities that we may conduct are limited by various regulatory agencies. Our membership agreement with FINRA may be amended by application to include additional business activities. This application process is time-consuming and may not be successful. As a result, we may be prevented from entering new potentially profitable businesses in a timely manner, or at all. In addition, as a member of FINRA, we are subject to certain regulations regarding changes in control of our ownership. Rule 1017 of the National Association of Securities Dealers generally provides, among other things, that FINRA approval must be obtained in connection with any transaction resulting in a change in our equity ownership that results in one person or entity directly or indirectly owning or controlling 25% or more of our equity capital. Similarly, the OCC imposes advance approval requirements for a change of control, and control is presumed to exist if a person acquires 10% or more of our common stock. These regulatory approval processes can result in delay, increased costs or impose additional transaction terms in connection with a proposed change of control, such as capital contributions to the regulated entity. As a result of these regulations, our future efforts to sell shares or raise additional capital may be delayed or prohibited.

In addition, the SEC, FINRA, CFTC, OCC and NFA have extensive rules and regulations with respect to capital requirements. As a registered broker-dealer, LPL Financial is subject to Rule 15c3-1 (“Uniform Net Capital Rule”) under the Exchange Act, and related SRO requirements. The CFTC and NFA also impose net capital requirements. The Uniform Net Capital Rule specifies minimum capital requirements that are intended to ensure the general soundness and liquidity of broker-dealers. Because our holding companies are not registered broker-dealers, they are not subject to the Uniform Net Capital Rule. However, the ability of our holding companies to withdraw capital from our broker-dealer subsidiary could be restricted, which in turn could limit our ability to repay debt, redeem or purchase shares of our outstanding stock or pay dividends. A large operating loss or charge against net capital could adversely affect our ability to expand or even maintain our present levels of business.

Failure to comply with ERISA regulations could result in penalties against us.

We are subject to ERISA and Sections 4975(c)(1)(A), (B), (C) and (D) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), and to regulations promulgated thereunder, insofar as we act as a "fiduciary" under ERISA with respect to benefit plan clients or otherwise deal with benefit plan clients. ERISA and applicable provisions of the Internal Revenue Code impose duties on persons who are fiduciaries under ERISA, prohibit specified transactions involving ERISA plan clients (including, without limitation, employee benefit plans (as defined in Section 3(3) of ERISA), individual retirement accounts and Keogh plans) and impose monetary penalties for violations of these prohibitions. Our failure to comply with these requirements could result in significant penalties against us that could have a material adverse effect on our business (or, in a worst case, severely limit the extent to which we could act as fiduciaries for any plans under ERISA).

Risks Related to Our Competition

We operate in an intensely competitive industry, which could cause us to lose advisors and their assets, thereby reducing our revenues and net income.

We are subject to competition in all aspects of our business, including competition for our advisors and their clients, from:

- asset management firms;
- commercial banks and thrift institutions;
- insurance companies;
- other clearing/custodial technology companies and
- brokerage and investment banking firms.

Many of our competitors have substantially greater resources than we do and may offer a broader range of services, including financial products, across more markets. Some operate in a different regulatory environment than we do, which may give them certain competitive advantages in the services they offer. For example, certain of our competitors only provide clearing services and consequently would not have any supervision or oversight liability relating to actions of their financial advisors. We believe that competition within our industry will intensify as a result of consolidation and acquisition activity and because new competitors face few barriers to entry, which could adversely affect our ability to recruit new advisors and retain existing advisors.

If we fail to continue to attract highly qualified advisors or advisors licensed with us leave us to pursue other opportunities, or if current or potential clients of our advisors decide to use one of our competitors, we could face a significant decline in market share, commission and fee revenues and net income. If we are required to increase our payout of commissions and fees to our advisors in order to remain competitive, our net income could be significantly reduced.

Poor service or performance of the financial products that we offer or competitive pressures on pricing of such services or products may cause clients of our advisors to withdraw their assets on short notice.

Clients of our advisors control their assets under management with us. Poor service or performance of the financial products that we offer or competitive pressures on pricing of such services or products may result in the loss of accounts. In addition, we must monitor the pricing of our services and financial products in relation to competitors and periodically may need to adjust commission and fee rates, interest rates on deposits and margin loans and other fee structures to remain competitive. Competition from other financial services firms, such as reduced commissions to attract clients or trading volume or higher deposit rates to attract client cash balances, could adversely impact our business. The decrease in revenue that could result from such an event could have a material adverse effect on our business.

We face competition in attracting and retaining key talent.

Our success and future growth depends upon our ability to attract and retain qualified employees. There is significant competition for qualified employees in the broker-dealer industry. We may not be able to retain our existing employees or fill new positions or vacancies created by expansion or turnover. The loss or unavailability of these individuals could have a material adverse effect on our business.

Moreover, our success depends upon the continued services of our key senior management personnel, including our executive officers and senior managers. The loss of one or more of our key senior management personnel, and the failure to recruit a suitable replacement or replacements, could have a material adverse effect on our business. Certain members of our executive team have the contractual ability to terminate their employment within the thirty day period immediately following the twelve month anniversary of a change in control and receive severance payments.

Risks Related to Our Debt

Our indebtedness could adversely affect our financial health and may limit our ability to use debt to fund future capital needs.

At December 31, 2013, we had total indebtedness of $1.5 billion. Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions. It could also require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes. In addition, our level of indebtedness may limit our flexibility in planning for changes in our business and the industry in which we operate, and limit our ability to borrow additional funds.

Our senior secured credit agreement entered into on March 29, 2012, and amended on May 13, 2013, requires quarterly repayments of one of our term loans. These payments equal approximately $2.7 million per quarter through March 31, 2019. In addition, we have a revolving credit facility under our senior secured credit agreement of $250.0 million. This facility matures on March 29, 2017, and we will be obligated to repay any outstanding balance under this facility at that time. Our ability to make scheduled payments on or to refinance indebtedness obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control.

We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. In addition, as discussed above, we are limited in the amount of capital that we can draw from our broker-dealer subsidiary. If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to sell assets, seek additional capital or seek to restructure or refinance our indebtedness. These alternative measures may not be successful or feasible. Our senior secured credit agreement restricts our ability to sell assets. Even if we could consummate those sales, the proceeds that we realize from them may not be adequate to meet any debt service obligations then due. Furthermore, if an event of default were to occur with respect to our senior secured credit agreement or other future indebtedness, our creditors could, among other things, accelerate the maturity of our indebtedness.

Our senior secured credit agreement permits us to incur additional indebtedness. Although our senior secured credit agreement contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Also, these restrictions do not prevent us from incurring obligations that do not constitute “indebtedness” as defined in our senior secured credit agreement. To the extent new debt or other obligations are added to our currently anticipated debt levels, the substantial indebtedness risks described above would increase.

A credit rating downgrade would not impact the terms of our repayment obligations under our senior secured credit agreement. However, any such downgrade would negatively impact our ability to obtain comparable rates and terms on any future refinancing of our debt and could restrict our ability to incur additional indebtedness.

Restrictions under our senior secured credit agreement may prevent us from taking actions that we believe would be in the best interest of our business.
Our senior secured credit agreement contains customary restrictions on our activities, including covenants that may restrict us from:

- incurring additional indebtedness or issuing disqualified stock or preferred stock;
- paying dividends on, redeeming or repurchasing our capital stock;
- making investments or acquisitions;
- creating liens;
- selling assets;
- receiving dividends or other payments to us;
- guaranteeing indebtedness;
- engaging in transactions with affiliates and
- consolidating, merging or transferring all or substantially all of our assets.

We are also required to meet specified leverage ratio and interest coverage ratio tests. These restrictions may prevent us from taking actions that we believe would be in the best interest of our business. Our ability to comply with these restrictive covenants will depend on our future performance, which may be affected by events beyond our control. If we violate any of these covenants and are unable to obtain waivers, we would be in default under our senior secured credit agreement and payment of the indebtedness could be accelerated. The acceleration of our indebtedness under our senior secured credit agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions. If our indebtedness is accelerated, we may not be able to repay that indebtedness or borrow sufficient funds to refinance it. Even if we are able to obtain new financing, it may not be on commercially reasonable terms or on terms that are acceptable to us. If our indebtedness is in default for any reason, our business could be materially and adversely affected. In addition, complying with these covenants may also cause us to take actions that are not favorable to holders of our common stock and may make it more difficult for us to successfully execute our business strategy and compete against companies that are not subject to such restrictions.

Provisions of our senior secured credit agreement could discourage an acquisition of us by a third party.

Certain provisions of our senior secured credit agreement could make it more difficult or more expensive for a third party to acquire us, and any of our future debt agreements may contain similar provisions. Upon the occurrence of certain transactions constituting a change of control, all indebtedness under our senior secured credit agreement may be accelerated and become due and payable. A potential acquirer may not have sufficient financial resources to purchase our outstanding indebtedness in connection with a change of control.

Risks Related to Our Technology

We rely on technology in our business, and technology and execution failures could subject us to losses, litigation and regulatory actions.

Our business relies extensively on electronic data processing and communications systems. In addition to better serving our advisors and their clients, the effective use of technology increases efficiency and enables firms like ours to reduce costs and support our regulatory compliance and reporting functions. Our continued success will depend, in part, upon:

- our ability to successfully maintain and upgrade the capability of our systems;

- our ability to address the needs of our advisors and their clients by using technology to provide products and services that satisfy their demands;
- our ability to use technology effectively to support our regulatory compliance and reporting functions and
- our ability to retain skilled information technology employees.

Extraordinary trading volumes, beyond reasonably foreseeable spikes in volumes, could cause our computer systems to operate at an unacceptably slow speed or even fail. Failure of our systems, which could result from these or other events beyond our control, or an inability to effectively upgrade those systems or implement new technology-driven products or services, could result in financial losses, unanticipated disruptions in service to clients, liability to our advisors' clients, regulatory sanctions and damage to our reputation.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. 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.

The securities settlement process exposes us to risks that may expose our advisors and us to adverse movements in price.

LPL Financial, one of our subsidiaries, provides clearing services and trade processing for our advisors and their clients and certain financial institutions. Broker-dealers that clear their own trades are subject to substantially more regulatory requirements than brokers that outsource these functions to third-party providers. Errors in performing clearing functions, including clerical, technological and other errors related to the handling of funds and securities held by us on behalf of our advisors' clients, could lead to censures, fines or other sanctions imposed by applicable regulatory authorities as well as losses and liability in related lawsuits and proceedings brought by our advisors’ clients and others. Any unsettled securities transactions or wrongly executed transactions may expose our advisors and us to adverse movements in the prices of such securities.

Our networks may be vulnerable to security risks.

The secure transmission of confidential information over public networks is a critical element of our operations. As part of our normal operations, we maintain and transmit confidential information about clients of our advisors as well as proprietary information relating to our business operations. Our application service provider systems maintain and process confidential data on behalf of advisors and their clients, some of which is critical to our advisors’ business operations. If our application service provider systems are disrupted or fail for any reason, or if our systems or facilities are infiltrated or damaged by unauthorized persons, our advisors could experience data loss, financial loss, harm to reputation and significant business interruption. In addition, vulnerabilities of our external service providers could pose security risks to client information. If any such disruption or failure occurs, we may be exposed to unexpected liability, advisors' clients may withdraw their assets, our reputation may be tarnished and there could be a material adverse effect on our business.

