LPL Investment Holdings Inc.
Form 10-Q
May 15, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2008

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: 000-52609

LPL Investment 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.)

One Beacon Street, Floor 22
Boston MA 02108
(617) 423-3644
(Address including zip code, and telephone number, including area code, of principal executive offices)

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. ý Yes o No

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

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ý (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 Exchange Act). o Yes ý No

The number of shares of Common Stock, par value $0.001 per share, outstanding as of March 31, 2008 was 86,475,343.90.

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Where You Can Find More Information

We are required to file annual, quarterly and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended, with the Securities and Exchange Commission, or 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*.

When we use the terms "LPLIH", "we", "us", "our", and the "firm" we mean LPL Investment 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

This Quarterly Report on Form 10-Q in Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in other sections includes forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "intend" or "continue", the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include expectations as to our future financial performance, which in some cases may be based on our growth strategies and anticipated trends in our business. These statements are based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks outlined in Part I, Item 1A "Risk Factors" in our 2007 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this filing to conform our prior forward-looking statements to actual results or revised expectations.

PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(UNAUDITED)

(Dollars in thousands, except par value)

	March 31, 2008	December 31, 2007
ASSETS		
Cash and cash equivalents	$ 284,587	$ 188,003
Cash and securities segregated under federal and other regulations	191,216	195,811
Receivable from:		
Customers, net of allowance of $773 at March 31, 2008 and $529 at December 31, 2007	387,638	411,073
Product sponsors, broker-dealers, and clearing organizations	123,792	160,153
Others, net of allowances of $5,967 at March 31, 2008 and $5,266 at December 31, 2007	91,991	97,222
Securities owned:		
Marketable securities(1) at market value	19,246	15,105
Other securities at amortized cost	10,160	10,632
Securities borrowed	11,050	9,038
Fixed assets, net of accumulated depreciation and amortization of $143,799 at March 31, 2008 and $130,011 at December 31, 2007	163,721	156,797
Debt issuance costs, net of accumulated amortization of $9,174 at March 31, 2008 and $8,239 at December 31, 2007	22,734	23,669
Goodwill	1,287,756	1,287,756
Intangible assets, net of accumulated amortization of $75,228 at March 31, 2008 and $65,707 at December 31, 2007	632,616	642,137
Trademarks and trade names, net