Our networks may be vulnerable to unauthorized access, computer viruses and other security problems in the future. 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. In addition, even if we and our advisors comply with our policies and procedures, persons who circumvent security measures could wrongfully use our confidential information or clients' confidential information or cause interruptions or malfunctions in our operations. Such loss or use could, among other things:

- seriously damage our reputation;
- allow competitors access to our proprietary business information;
- subject us to liability for a failure to safeguard client data;
- result in the termination of relationships with our advisors;
- subject us to regulatory sanctions or burdens, based on state law or the authority of the SEC and FINRA to enforce regulations regarding business continuity planning;
- result in inaccurate financial data reporting and
- require significant capital and operating expenditures to investigate and remediate the breach.

Failure to maintain technological capabilities, flaws in existing technology, difficulties in upgrading our technology platform or the introduction of a competitive platform could have a material adverse effect on our business.

We depend on highly specialized and, in many cases, proprietary technology to support our business functions, including among others:

- securities trading and custody;
- portfolio management;
- customer service;
- accounting and internal financial processes and controls and
- regulatory compliance and reporting.

In addition, our continued success depends on our ability to effectively adopt new or adapt existing technologies to meet client, industry and regulatory demands. We might be required to make significant capital expenditures to maintain competitive technology. For example, we believe that our technology platform, particularly our BranchNet system, is one of our competitive strengths, and our future success will depend in part on our ability to anticipate and adapt to technological advancements required to meet the changing demands of our advisors. The emergence of new industry standards and practices could render our existing systems obsolete or uncompetitive. Any upgrades or expansions may require significant expenditures of funds and may also cause us to suffer system degradations, outages and failures. There cannot be any assurance that we will have sufficient funds to adequately update and expand our networks, nor can there be any assurance that any upgrade or expansion attempts will be successful and accepted by our current and prospective advisors. If our technology systems were to fail and we were unable to recover in a timely way, we would be unable to fulfill critical business functions, which could lead to a loss of advisors and could harm our reputation. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to disciplinary action and to liability to our advisors and their clients. There cannot be any assurance that another company will not design a similar platform that affects our competitive advantage.

Inadequacy or disruption of our disaster recovery plans and procedures in the event of a catastrophe could adversely affect our business.

We have made a significant investment in our infrastructure, and our operations are dependent on our ability to protect the continuity of our infrastructure against damage from catastrophe or natural disaster, breach of security, loss of power, telecommunications failure or other natural or man-made events. A catastrophic event could have a direct negative impact on us by adversely affecting our advisors, employees or facilities, or an indirect impact on us by adversely affecting the financial markets or the overall economy. While we have implemented business continuity and disaster recovery plans and maintain business interruption insurance, it is impossible to fully anticipate and protect against all potential catastrophes. If our business continuity and disaster recovery plans and procedures were disrupted or unsuccessful in the event of a catastrophe, we could experience a material adverse interruption of our operations.

We rely on outsourced service providers to perform key functions.

We rely on outsourced service providers to perform certain key technology, processing and support functions. For example, we have an agreement with Thomson Reuters BETA Systems, a division of Thomson Reuters, under which they provide us operational support, including data processing services for securities transactions and back office processing support. Our use of third party service providers may decrease our ability to control operating risks and information technology systems risks. Any significant failures by our service providers could cause us to incur losses and could harm our reputation. If we had to change these service providers, we would experience a disruption to our business. Although we believe we have the resources to make such transitions with minimal disruption, we cannot predict the costs and time for such conversions. We cannot provide any assurance that the disruption caused by a change in our service providers would not have a material adverse effect on our business. We have begun transitioning additional business processes to third party service providers in connection with the Service Value Commitment, which increases our reliance on outsourced providers and the related risks described above. To the extent third party service providers are located in foreign jurisdictions, we are exposed to risks inherent in conducting business outside of the United States, including international economic and political conditions, and the additional costs associated with complying with foreign laws and fluctuations in currency values.

Risks Related to Our Business Generally

Any damage to our reputation could harm our business and lead to a loss of revenues and net income.

We have spent many years developing our reputation for integrity and superior client service, which is built upon our four pillars of support for our advisors: enabling technology, comprehensive clearing and compliance services, practice management programs and training, and independent research. Our ability to attract and retain advisors and employees is highly dependent upon external perceptions of our level of service, business practices and financial condition. Damage to our reputation could cause significant harm to our business and prospects and may arise from numerous sources, including:

- litigation or regulatory actions;

- failing to deliver minimum standards of service and quality;

- compliance failures and

- unethical behavior and the misconduct of employees, advisors or counterparties.

Negative perceptions or publicity regarding these matters could damage our reputation among existing and potential advisors and employees. Adverse developments with respect to our industry may also, by association, negatively impact our reputation or result in greater regulatory or legislative scrutiny or litigation against us. These occurrences could lead to loss of revenue and net income.

Our business is subject to risks related to litigation, arbitration actions, and governmental and SRO investigations.

We are subject to legal proceedings arising out of our business operations, including lawsuits, arbitration claims, regulatory, governmental or SRO subpoenas, investigations and actions and other claims. Many of our legal

claims are initiated by clients of our advisors and involve the purchase or sale of investment securities, but other claims may be asserted by regulatory authorities.
In our investment advisory programs, we have fiduciary obligations that require us and our advisors to act in the best interests of our advisors' clients. We may face liabilities for actual or alleged breaches of legal duties to our advisors' clients, in respect of issues related to the suitability of the financial products we make available in our open architecture product platform or the investment advice of our advisors based on their clients' investment objectives (including, for example, alternative investments or exchange traded funds). We may also become subject to claims, allegations and legal proceedings that we infringe or misappropriate intellectual property or other proprietary rights of others. In addition, we may be subject to legal proceedings related to employment matters, including wage and hour, discrimination or harassment claims. The outcome of any such actions, including regulatory proceedings, cannot be predicted, and a negative outcome in such a matter could result in substantial legal liability, regulatory fines or monetary penalties, censure, loss of intellectual property rights and injunctive or other equitable relief against us. Further, such outcome may cause us significant reputational harm and could have a material adverse effect on our business, results of operations, cash flows or financial condition.

Our risk management policies and procedures may not be fully effective in mitigating our risk exposure in all market environments or against all types of risks.

We have adopted policies and procedures to identify, monitor and manage our operational risk. These policies and procedures, however, may not be fully effective. Some of our risk evaluation methods depend upon information provided by others and public information regarding markets, clients or other matters that are otherwise accessible by us. In some cases, however, that information may not be accurate, complete or up-to-date. Also, because our advisors work in decentralized offices, additional risk management challenges may exist. In addition, our existing policies and procedures and staffing levels may be insufficient to support a significant increase in our advisor population; such an increase may require us to increase our costs in order to maintain our compliance obligations and/or put a strain our existing policies and procedures as we evolve to support a larger advisor population. If our policies and procedures are not fully effective or we are not always successful in capturing all risks to which we are or may be exposed, we may suffer harm to our reputation or be subject to litigation or regulatory actions that could have a material adverse effect on our business and financial condition.

Misconduct and errors by our employees and our advisors, who operate in a decentralized environment, could harm our business.

Misconduct and errors by our employees and our advisors could result in violations of law by us, regulatory sanctions or serious reputational or financial harm. We cannot always prevent misconduct and errors by our employees and our advisors, and the precautions we take to prevent and detect these activities may not be effective in all cases. Prevention and detection among our advisors, who are not our direct employees and some of whom tend to be located in small, decentralized offices, present additional challenges. There cannot be any assurance that misconduct and errors by our employees and advisors will not lead to a material adverse effect on our business.

Our insurance coverage may be inadequate or expensive.

We are subject to claims in the ordinary course of business. These claims may involve substantial amounts of money and involve significant defense costs. It is not always possible to prevent or detect activities giving rise to claims, and the precautions we take may not be effective in all cases.

We maintain voluntary and required insurance coverage, including, among others, general liability, property, director and officer, excess-SIPC, business interruption, errors and omissions, excess entity errors and omissions and fidelity bond insurance. Recently, premium and deductible costs associated with certain insurance coverages have increased, coverage terms have become more restrictive and the number of insurers has decreased. While we endeavor to purchase coverage that is appropriate to our assessment of our risk, we are unable to predict with certainty the frequency, nature or magnitude of claims for direct or consequential damages. Our business may be negatively affected if in the future our insurance proves to be inadequate or unavailable. In addition, insurance claims may harm our reputation or divert management resources away from operating our business.

Changes in U.S. federal income tax law could make some of the products distributed by our advisors less attractive to clients.

Some of the financial products distributed by our advisors, such as variable annuities, enjoy favorable treatment under current U.S. federal income tax law. Changes in U.S. federal income tax law, in particular with respect to variable annuity products or with respect to tax rates on capital gains or dividends, could make some of these products less attractive to clients and, as a result, could have a material adverse effect on our business, results of operations, cash flows or financial condition.

We may not realize the benefits we expect from our Service Value Commitment.

On February 5, 2013, we committed to an expansion of our Service Value Commitment, an ongoing effort to position us for sustainable long-term growth by improving the service experience of our financial advisors and delivering efficiencies in our operating model. In connection with our Service Value Commitment, we expected to reposition our labor force, allowing us to focus on our core strengths, and transition select non-advisor-facing functions to a leading global services provider. Our ability to realize the service improvements and efficiencies expected to result from the Service Value Commitment is subject to many risks, and no assurances can be given that we will achieve the expected results.

We may be unable to execute our plans related to the Service Value Commitment, including plans to transform information technology systems and transition business processes to third party service providers, or achieve our projected savings. Our ability to effectively implement our plans within expected costs and realize the expected benefits will depend upon a number of factors, including the finalization of our transition plans; our success in negotiating and developing commercial arrangements with third party service providers that will enable us to realize the service improvements and efficiencies expected to result from the Service Value Commitment; the performance of third party service providers to which we transition business processes; our ability to control operating risks, information technology systems risks and sourcing risks; our success in reinvesting the savings arising from labor repositioning in our service and technology enhancements; time required to complete planned actions; absence of material issues associated with workforce reductions; avoidance of unexpected disruptions in service; and the retention of key employees involved in implementing the initiative. In addition, we may have to incur higher costs than currently anticipated to implement our Service Value Commitment, and the near-term goals of this strategic initiative might not be completed on the current timetable. Finally, our business is dynamic, and we may elect to incur incremental expenses from time to time to grow and better support our business that could partially offset the benefits of this strategic initiative. A failure to implement our plans could have an adverse effect on our financial condition that could be material.

Risks Related to Ownership of Our Common Stock

TPG Capital may have the ability to influence the outcome of matters submitted for stockholder approval and may have interests that differ from those of our other stockholders.

On August 15, 2013, investment funds affiliated with Hellman & Friedman LLC ("H&F") and TPG Global, LLC ("TPG Capital") effected distributions of shares of our common stock to their respective partners. Prior to the distributions these investment funds owned approximately 31% of the outstanding shares of our common stock. Following the distributions, H&F no longer owns shares of our common stock and TPG Capital owned approximately 17% of the outstanding shares of our common stock. Following the February 2014 repurchase of shares by us from TPG Capital, and TPG Capital’s simultaneous sale of shares to a private investor, TPG Capital owned approximately 13% of the outstanding shares of our common stock. So long as investment funds associated with or designated by TPG Capital continue to own a significant amount of the outstanding shares of our common stock, TPG Capital will continue to be able to influence our decisions, regardless of whether or not other stockholders believe that the transaction is in their own best interests.

In addition, TPG Capital and its affiliates are in the business of making investments in companies and may, from time to time in the future, acquire interests in businesses that directly or indirectly compete with certain portions of our business. To the extent TPG Capital invests in such other businesses, TPG Capital may have differing interests than our other stockholders. TPG Capital may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

The price of our common stock may be volatile and fluctuate substantially, which could result in substantial losses for our investors.

The market price of our common stock is likely to be highly volatile and may fluctuate substantially due to the following factors (in addition to the other risk factors described in this section):

- actual or anticipated fluctuations in our results of operations, including with regard to interest rates or revenues associated with our ICA program;
- variance in our financial performance from the expectations of equity research analysts;
- conditions and trends in the markets we serve;
- announcements of significant new services or products by us or our competitors;
- additions or changes to key personnel;
- the commencement or outcome of litigation or regulatory procedures;
- changes in market valuation or earnings of our competitors;
- the trading volume of our common stock;
- future sale of our equity securities;
- changes in the estimation of the future size and growth rate of our markets;
- legislation or regulatory policies, practices or actions and
- general economic conditions.

In addition, the stock markets in general have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the particular companies affected. These broad market and industry factors may materially harm the market price of our common stock irrespective of our operating performance. In addition, in the past, following periods of volatility in the overall market and the market price of a company's securities, securities class action litigation has often been instituted against the affected company. This type of litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

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. 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. In addition, 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 subsidiary.

Our future abilities to pay regular dividends to holders of our common stock or repurchase shares are subject to the discretion of our board of directors and will be limited by our ability to generate sufficient earnings and cash flows. On February 10, 2014, our board of directors declared a regular quarterly cash dividend of $0.24 per share on our outstanding common stock, payable on March 10, 2014. In addition, our board of directors from time to time authorizes us to repurchase shares of the Company’s issued and outstanding shares of common stock. The declaration and payment of any future quarterly cash dividend or any additional repurchase authorizations will be subject to the board of directors' continuing determination that the declaration of future dividends or repurchase of our shares are in the best interests of our stockholders and are in compliance with applicable law. Such determinations will depend upon a number of factors that the board of directors deems relevant, including future earnings, the success of our business activities, capital requirements, the general financial condition and future prospects of our business and general business conditions.

The future payment of dividends or repurchases of shares will also depend on our ability to generate earnings and cash flows. If we are unable to generate sufficient earnings and cash flows from our business, we may not be able to pay dividends on our common stock or repurchase additional shares. In addition, our ability to pay cash dividends on our common stock is dependent on the ability of our subsidiaries to pay dividends, including compliance with limitations under our senior secured credit agreement. Our broker-dealer subsidiary is subject to requirements of the SEC, FINRA, the CFTC and other regulators relating to liquidity, capital standards and the use of client funds and securities, which may limit funds available for the payment of dividends to us.

Anti-takeover provisions in our certificate of incorporation and bylaws could prevent or delay a change in control of our company.

Our certificate of incorporation and our bylaws contain certain provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable, including the following:

- the division of our board of directors into three classes and the election of each class for three-year terms;
- the sole ability of the board of directors to fill a vacancy created by the expansion of the board of directors;
- advance notice requirements for stockholder proposals and director nominations;
- limitations on the ability of stockholders to call special meetings and to take action by written consent;
- the approval of holders of at least two-thirds of the shares entitled to vote generally on the making, alteration, amendment or repeal of our certificate of incorporation or bylaws will be required to adopt, amend or repeal our bylaws, or amend or repeal certain provisions of our certificate of incorporation;
- the required approval of holders of at least two-thirds of the shares entitled to vote at an election of the directors to remove directors and the inability to remove directors other than for cause; and
- the ability of our board of directors to designate the terms of and issue new series of preferred stock, without stockholder approval, which could be used to institute a rights plan, or a poison pill, that would work to dilute the stock ownership or a potential hostile acquirer, likely preventing acquisitions that have not been approved by our board of directors.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in the acquisition.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate offices are located in Boston, Massachusetts where we lease approximately 69,000 square feet of space under a lease agreement that expires on June 30, 2023, with two five-year extensions at our option; in San Diego, California where we lease approximately 407,000 square feet of space across seven separate facilities under lease agreements that expire starting on May 31, 2014; in Charlotte, North Carolina where we lease a total of approximately 238,000 square feet of space in two facilities under lease agreements expiring on October 31, 2016 and February 28, 2017.

We entered into a new lease agreement on December 16, 2011, for approximately 420,000 square feet of space in San Diego, California and plan to move our San Diego offices to this location during 2014. We own approximately 4.4 acres of land in San Diego.

We also lease smaller administrative and operational offices in various locations throughout 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

For a discussion of legal proceedings, see Note 14. Commitments and Contingencies, within the notes to consolidated financial statements in this Annual Report on Form 10-K.

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

Market Information

Our common stock is traded on the NASDAQ under the symbol “LPLA.” The closing sale price as of December 31, 2013 was $47.05 per share. As of that date there were 400 common stockholders of record based on information provided by our transfer agent. The number of stockholders of record does not reflect the number of individual or institutional stockholders that beneficially own the Company's stock because most stock is held in the name of nominees.

The following table shows the high and low sales prices for our common stock for the periods indicated, as reported by the NASDAQ. The prices reflect inter-dealer prices and do not include retail markups, markdowns or commissions.

	High	Low
2013		
Fourth Quarter	$47.53	$36.82
Third Quarter	$39.80	$36.58
Second Quarter	$39.21	$31.59
First Quarter	$34.06	$28.25
2012		
Fourth Quarter	$29.87	$23.17
Third Quarter	$34.49	$24.12
Second Quarter	$38.94	$30.20
First Quarter	$38.47	$29.94

Performance Graph

The following graph compares the cumulative total stockholder return since November 18, 2010, the date our common stock began trading on the NASDAQ, with the Standard & Poor’s 500 Financial Sector Index (the "S&P 500 Financial") and the Dow Jones U.S. Financial Services Index (the "Dow Jones Financial"). The graph assumes that the value of the investment in our common stock, the S&P 500 Financial and the Dow Jones Financial was $100 on November 18, 2010 and assumes the reinvestment of all dividends.

Dividends

Cash dividends declared per share of common stock and total cash dividends paid during each quarter for the years ended December 31, 2013 and 2012 were as follows (in millions, except per share data):

	Dividend per Share Declared	Total Cash Dividend Paid
2013		
Fourth quarter	$0.190	$19.3
Third quarter	$0.190	$19.9
Second quarter	$0.135	$14.4
First quarter	$0.135	$14.4
2012		
Fourth quarter	$0.120	$13.0
Third quarter	$0.120	$13.2
Second quarter (1)	$—	$222.6
First quarter (1)	$2.000	$—

(1) On March 30, 2012, the Company's Board of Directors approved a special dividend of $2.00 per share to common stockholders. The dividend of $222.6 million was paid on May 25, 2012 to stockholders of record as of May 15, 2012.

On February 10, 2014, the Board of Directors declared a cash dividend of $0.24 per share on our outstanding common stock to be paid on March 10, 2014 to all stockholders of record on February 24, 2014.

Any future determination relating to the declaration and payment of dividends will be made at the discretion of our Board of Directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that our board of directors may deem relevant. Our senior secured credit agreement contains restrictions on our activities, including paying dividends on our capital stock. For an explanation of these restrictions, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Debt”. In addition, FINRA regulations restrict dividends in excess of 10% of a member firm’s excess net capital without FINRA’s prior approval, potentially impeding our ability to receive dividends from LPL Financial.

Securities Authorized for Issuance Under Equity Compensation Plans

The table below sets forth information on compensation plans under which our equity securities are authorized for issuance as of December 31, 2013:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))	
	(a)	(b)	(c)	
Equity compensation plans approved by security holders	7,281,848	$27.32	7,031,762	(1)
Equity compensation plans not approved by security holders	32,484	$22.48	—	
Total	7,314,332	$27.30	7,031,762	

(1) Includes shares available for future issuance under our 2010 Omnibus Equity Incentive Plan. Following our initial public offering ("IPO"), grants are no longer made under our 2005 Stock Option Plan for Incentive Stock Options, 2005 Stock Option Plan for Non-Qualified Stock Options, 2008 Stock Option Plan and Advisor Incentive Plan.

As of December 31, 2013, we had outstanding 32,484 warrants to purchase common stock under our 2008 LPL Investment Holdings Inc. Financial Institution Incentive Plan (the "Financial Institution Incentive Plan"). Eligible participants under this plan include certain financial institutions. The plan is administered by the Board of Directors or such other committee as may be appointed by the Board of Directors to administer the plan. The exercise price of warrants is equal to the fair market value on the grant date. Warrant awards vest in equal increments of 20.0% over a five-year period and expire on the 10th anniversary following the date of grant. The Financial Institution Incentive Plan has not been approved by security holders. Following our IPO, grants were no longer to be made under our Financial Institution Incentive Plan.

Purchases of Equity Securities by the Issuer

The table below sets forth information regarding repurchases on a monthly basis during the fourth quarter of 2013:

Period	Total Number of Shares Purchased	Weighted-Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs(1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs
October 1, 2013 through October 31, 2013	909,507	$ 38.23	909,507	$67,926,967
November 1, 2013 through November 30, 2013	—	$ —	—	$—
December 1, 2013 through December 31, 2013	—	$ —	—	$—
Total	909,507	$ 38.23	909,507	$67,926,967

(1) The repurchase of shares was executed under the share repurchase program approved by the Board of Directors on May 28, 2013, through which the Company may repurchase $200.0 million of its outstanding shares of common stock. See Note 15. Stockholders' Equity, within the notes to consolidated financial statements.

Item 6. Selected Financial Data

The following table sets forth our selected historical financial information for the past five fiscal years. The selected historical financial information presented below should be read in conjunction with the information included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. We have derived the consolidated statements of income data for the years ended December 31, 2013, 2012 and 2011 and the consolidated statements of financial condition data as of December 31, 2013 and 2012 from our audited financial statements included in this Annual Report on Form 10-K. We have derived the consolidated statements of income data for the years ended December 31, 2010 and 2009 and consolidated statements of financial condition data as of December 31, 2011, 2010 and 2009 from our audited financial statements not included in this Annual Report on Form 10-K. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	Years ended December 31,				
	2013	2012	2011	2010	2009
	(In thousands, except per share data)				
Consolidated statements of income data:					
Net revenues	$4,140,858	$3,661,088	$3,479,375	$3,113,486	$2,749,505
Total expenses	3,849,555	3,410,497	3,196,690	3,202,335	2,676,938
Income (loss) from operations before provision for (benefit from) income taxes	291,303	250,591	282,685	(88,849)	72,567
Provision for (benefit from) income taxes	109,446	98,673	112,303	(31,987)	25,047
Net income (loss)	181,857	151,918	170,382	(56,862)	47,520
Per share data:					
Earnings (loss) per basic share	$1.74	$1.39	$1.55	$(0.64)	$0.54
Earnings (loss) per diluted share	$1.72	$1.37	$1.50	$(0.64)	$0.47
Cash dividends paid per share	$0.65	$2.24	$—	$—	$—
	December 31,				
	2013	2012	2011	2010	2009
	(In thousands)				
Consolidated statements of financial condition data:					
Cash and cash equivalents	$516,584	$466,261	$720,772	$419,208	$378,594
Total assets	4,042,831	3,988,524	3,816,326	3,646,167	3,336,936
Total debt(1)	1,535,096	1,317,825	1,332,668	1,386,639	1,369,223

Table continued on following page

	As of and for the Years ended December 31,				
	2013	2012	2011	2010	2009
Other financial and operating data:					
Adjusted EBITDA (in thousands)(2)	$511,438	$454,482	$459,720	$413,113	$356,068
Adjusted Earnings (in thousands)(2)	$258,805	$225,029	$218,585	$172,720	$129,556
Adjusted Earnings per share(2)	$2.44	$2.03	$1.95	$1.71	$1.32
Gross Margin (in thousands)(3)	$1,248,014	$1,112,251	$1,030,951	$937,933	$844,926
Gross Margin as a % of net revenue(3)	30.1 %	30.4 %	29.6 %	30.1 %	30.7 %
Number of advisors(4)	13,673	13,352	12,847	12,444	11,950
Advisory and brokerage assets (in billions)(5)	$438.4	$373.3	$330.3	$315.6	$279.4
Advisory assets under custody (in billions)(6)	$151.6	$122.1	$101.6	$93.0	$77.2
Insured cash account balances (in billions)(6)	$17.4	$16.3	$14.4	$12.2	$11.6
Money market account balances (in billions)(6)	$7.5	$8.4	$8.0	$6.9	$7.0

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(1) Total debt consists of our senior secured credit facilities, senior unsecured subordinated notes and revolving line of credit facility.

(2) See "Management's Discussion and Analysis of Financial Condition and Results of Operations — How We Evaluate Growth" for an explanation of non-GAAP measures Adjusted EBITDA, Adjusted Earnings and Adjusted Earnings per share.

(3) Gross Margin is calculated as net revenues less production expenses. Production expenses consist of the following expense categories from our consolidated statements of income: (i) commission and advisory and (ii) brokerage, clearing and exchange. All other expense categories, including depreciation and amortization, are considered general and administrative in nature. Because our gross margin amounts do not include any depreciation and amortization expense, we consider our gross margin amounts to be non-GAAP measures that may not be comparable to those of others in our industry.

(4) Advisors are defined as those independent financial advisors and financial advisors at financial institutions who are licensed to do business with the Company's broker-dealer subsidiary. During 2012, an institutional client's parent company consolidated its operations onto the broker-dealer platform of an affiliate within its organization, which resulted in a loss of 181 advisors. Excluding the attrition of the institutional client's advisors, we added 686 net new advisors during the twelve months ended December 31, 2012. We consolidated the operations of UVEST with LPL Financial that resulted, as expected, in the attrition of 146 advisors during the year ended December 31, 2011. Excluding attrition from the integration of the UVEST platform, we added 549 net new advisors during the twelve months ended December 31, 2011.

(5) Advisory and brokerage assets are comprised of assets that are custodied, networked and non-networked and reflect market movement in addition to new assets, inclusive of new business development and net of attrition. Set forth below are other client assets for the years ended December 31, 2013 and 2012, including retirement plan assets, and certain trust and high-net-worth assets, that are custodied with third-party providers and therefore excluded from advisory and brokerage assets (in billions):

	As of and for the Years ended December 31,	
	2013	2012
Retirement plan assets(a)	$60.6	$46.4
Trust assets(b)	$10.6	$12.0
High-net-worth assets(c)	$73.9	$59.1

(a) Retirement plan assets are held in retirement plans that are supported by advisors licensed with LPL Financial. At December 31, 2013 and 2012, our retirement plan assets represent assets that are custodied with 30 third-party providers and 26 third-party providers, respectively, of retirement plan administrative services who provide reporting feeds. We estimate the total assets in retirement plans supported to be between $95.0 billion and $105.0 billion at December 31, 2013 and between $70.0 billion and $85.0 billion at December 31, 2012. If we receive reporting feeds in the future from providers for whom we do not currently receive feeds, we intend to include and identify such additional assets in this metric. During 2013, we began receiving reporting feeds from four such providers, which accounted for $1.7 billion of the $14.2 billion increase in retirement plan assets. Data regarding these assets was not available at or prior to December 31, 2011.

(b) Represent trust assets that are on the comprehensive wealth management platform of the Concord Trust and Wealth Solutions division of LPL Financial. Data regarding these assets was not available at or prior to December 31, 2011.

(c) Represent high-net-worth assets that are on the comprehensive platform of performance reporting, investment research and practice management of Fortigent Holdings Company, Inc. and its subsidiaries. Data regarding these assets was not available at or prior to December 31, 2011.

(6) Advisory assets under custody, insured cash account balances and money market account balances are components of advisory and brokerage assets.

Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes to those consolidated financial statements included in Item 8 of this Form 10-K. This discussion contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, such as those set forth under “Risk Factors” and elsewhere in this Form 10-K, our actual results may differ materially from those anticipated in these forward-looking statements. Please also refer to the section under heading "Special Note Regarding Forward-Looking Statements."

Overview

We are the nation's largest independent broker-dealer, a top custodian for registered investment advisors ("RIAs"), and a leading independent consultant to retirement plans. We provide an integrated platform of brokerage and investment advisory services to more than 13,600 independent financial advisors including financial advisors at more than 700 financial institutions (our "advisors") across the country, enabling them to provide their retail investors (their "clients") with objective financial advice through a low-risk model. We also support approximately 4,500 financial advisors who are affiliated and licensed with insurance companies with customized clearing, advisory platforms and technology solutions.

Fortigent Holdings Company, Inc. and its subsidiaries ("Fortigent") are a leading provider of solutions and consulting services to RIAs, banks and trust companies servicing high-net-worth clients, while The Private Trust Company, N.A. ("PTC") manages trusts and family assets for high-net-worth clients.

Our singular focus is to provide our advisors with the front-, middle- and back-office support they need to serve the large and growing market for independent investment advice. We believe we are the only company that offers advisors the unique combination of an integrated technology platform, comprehensive self-clearing services and open architecture access to leading financial products, all delivered in an environment unencumbered by conflicts from product manufacturing, underwriting or market-making.

For over 20 years, we have served the independent advisor market. We currently support the largest independent advisor base and we believe we have the fourth largest overall advisor base in the United States based on the information available as of the date this Annual Report on Form 10-K has been issued. Through our advisors, we are also one of the largest distributors of financial products in the United States. Our scale is a substantial competitive advantage and enables us to more effectively attract and retain advisors. Our unique business model allows us to invest in more resources for our advisors, increasing their revenues and creating a virtuous cycle of growth. We have 3,185 employees with primary offices in Boston, Charlotte and San Diego.

Our Sources of Revenue

Our revenues are derived primarily from fees and commissions from products and advisory services offered by our advisors to their clients, a substantial portion of which we pay out to our advisors, as well as fees we receive from our advisors for the use of our technology, custody, clearing, trust and reporting platforms. We also generate asset-based revenues through our platform of over 11,000 financial products from a broad range of product manufacturers. Under our self-clearing platform, we custody the majority of client assets invested in these financial products, for which we provide statements, transaction processing and ongoing account management. In return for these services, mutual funds, insurance companies, banks and other financial product manufacturers pay us fees based on asset levels or number of accounts managed. We also earn interest from margin loans made to our advisors’ clients.

We track recurring revenue, a characterization of net revenue and a statistical measure, which we define to include our revenues from asset-based fees, advisory fees, trailing commissions, cash sweep programs and certain other fees that are based upon accounts and advisors. Because certain recurring revenues are associated with asset balances, they will fluctuate depending on the market values and current interest rates. These asset balances, specifically related to advisory and asset-based revenues, have a correlation of approximately 60% to the fluctuations of the overall market, as measured by the S&P 500. Accordingly, our recurring revenue can be negatively impacted by adverse external market conditions. However, recurring revenue is meaningful to us despite these fluctuations because it is not dependent upon transaction volumes or other activity-based revenues, which are more difficult to predict, particularly in declining or volatile markets.

The table below summarizes the sources of our revenue, the primary drivers of each revenue source and the percentage of each revenue source that represents recurring revenue, a characterization of revenue and a statistical measure:

			For the Year Ended December 31, 2013		
	Sources of Revenue	Primary Drivers	Total (millions)	% of Total Net Revenue	% Recurring
Advisor-driven revenue with ~85%-90% payout ratio	Commission	- Transactions - Brokerage asset levels	$2,078	50%	40%
	Advisory	- Advisory asset levels	$1,187	29%	99%
Attachment revenue retained by us	Asset-Based - Cash Sweep Fees - Sponsorship Fees - Record Keeping	- Cash balances - Interest rates - Number of accounts - Client asset levels	$431	10%	99%
	Transaction and Fee - Transactions - Client (Investor) Accounts - Advisor Seat and Technology	- Client activity - Number of clients - Number of advisors - Number of accounts - Premium technology subscribers	$361	9%	63%
	Other	- Margin accounts - Alternative investment transactions	$84	2%	26%
	Total Net Revenue		$4,141	100%	65%
	Total Recurring Revenue		$2,681	65%	

- Commission and Advisory Revenues. Commission and advisory revenues both represent advisor-generated revenue, generally 85-90% of which is paid to advisors.

Commission Revenues. We generate two types of commission revenues: transaction-based sales commissions and trailing commissions. Transaction-based sales commission revenues, which occur whenever clients trade securities or purchase various types of investment products, primarily represent gross commissions generated by our advisors, primarily from commissions earned on purchases by clients of various financial products such as mutual funds, variable and fixed annuities, alternative investments, equities, fixed income, insurance, group annuities, and options and commodities. The levels of transaction-based commissions can vary from period to period based on the overall economic environment, number of trading days in the reporting period and investment activity of our advisors' clients. We earn trailing commission revenues (a commission that is paid over time, such as 12(b)-1 fees) on mutual funds and variable annuities held by clients of our advisors. Trailing commissions are recurring in nature and are earned based on the current market value of investment holdings in trail-eligible assets.

Advisory Revenues. Advisory revenues primarily represent fees charged on our corporate RIA platform provided through LPL Financial LLC ("LPL Financial") to clients of our advisors based on the value of advisory assets. Advisory fees are typically billed to clients quarterly, in advance, and are recognized as revenue ratably during the quarter. The value of the assets in the advisory account on the billing date determines the amount billed, and accordingly, the revenues earned in the following three month period. The majority of our accounts are billed using values as of the last business day of each calendar quarter. Generally, the advisory revenues collected on our corporate RIA platform range from 0.5% to 3.0% of the underlying assets.

In addition, we support independent RIAs who conduct their advisory business through separate entities by establishing their own RIA ("Independent RIAs") pursuant to the Investment Advisers Act of 1940, rather than through LPL Financial. The assets held under these investment advisory accounts custodied with LPL Financial are included in our advisory and brokerage assets, net new advisory assets and advisory assets under custody metrics. The advisory revenue generated by an Independent RIA is earned by the Independent RIA, and accordingly is not included in our advisory revenue. However, we charge administrative fees to Independent RIAs for clearing and custody of these assets, based on the value of assets within these advisory accounts. The administrative fees collected on our Independent RIA platform vary, and can reach a maximum of 0.6% of the underlying assets.

Furthermore, we support certain financial advisors at broker-dealers affiliated with insurance companies through our customized advisory platforms and charge fees to these advisors based on the value of assets within these advisory accounts.

- Asset-Based Revenues. Asset-based revenues are comprised of fees from cash sweep programs, our sponsorship programs with financial product manufacturers and omnibus processing and networking services. Pursuant to contractual arrangements, uninvested cash balances in our advisors' client accounts are swept into either insured deposit accounts at various banks or third-party money market funds, for which we receive fees, including administrative and record-keeping fees based on account type and the invested balances. In addition, we receive fees from certain financial product manufacturers in connection with sponsorship programs that support our marketing and sales-force education and training efforts. Our omnibus processing and networking revenues represent fees paid to us in exchange for administrative and record-keeping services that we provide to clients of our advisors. Omnibus processing revenues are paid to us by mutual fund product sponsors and based upon the value of custodied assets in advisory accounts and the number of brokerage accounts in which the related mutual fund positions are held. Networking revenues on brokerage assets are correlated to the number of positions we administer and are paid to us by mutual fund and annuity product manufacturers.

- Transaction and Fee Revenues. Revenues earned from transactions and fees primarily consist of transaction fees and ticket charges, subscription fees, Individual Retirement Account ("IRA") custodian fees, contract and license fees, conference fees and other client account fees. We charge fees to our advisors and their clients for executing certain transactions in brokerage and fee-based advisory accounts. We earn subscription fees for various services provided to our advisors and on IRA custodial services that we provide for their client accounts. We charge administrative fees to our advisors and fees to advisors who subscribe to our reporting services. We charge fees to financial product manufacturers for participating in our training and marketing conferences. In addition, we host certain advisor conferences that serve as training, sales and marketing events, for which we charge a fee for attendance.

- Other Revenues. Other revenues include marketing re-allowance fees from certain financial product manufacturers, primarily those who offer alternative investments, such as non-traded real estate investment trusts and business development companies, mark-to-market gains or losses on assets held by us for the advisors' non-qualified deferred compensation plan, and our model portfolios, revenues from our retirement partner program, as well as interest income from client margin accounts and cash equivalents, net of operating interest expense and other items.

Our Operating Expenses

- Production Expenses. Production expenses are comprised of the following: base payout amounts that are earned by and paid out to advisors based on commission and advisory revenues earned on each client's account (collectively, commission and advisory revenues earned are referred to as gross dealer concessions, or "GDC"); production bonuses earned by advisors based on the levels of commission and advisory revenues they produce; the recognition of share-based compensation expense from equity awards granted to advisors and financial institutions based on the fair value of the awards at each reporting period; a mark-to-market gain or loss on amounts designated by advisors as deferred commissions in a non-qualified deferred compensation plan at each reporting period; and brokerage, clearing and exchange fees. Our production payout ratio is calculated as production expenses excluding brokerage, clearing and exchange fees, divided by GDC.

We characterize components of production payout, which consists of all production expenses except brokerage, clearing and exchange fees, as either GDC sensitive or non-GDC sensitive. Base payout amounts and production bonuses earned by and paid to advisors are characterized as GDC sensitive because they are variable and highly correlated to the level of our commission and advisory revenues in a particular reporting period. Payout characterized as non-GDC sensitive includes share-based compensation expense from equity awards granted to advisors and financial institutions based on the fair value of the awards at each reporting period, and mark-to-market gains or losses on amounts designated by advisors as deferred commissions in a non-qualified deferred compensation plan. Non-GDC sensitive payout is correlated either to market movement or to the value of our stock. We believe that discussion of production payout, viewed in addition to, and not in lieu of, our production expenses, provides useful information to investors regarding our payouts to advisors.

The following table illustrates production expenses and production payout as components of our total payout ratio for the year ended December 31, 2013:

Base payout rate	84.04	%
Production based bonuses	2.69	%
GDC sensitive payout	86.73	%
Non-GDC sensitive payout	0.51	%
Total Payout Ratio	87.24	%

See "Results of Operations" for analysis of the production payout ratio for the comparable periods in 2012 and 2011.

- Compensation and Benefits Expense. Compensation and benefits expense includes salaries and wages and related employee benefits and taxes for our employees (including share-based compensation), as well as compensation for temporary employees and consultants.

- General and Administrative Expenses. General and administrative expenses include promotional fees, occupancy and equipment, communications and data processing, regulatory fees, professional services and other expenses. General and administrative expenses also include expenses for our hosting of certain advisor conferences that serve as training, sales and marketing events.

- Depreciation and Amortization Expense. Depreciation and amortization expense represents the benefits received for using long-lived assets. Those assets consist of significant intangible assets established through our acquisitions, as well as fixed assets which include internally developed software, hardware, leasehold improvements and other equipment.

- Restructuring Charges. Restructuring charges primarily represent expenses incurred as a result of our expansion of our Service Value Commitment announced in 2013 (see Note 4. Restructuring, within the notes to consolidated financial statements). Restructuring charges also include costs arising from our 2011 consolidation of UVEST Financial Services Group, Inc. ("UVEST") and our 2009 consolidation of Mutual Service Corporation, Associated Financial Group, Inc., Associated Securities Corp., Associated Planners Investment Advisory, Inc. and Waterstone Financial Group, Inc. (collectively referred to herein as the “Affiliated Entities”).

- Other Expenses. Other expenses represent charges incurred arising from the shutdown of our subsidiary NestWise, which ceased operations in the third quarter of 2013 (the "NestWise Closure"). In connection with the NestWise Closure, we determined that a majority of the assets held at NestWise, consisting primarily of goodwill and fixed assets stemming from the 2012 acquisition of Veritat Advisors Inc. ("Veritat"), had no future economic benefit and were derecognized beginning in the third quarter of 2013. Additionally, we revised our estimate of the potential payment obligation that we may be required to pay the former shareholders of Veritat, which resulted in a reduction of the contingent consideration obligation.

How We Evaluate Our Business

We focus on several business and key financial metrics in evaluating the success of our business relationships and our resulting financial position and operating performance. Our business and key financial metrics as of and for the years ended December 31, 2013, 2012 and 2011 are as follows:

	As of and for the Years Ended December 31,		
	2013	2012	2011
Business Metrics			
Advisors(1)	13,673	13,352	12,847
Advisory and brokerage assets (in billions)(2)	$438.4	$373.3	$330.3
Advisory assets under custody (in billions)(3)(4)	$151.6	$122.1	$101.6
Net new advisory assets (in billions)(5)	$14.6	$10.9	$10.8
Insured cash account balances (in billions)(4)	$17.4	$16.3	$14.4
Money market account balances (in billions)(4)	$7.5	$8.4	$8.0
Financial Metrics			
Revenue growth from prior year	13.1 %	5.2 %	11.8 %
Recurring revenue as a % of net revenue(6)	64.7 %	65.4 %	62.7 %
Net income (in thousands)	$181,857	$151,918	$170,382
Earnings per share (diluted)	$1.72	$1.37	$1.50
Non-GAAP Measures:			
Gross margin (in thousands)(7)	$1,248,014	$1,112,251	$1,030,951
Gross margin as a % of net revenue(7)	30.1 %	30.4 %	29.6 %
Adjusted EBITDA (in thousands)	$511,438	$454,482	$459,720
Adjusted EBITDA as a % of net revenue	12.4 %	12.4 %	13.2 %
Adjusted EBITDA as a % of gross margin(7)	41.0 %	40.9 %	44.6 %
Adjusted Earnings (in thousands)	$258,805	$225,029	$218,585
Adjusted Earnings per share (diluted)	$2.44	$2.03	$1.95

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(1) Advisors are defined as those independent financial advisors and financial advisors at financial institutions who are licensed to do business with the Company's broker-dealer subsidiary. During 2012, an institutional client's parent company consolidated its operations onto the broker-dealer platform of an affiliate within its organization, which resulted in a loss of 181 advisors. Excluding the attrition of the institutional client's advisors, we added 686 net new advisors during the twelve months ended December 31, 2012. We consolidated the operations of UVEST with LPL Financial that resulted, as expected, in the attrition of 146 advisors during the year ended December 31, 2011. Excluding attrition from the integration of the UVEST platform, we added 549 net new advisors during the twelve months ended December 31, 2011.

(2) Advisory and brokerage assets are comprised of assets that are custodied, networked and non-networked and reflect market movement in addition to new assets, inclusive of new business development and net of attrition. Set forth below are other client assets for the years ended December 31, 2013 and 2012, including retirement plan assets, and certain trust and high-net-worth assets, that are custodied with third-party providers and therefore excluded from advisory and brokerage assets (in billions):

	As of and for the Years Ended December 31,	
	2013	2012
Retirement plan assets(a)	$60.6	$46.4
Trust assets(b)	$10.6	$12.0

High-net-worth assets(c)	$73.9	$59.1

(a) Retirement plan assets are held in retirement plans that are supported by advisors licensed with LPL Financial. At December 31, 2013 and 2012, our retirement plan assets represent assets that are custodied with 30 third-party providers and 26 third-party providers, respectively, of retirement plan administrative services who provide reporting feeds. We estimate the total assets in retirement plans supported to be between $95.0 billion and $105.0 billion at December 31, 2013 and between $70.0 billion and $85.0 billion at December 31, 2012. If we receive reporting feeds in the future from providers for whom we do not currently receive feeds, we intend to include and identify such additional assets in this metric. During 2013, we began receiving reporting feeds from four such providers, which accounted for $1.7 billion of the $14.2 billion increase in retirement plan assets. Data regarding these assets was not available at or prior to December 31, 2011.

(b) Represent trust assets that are on the comprehensive wealth management platform of the Concord Trust and Wealth Solutions division of LPL Financial ("Concord"). Data regarding these assets was not available at or prior to December 31, 2011.

(c) Represent high-net-worth assets that are on the comprehensive platform of performance reporting, investment research and practice management of Fortigent Holdings Company, Inc. and its subsidiaries. Data regarding these assets was not available at or prior to December 31, 2011.

(3) In reporting our financial and operating results for the years ended December 31, 2013 and 2012, we have renamed this business metric as advisory assets under custody (formerly known as advisory assets under management). Advisory assets under custody are comprised of advisory assets under management in our corporate RIA platform, and Independent RIA assets in advisory accounts custodied by us. See "Results of Operations" for a tabular presentation of advisory assets under custody.

(4) Advisory assets under custody, insured cash account balances and money market account balances are components of advisory and brokerage assets.

(5) Represents net new advisory assets consisting of funds from new accounts and additional funds deposited into existing advisory accounts that are custodied in our fee-based advisory platforms.

(6) Recurring revenue, which is a characterization of net revenue and a statistical measure, is derived from sources such as advisory revenues, asset-based revenues, trailing commission revenues, revenues related to our cash sweep programs, interest earned on margin accounts and technology and service revenues, and is not meant as a substitute for net revenues.

(7) Gross margin is calculated as net revenues less production expenses. Production expenses consist of the following expense categories from our consolidated statements of income: (i) commission and advisory and (ii) brokerage, clearing and exchange. All other expense categories, including depreciation and amortization, are considered general and administrative in nature. Because our gross margin amounts do not include any depreciation and amortization expense, we consider our gross margin amounts to be non-GAAP measures that may not be comparable to those of others in our industry.

Adjusted EBITDA

Adjusted EBITDA is defined as EBITDA (net income plus interest expense, income tax expense, depreciation and amortization), further adjusted to exclude certain non-cash charges and other adjustments set forth below. We present Adjusted EBITDA because we consider it an important measure of our performance. Adjusted EBITDA is a useful financial metric in assessing our operating performance from period to period by excluding certain items that we believe are not representative of our core business, such as certain material non-cash items and other adjustments.

We believe that Adjusted EBITDA, viewed in addition to, and not in lieu of, our reported GAAP results, provides useful information to investors regarding our performance and overall results of operations for the following reasons:

- because non-cash equity grants made to employees, officers and non-employee directors at a certain price and point in time do not necessarily reflect how our business is performing at any particular time, share-based compensation expense is not a key measure of our operating performance and

- because costs associated with acquisitions and the resulting integrations, debt refinancing, restructuring and conversions and equity issuance and related offering costs can vary from period to period and transaction to transaction, expenses associated with these activities are not considered a key measure of our operating performance.

We use Adjusted EBITDA:

- as a measure of operating performance;
- for planning purposes, including the preparation of budgets and forecasts;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our business strategies;
- in communications with our board of directors concerning our financial performance and
- as a factor in determining employee and executive bonuses.

Adjusted EBITDA is a non-GAAP measure and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Adjusted EBITDA is not a measure of net income, operating income or any other performance measure derived in accordance with GAAP.

Adjusted EBITDA has limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect all cash expenditures, future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs;
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt; and
- Adjusted EBITDA can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments, limiting its usefulness as a comparative measure.

Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in our business. We compensate for these limitations by relying primarily on the GAAP results and using Adjusted EBITDA as supplemental information.

Set forth below is a reconciliation from our net income to Adjusted EBITDA, a non-GAAP measure, for the years ended December 31, 2013, 2012 and 2011 (in thousands):

	For the Years Ended December 31,		
	2013	2012	2011
Net income	$181,857	$151,918	$170,382
Interest expense	51,446	54,826	68,764
Income tax expense	109,446	98,673	112,303
Amortization of intangible assets(1)	39,006	39,542	38,981
Depreciation and amortization of fixed assets	44,497	32,254	33,760
EBITDA	426,252	377,213	424,190
EBITDA Adjustments:			
Employee share-based compensation expense(2)	15,434	17,544	14,978
Acquisition and integration related expenses(3)	19,890	20,474	(3,815)
Restructuring and conversion costs(4)	30,812	6,146	22,052
Debt amendment and extinguishment costs(5)	7,968	16,652	—
Equity issuance and related offering costs(6)	—	4,486	2,062
Other(7)	11,082	11,967	253
Total EBITDA Adjustments	85,186	77,269	35,530
Adjusted EBITDA	$511,438	$454,482	$459,720

(1) Represents amortization of intangible assets as a result of our purchase accounting adjustments from our 2005 merger transaction, as well as various acquisitions.

(2) Represents share-based compensation for equity awards granted to employees, officers and directors. Such awards are measured based on the grant-date fair value and recognized over the requisite service period of the individual awards, which generally equals the vesting period.

(3) Represents acquisition and integration costs resulting from various acquisitions, including changes in the estimated fair value of future payments, or contingent consideration, required to be made to former shareholders of certain acquired entities. During the year ended December 31, 2013, approximately $12.7 million was recognized as a charge against earnings due to a net increase in the estimated fair value of contingent consideration. During the year ended December 31, 2012, approximately $11.4 million was recognized as a charge against earnings due to a net increase in the estimated fair value of contingent consideration. We were involved in a legal dispute with a third-party indemnitor under a purchase and sale agreement with respect to the indemnitor's refusal to make indemnity payments that we believed were required under the purchase and sale agreement. We settled our legal dispute with the third-party indemnitor in the fourth quarter of 2011. Accordingly in 2011, we received a $10.5 million cash settlement, $9.8 million of which has been excluded from the presentation of Adjusted EBITDA, a non-GAAP measure. See Note 14. Commitments and Contingencies, within the notes to consolidated financial statements.

(4) Represents organizational restructuring charges, conversion and other related costs resulting from the expansion of our Service Value Commitment, the 2011 consolidation of UVEST and the 2009 consolidation of the Affiliated Entities. As of December 31, 2013, we have recognized approximately 41% of costs related to the expansion of our Service Value Commitment, which is expected to be completed in 2015. As of December 31, 2013, approximately 88% and 100%, of costs related to the 2011 consolidation of UVEST and the 2009 consolidation of the Affiliated Entities, respectively, have been recognized. The remaining costs for the 2011 consolidation of UVEST largely consist of the amortization of transition payments for the retention of advisors and financial institutions that are expected to be recognized into earnings by October 2016.

(5) Represents expenses incurred resulting from the early extinguishment and repayment of amounts outstanding on our prior senior secured credit facilities, including the write-off of unamortized debt issuance costs that had no economic benefit, as well as various other charges incurred in connection with the repayment under prior senior secured credit facilities and the establishment of new senior secured credit facilities. Results for the year ended

December 31, 2013 include a write-off of $8.0 million related to the May 2013 refinancing and amendment of our previous credit agreement. Results for the year ended

December 31, 2012 include a write off of $16.5 million related to the March 2012 refinancing and replacement of our original credit agreement.

(6) Represents equity issuance and offering costs incurred in the years ended December 31, 2013, 2012 and 2011, related to the closing of a secondary offering in the second quarter of 2012 and the closing of a secondary offering in the second quarter of 2011. In addition, results for the year ended December 31, 2012, include a $3.9 million charge relating to the late deposit of withholding taxes related to the exercise of certain non-qualified stock options in connection with the Company's 2010 initial public offering ("IPO"). See Note 14. Commitments and Contingencies, within the notes to consolidated financial statements.

(7) Results for the year ended December 31, 2013 include costs related to the NestWise Closure, consisting of: i) the derecognition of $10.2 million of goodwill; ii) $8.4 million of fixed asset charges that were determined to have no future economic benefit; iii) severance and termination benefits; and iv) a $9.3 million decrease in the estimated fair value of contingent consideration as related milestones were not achieved. Results for the year ended December 31, 2013 also include $2.7 million of severance and termination benefits related to a change in management structure and a $2.3 million gain related to the sale of an equity investment. Results for the year ended December 31, 2012 include approximately $7.0 million for consulting services and technology development aimed at enhancing the Company's performance in support of its advisors while operating at a lower cost. In addition, results for the year ended December 31, 2012 include an asset impairment charge of $4.0 million for certain fixed assets related to internally developed software that were determined to have no estimated fair value. Results also include certain excise and other taxes in all years.

Adjusted Earnings and Adjusted Earnings per share

Adjusted Earnings represents net income before: (a) share-based compensation expense, (b) amortization of intangible assets and software resulting from our merger transaction in 2005 and our various acquisitions, a component of depreciation and amortization, (c) acquisition and integration related expenses, (d) restructuring and conversion costs, (e) debt extinguishment costs and (f) other. Reconciling items are tax effected using the income tax rates in effect for the applicable period, adjusted for any potentially non-deductible amounts.

Adjusted Earnings per share represents Adjusted Earnings divided by weighted-average outstanding shares on a fully diluted basis.

We prepared Adjusted Earnings and Adjusted Earnings per share to eliminate the effects of items that we do not consider indicative of our core operating performance.

We believe that Adjusted Earnings and Adjusted Earnings per share, viewed in addition to, and not in lieu of, our reported GAAP results provide useful information to investors regarding our performance and overall results of operations for the following reasons:

- because non-cash equity grants made to employees, officers and non-employee directors at a certain price and point in time do not necessarily reflect how our business is performing, the related share-based compensation expense is not a key measure of our current operating performance;

- because costs associated with acquisitions and related integrations, debt refinancing, and restructuring and conversions can vary from period to period and transaction to transaction, expenses associated with these activities are not considered a key measure of our operating performance; and

- because amortization expenses can vary substantially from company to company and from period to period depending upon each company’s financing and accounting methods, the fair value and average expected life of acquired intangible assets and the method by which assets were acquired, the amortization of intangible assets obtained in acquisitions is not considered a key measure in comparing our operating performance.

Since 2010, we have used Adjusted Earnings for internal management reporting and evaluation purposes. We also believe Adjusted Earnings and Adjusted Earnings per share are useful to investors in evaluating our operating performance because securities analysts use them as supplemental measures to evaluate the overall performance of companies, and our investor and analyst presentations, which are generally available to investors through our website, include references to Adjusted Earnings and Adjusted Earnings per share.

Adjusted Earnings and Adjusted Earnings per share are not measures of our financial performance under GAAP and should not be considered as an alternative to net income or earnings per share or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of our profitability or liquidity.

Although Adjusted Earnings and Adjusted Earnings per share are frequently used by securities analysts and others in their evaluation of companies, they have limitations as analytical tools, and you should not consider Adjusted Earnings and Adjusted Earnings per share in isolation, or as substitutes for an analysis of our results as reported under GAAP. In particular you should consider:

- Adjusted Earnings and Adjusted Earnings per share do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted Earnings and Adjusted Earnings per share do not reflect changes in, or cash requirements for, our working capital needs; and
- Other companies in our industry may calculate Adjusted Earnings and Adjusted Earnings per share differently than we do, limiting their usefulness as comparative measures.

Management compensates for the inherent limitations associated with using Adjusted Earnings and Adjusted Earnings per share through disclosure of such limitations, presentation of our financial statements in accordance with GAAP and reconciliation of Adjusted Earnings to the most directly comparable GAAP measure, net income.

The following table sets forth a reconciliation of net income to non-GAAP measures Adjusted Earnings and Adjusted Earnings per share for the years ended December 31, 2013, 2012 and 2011 (in thousands, except per share data):

	For the Years Ended December 31,		
	2013	2012	2011
Net income	$181,857	$151,918	$170,382
After-Tax:			
EBITDA Adjustments(1)			
Employee share-based compensation expense(2)	11,109	13,161	11,472
Acquisition and integration related expenses(3)	10,919	11,106	(2,354)
Restructuring and conversion costs	19,011	3,792	13,606
Debt amendment and extinguishment costs	4,916	10,274	—
Equity issuance and related offering costs(4)	—	4,262	1,272
Other(5)	6,926	7,384	156
Total EBITDA Adjustments	52,881	49,979	24,152
Amortization of intangible assets(1)	24,067	24,397	24,051
Acquisition related benefit for a net operating loss carry-forward(6)	—	(1,265)	—
Adjusted Earnings	$258,805	$225,029	$218,585
Adjusted Earnings per share(7)	$2.44	$2.03	$1.95
Weighted-average shares outstanding — diluted	106,003	111,060	112,119

(1) Generally, EBITDA Adjustments and amortization of intangible assets have been tax effected using a federal rate of 35.0% and the applicable effective state rate which was 3.30%, net of the federal tax benefit, for the periods presented, except as noted below.

(2) Represents the after-tax expense of non-qualified stock options for which we receive a tax deduction upon exercise, restricted stock awards for which we receive a tax deduction upon vesting and the full expense impact of incentive stock options granted to employees that qualify for preferential tax treatment and conversely for which

we do not receive a tax deduction. Share-based compensation expense for vesting of incentive stock options was $4.1 million, $6.1 million and $5.8 million for the years ended December 31, 2013, 2012 and 2011, respectively.

(3) Represents the after-tax expense of acquisition and related costs for which we receive a tax deduction. In addition, the results for the twelve months ended December 31, 2013 and 2012 include reductions of expense of $3.8 million and $5.7 million, respectively, relating to the fair value of contingent consideration for the stock acquisition of CCP, that are not deductible for tax purposes.

(4) Represents the after-tax equity issuance and offering costs incurred in the years ended December 31, 2013, 2012 and 2011, related to the closing of a secondary offering in the second quarter of 2012 and the closing of a secondary offering in the second quarter of 2011 for which we do not receive a tax deduction. In addition, results for the year ended December 31, 2012 include a $3.9 million charge in other expenses in the consolidated statements of income for the late deposit of withholding taxes related to the exercise of certain non-qualified stock options in connection with our 2010 IPO, which is not deductible for tax purposes. See Note 14. Commitments and Contingencies, within the notes to consolidated financial statements.

(5) Represents the after-tax expense of severance and termination benefits, derecognition of fixed assets related to the NestWise Closure for which we receive a tax deduction, the full expense impact of: i) the derecognition of $10.2 million of goodwill and ii) a $9.3 million decrease in the estimated fair value of contingent consideration. Results also include the after-tax expense of excise and other taxes in all years.

(6) Represents the expected tax benefit available to us from the accumulated net operating losses of Concord that arose prior to our acquisition of CCP; such benefits were recorded in the third quarter of 2012.

(7) Represents Adjusted Earnings, a non-GAAP measure, divided by weighted-average number of shares outstanding on a fully diluted basis. Set forth below is a reconciliation of earnings per share on a fully diluted basis, as calculated in accordance with GAAP to Adjusted Earnings per share:

	For the Years Ended December 31,		
	2013	2012	2011
Earnings per share — diluted	$1.72	$1.37	$1.50
Adjustment for allocation of undistributed earnings to stock units	—	—	0.02
After-Tax:			
EBITDA Adjustments per share	0.49	0.45	0.22
Amortization of intangible assets per share	0.23	0.22	0.21
Acquisition related benefit for a net operating loss carry-forward per share	—	(0.01)	—
Adjusted Earnings per share	$2.44	$2.03	$1.95

Service Value Commitment

The Program

On February 5, 2013, we committed to an expansion of our Service Value Commitment, an ongoing effort to position us for sustainable long-term growth by improving the service experience of our advisors and delivering efficiencies in our operating model. We have assessed our information technology delivery, governance, organization and strategy and committed to undertake a course of action (the “Program”) to reposition our labor force and invest in technology, human capital, marketing and other key areas to enable future growth.

The Program is expected to be completed in 2015, and we estimate total charges of $65.0 million for technology transformation costs, outsourcing and other related costs, employee severance obligations and other related costs, and non-cash charges for impairment of certain fixed assets related to internally developed software.

As of December 31, 2013, we have incurred $27.9 million consisting of: $15.3 million for outsourcing and other services such as parallel processing provided by outside consultants; $9.3 million for the implementation of foundational changes to our technology platform and outsourcing of our disaster recovery facilities; an $0.8 million asset impairment charge for equipment that was determined to have no future economic benefit; and $2.5 million for employee severance and termination benefits related to approximately 125 positions that were outsourced in 2013 within accounting, data reconciliation, operations and insurance processing. We remain focused on the next wave of outsourced functions in 2014, including additional opportunities in compliance and back office processing activities. By 2015, we expect annual pre-tax savings of approximately $30.0 million. See Note 4. Restructuring, within the notes to consolidated financial statements.

Derivative Financial Instruments

During the second quarter of 2013 and in conjunction with the Program, we entered into a long-term contractual obligation (the "Agreement") with a third-party provider to enhance the quality, speed and cost of our processes by outsourcing certain functions. The Agreement enables the third-party provider to use the services of its affiliates in India to provide services to us. The Agreement provides that we settle the cost of our contractual obligation to the third-party provider each month in US dollars. However, the Agreement provides that on each annual anniversary date, the price for services (as denominated in US dollars) is to be adjusted for the then-current exchange rate between the US dollar and the Indian rupee. The Agreement provides that, once an annual adjustment is calculated, there are no further modifications to the amounts paid by us to the third-party provider for fluctuations in the exchange rate until the reset on the next anniversary date. The third-party provider bears the risk of currency movement from the date of signing the Agreement until the reset on the first anniversary of its signing, and during each period until the next annual reset. We bear the risk of currency movement at each annual reset date following the first anniversary.

Upon completion of the Program, we estimate annual costs for our long-term contractual obligation with the third-party provider to be approximately $13.0 million to $14.0 million annually. We use derivative financial instruments consisting solely of non-deliverable foreign currency contracts, all of which have been designated as cash flow hedges. Through these instruments, we believe we have mitigated foreign currency risk arising from a substantial portion of our contract obligation with the third-party provider arising from annual anniversary adjustments. We will continue to assess the effectiveness of our use of cash flow hedges to mitigate risk from foreign currency contracts. See Note 2. Summary of Significant Accounting Policies and Note 13. Derivative Financial Instruments, within the notes to consolidated financial statements for additional information regarding our derivative financial instruments.

Acquisitions, Integrations and Divestitures

From time to time we undertake acquisitions or divestitures based on opportunities in the competitive landscape. These activities are part of our overall growth strategy, but can distort comparability when reviewing revenue and expense trends for periods presented. The following describes significant acquisition and divestiture activities that have impacted our 2013, 2012 and 2011 results.

NestWise Closure

In August 2013, we ceased the operations of our subsidiary, NestWise. In connection with the NestWise Closure, we determined that a majority of the assets held at NestWise, comprised primarily of $10.2 million of goodwill and $8.4 million of fixed assets stemming from the 2012 acquisition of Veritat, had no future economic benefit and were derecognized beginning in the third quarter of 2013. Additionally, we decreased the amount of contingent consideration due to former shareholders of Veritat by $9.3 million to zero during 2013 as related milestones were not achieved.

For the year ended December 31, 2013, the net revenues of NestWise were immaterial and expenses totaled $13.1 million. We believe financial resources earmarked for NestWise can be more effectively deployed in other areas of our business and will be redeployed into our core business consulting activities for both advisors and financial institutions for training development.

Acquisition of Fortigent Holdings Company, Inc.

On April 23, 2012, we acquired all of the outstanding common stock of Fortigent Holdings Company, Inc. and its wholly owned subsidiaries Fortigent, LLC, a registered investment advisory firm, Fortigent Reporting Company, LLC and Fortigent Strategies Company, LLC (together, "Fortigent"). Fortigent is a leading provider of solutions and consulting services to RIAs, banks and trust companies servicing high-net-worth clients. This strategic acquisition further enhances our capabilities and offers an extension of our existing services for wealth management advisors. Total purchase price consideration at the closing of the transaction was $38.8 million. As of December 31, 2013, $1.0 million remained in an escrow account to be paid to former shareholders of Fortigent in accordance with the terms of the stock purchase agreement.

Acquisition of Concord Capital Partners, Inc.

On June 22, 2011, we acquired all of the outstanding common stock of CCP, which provided open architecture investment management solutions for trust departments of financial institutions. The terms of the stock purchase agreement provide for potential consideration that was contingent upon the achievement of certain gross margin-based milestones for the year ended December 31, 2013. We estimated the fair value of the contingent consideration at the close of the transaction and re-measured contingent consideration at fair value at each reporting period with changes recognized in earnings. The gross margin-based milestones for the year ended December 31, 2013 were not achieved, although our obligations under the stock purchase agreement are the subject of a legal dispute with certain of the contractual counterparties. The maximum amount of contingent consideration is $15.0 million.

Consolidation of UVEST Financial Services Group, Inc.

On March 14, 2011, we committed to a corporate restructuring plan to enhance our service offering, while generating operating efficiencies. The restructuring plan included the consolidation of the operations of our subsidiary, UVEST, with those of LPL Financial. In connection with the consolidation of UVEST, certain registered representatives formerly associated with UVEST moved to LPL Financial through a transfer of their licenses. The transfers began in July 2011 and were completed in December 2011. Following the transfer, all registered representatives and client accounts that transferred became associated with LPL Financial. UVEST has withdrawn its registration with the Financial Industry Regulatory Authority, Inc. ("FINRA") effective July 16, 2012, and is no longer subject to net capital filing requirements.

Based on current estimates, we expect to improve pre-tax profitability by approximately $10.0 million per year upon the completion of the UVEST integration activities by creating operational efficiencies and revenue opportunities. See Note 4. Restructuring, within the notes to consolidated financial statements.

Acquisition of National Retirement Partners, Inc.

On February 9, 2011, we acquired certain assets of National Retirement Partners, Inc. (“NRP”). As part of the acquisition, 206 advisors previously registered with NRP transferred their securities and advisory licenses and registrations to LPL Financial. We are also required to pay consideration to former shareholders of NRP that is contingent upon the achievement of certain revenue-based milestones in the third year following the acquisition. We recorded a contingent consideration obligation within accounts payable and accrued liabilities, and re-measured the contingent consideration at fair value at each interim reporting period, with changes recognized in earnings. During the fourth quarter of 2013, we finalized the determination of the amount of contingent consideration to be paid to the former shareholders of NRP, resulting in a total payment of $39.3 million, which was made on February 19, 2014.

Consolidation of the Affiliated Entities

On September 1, 2009, we consolidated the operations of the Affiliated Entities with those of LPL Financial. The consolidation involved the transfer of securities licenses of certain registered representatives associated with the Affiliated Entities and their client accounts. Following the consolidation, the registered representatives and client accounts that were transferred became associated with LPL Financial. The consolidation of the Affiliated Entities was effected to enhance service offerings to our advisors while also generating efficiencies.

While our acquisition of the Affiliated Entities contributed to the overall growth of our base of advisors and related revenue and market position, the consolidation into LPL Financial resulted in restructuring costs in the form of personnel costs, system costs and professional fees, as well as restructuring charges including severance and one-time termination benefits, lease and contract termination fees, asset impairments and transfer and conversion costs. See Note 4. Restructuring, within the notes to consolidated financial statements.

Economic Overview and Impact of Financial Market Events

Our business is directly and indirectly sensitive to several macro-economic factors, primarily in the United States. One of these factors is the current and expected future level of short-term interest rates, particularly overnight rates. Throughout most of 2013, the Federal Reserve provided additional liquidity to financial markets through its substantial purchases of fixed income securities. This liquidity continued to keep overall interest rates at historically low levels. Not until December, in light of the cumulative progress toward maximum employment and the improvement in the outlook for labor market conditions did the Federal Reserve decide to begin tapering their monthly bond purchases beginning in January 2014. The target range for the federal funds rate, as stated by the

Federal Reserve, remained at 0.0% to 0.25% during the fourth quarter of 2013. Further, the Federal Reserve reaffirmed that it expects rates to remain in the range for as long as the unemployment rate remains above 6.5%, inflation continues to be as projected, which is no more than 0.5% above the Federal Reserve's 2.0% long-term goal, and inflation expectations continue to be well anchored.

As a result, the average Federal Funds effective rate was 11 basis points in 2013, a slight decrease from the average of 14 basis points in 2012. The low interest rate environment also continued to pressure our revenues from our cash sweep programs and continued to diminish investor demand for fixed-income securities and fixed annuities.

Another macro-economic factor affecting our business is the valuation of equity securities across the various markets in the United States. The Dow Jones Industrial Average and S&P 500 index both attained record closes of 16,168 and 1,811, respectively, on December 18, 2013. The S&P 500 index closed the year at 1,848, up 29.6% from its close on December 31, 2012. Investor confidence rose when the worst of the fiscal cliff outcomes was avoided, economic factors improved modestly and the Federal Reserve's bond-buying program began to taper. This helped to lift stock valuations and prompted individual investors to put money into the market at the strongest pace in years. As a result, our advisors achieved record levels of productivity in 2013. While the equity markets continue to improve, lingering economic worries remain about spending cuts, US and global growth rates, a persistent high unemployment level and debt ceiling concerns.

In the United States, economic growth continued but at a restrained pace during 2013 as the housing sector continued to show signs of further improvement, coupled with modest growth in consumer and business spending. Sequestration became effective on March 1, 2013, which restrained federal expenditures during the second and third quarters of 2013. The ongoing political disputes in Washington over the United States debt ceiling, credit rating and budget impasse, has increased domestic and international concerns, which could have an impact on financial markets and the broader economy.

Results of Operations

The following discussion presents an analysis of our results of operations for the years ended December 31, 2013, 2012 and 2011. Where appropriate, we have identified specific events and changes that affect comparability or trends, and where possible and practical, have quantified the impact of such items.

	Years Ended December 31,			Percentage Change	
	2013	2012	2011	'13 vs. '12	'12 vs. '11
	(In thousands)				
Revenues					
Commission	$2,077,566	$1,820,517	$1,754,435	14.1 %	3.8 %
Advisory	1,187,352	1,062,490	1,027,473	11.8 %	3.4 %
Asset-based	430,990	403,067	359,724	6.9 %	12.0 %
Transaction and fee	361,252	321,558	292,207	12.3 %	10.0 %
Other	83,698	53,456	45,536	56.6 %	17.4 %
Net revenues	4,140,858	3,661,088	3,479,375	13.1 %	5.2 %
Expenses					
Production	2,892,844	2,548,837	2,448,424	13.5 %	4.1 %
Compensation and benefits	400,967	362,705	322,126	10.5 %	12.6 %
General and administrative	373,368	350,212	263,228	6.6 %	33.0 %
Depreciation and amortization	83,503	71,796	72,741	16.3 %	(1.3)%
Restructuring charges	30,186	5,597	21,407	*	(73.9)%
Other	9,279	—	—	*	*
Total operating expenses	3,790,147	3,339,147	3,127,926	13.5 %	6.8 %
Non-operating interest expense	51,446	54,826	68,764	(6.2)%	(20.3)%
Loss on extinguishment of debt	7,962	16,524	—	(51.8)%	*
Total expenses	3,849,555	3,410,497	3,196,690	12.9 %	6.7 %
Income before provision for income taxes	291,303	250,591	282,685	16.2 %	(11.4)%
Provision for income taxes	109,446	98,673	112,303	10.9 %	(12.1)%
Net income	$181,857	$151,918	$170,382	19.7 %	(10.8)%

* Not Meaningful

Revenues

Commission Revenues

The following table sets forth our commission revenue, by product category, included in our consolidated statements of income for the periods indicated (dollars in thousands):

	Years ended December 31,			'13 vs. '12		'12 vs. '11	
	2013	2012	2011	$ Change	% Change	$ Change	% Change
Variable annuities	$794,898	$764,502	$731,770	$30,396	4.0 %	$32,732	4.5 %
Mutual funds	565,951	498,239	472,466	67,712	13.6 %	25,773	5.5 %
Alternative investments	251,113	142,996	113,589	108,117	75.6 %	29,407	25.9 %
Fixed annuities	123,882	98,976	136,020	24,906	25.2 %	(37,044)	(27.2)%
Equities	119,569	99,380	97,882	20,189	20.3 %	1,498	1.5 %
Fixed income	87,243	83,235	84,568	4,008	4.8 %	(1,333)	(1.6)%
Insurance	81,687	81,124	70,060	563	0.7 %	11,064	15.8 %
Group annuities	52,275	50,891	45,579	1,384	2.7 %	5,312	11.7 %
Other	948	1,174	2,501	(226)	(19.3)%	(1,327)	(53.1)%
Total commission revenue	$2,077,566	$1,820,517	$1,754,435	$257,049	14.1 %	$66,082	3.8 %

The following table sets forth our commission revenue, by sales-based and trailing commission revenue (dollars in thousands):

	Years Ended December 31,			'13 vs. '12		'12 vs. '11	
	2013	2012	2011	$ Change	% Change	$ Change	% Change
Sales-based	$1,254,683	$1,110,041	$1,133,055	$144,642	13.0 %	$(23,014)	(2.0)%
Trailing	822,883	710,476	621,380	112,407	15.8 %	89,096	14.3 %
Total commission revenue	$2,077,566	$1,820,517	$1,754,435	$257,049	14.1 %	$66,082	3.8 %

Commission revenue increased by $257.0 million, or 14.1%, for 2013 compared with 2012, due primarily to an increase in sales-based activity for alternative investments, equities and mutual funds and increases in trail revenues for mutual funds and variable annuities. This growth reflects improved investor engagement, strong market conditions and growth of the underlying assets. Additionally, commission revenues from fixed income, primarily driven by unit investment trusts and 529 college savings plans, and insurance products also contributed to the overall growth in commission revenue. Such overall growth reflects market-wide growth and increased investor engagement that has driven advisor productivity.

The increase in commission revenues associated with alternative investments reflects investors' preferences for diversification, as income-producing alternative strategies continue to grow in popularity and investors continue to seek opportunities to earn return outside of the traditional equity and fixed income markets.

The increase in fixed annuities is attributed primarily to increased sales of indexed annuities as well as a new three-year fixed annuity product that was introduced beginning in the fourth quarter of 2013, offering clients of advisors an attractive interest rate at a time where interest rates are expected to be relatively flat.

Commission revenues increased by $66.1 million, or 3.8%, for 2012 compared to 2011. The 4.5% growth in revenues from variable annuities is based on an increase in trail-based commissions partially offset by a decrease in sales-based commissions. The combination of low interest rates and market uncertainty impacted sales commissions for variable annuities due to its impact on product design, which lowered demand for these products. In addition, insurers have lowered the amount of risk they are willing to retain on variable annuity products by reducing certain insurance benefits, thereby making the products less attractive to investors. Group annuities increased due to growth in our retirement business.

Advisory Revenues

The following table summarizes the activity within our advisory assets under custody for the years ended December 31, 2013, 2012 and 2011 (in billions):

	Years ended December 31,		
	2013	2012	2011
Beginning balance at January 1	$122.1	$101.6	$93.0
Net new advisory assets	14.6	10.9	10.8
Market impact and other	14.9	9.6	(2.2)
Ending balance at December 31	$151.6	$122.1	$101.6

Net new advisory assets for the years ended December 31, 2013, 2012 and 2011 had a limited impact on advisory fee revenue for those respective periods. Rather, net new advisory assets are a primary driver of future advisory fee revenue. Net new advisory assets were $14.6 billion for the year ended December 31, 2013, resulting from the continued shift by our existing advisors from brokerage towards more advisory business.

Advisory revenue for a particular quarter is predominately driven by the prior quarter-end advisory assets under management. Advisory revenue increased by $124.9 million, or 11.8%, in 2013 compared to 2012. The growth in advisory revenue is due to net new advisory assets resulting from increased investor engagement and strong advisor productivity, as well as market gains as represented by higher levels of the S&P 500 on the applicable billing dates in 2013 compared to 2012. The average of the S&P 500 on the close of the four prior quarter-end dates, September 30, 2013, June 30, 2013, March 31, 2013 and December 31, 2012, was 1,571, which is a 14.9% increase over the average of 1,367 for the prior year corresponding dates. The Independent RIA model has continued to grow rapidly as advisors seek the freedom to run their business in a manner which best enables them to meet their clients' needs. This continued shift of advisors to the Independent RIA platform (for which we custody assets but do not earn advisory revenues for managing those assets) has caused the rate of revenue growth of advisory assets under management to lag behind the rate of growth of advisory assets under custody. Advisory revenues do not include fees for advisory services charged by Independent RIA advisors to their clients. Accordingly, there is no corresponding payout. However, there are administrative fees charged to Independent RIA advisors including custody and clearing fees, based on the value of assets.

Advisory revenue increased by $35.0 million, or 3.4%, in 2012 compared to 2011. The growth in advisory revenue is due to both net new advisory assets in prior periods and higher levels of the S&P 500 on the applicable billing dates in 2012 compared to 2011. The average of the S&P 500 on the close of the four prior quarter-end dates, September 30, 2012, June 30, 2012, March 31, 2012 and December 31, 2011, was 1,367, which is an 8.6% increase over the average of 1,259 for the prior year corresponding dates. The continued shift of advisors to the Independent RIA platform and a re-pricing in one of our significant clearing agreements have caused the rate of revenue growth to lag behind the rate of advisory asset growth.

The following table summarizes the makeup within our advisory assets under custody for the periods ended December 31, 2013, 2012 and 2011 (in billions):

	As of December 31,			'13 vs. '12		'12 vs. '11	
	2013	2012	2011	$ Change	% Change	$ Change	% Change
Advisory assets under management	$117.6	$100.7	$90.3	$16.9	16.8 %	$10.4	11.5 %
Independent RIA assets in advisory accounts custodied by LPL Financial	34.0	21.4	11.3	12.6	58.9 %	10.1	89.4 %
Total advisory assets under custody	$151.6	$122.1	$101.6	$29.5	24.2 %	$20.5	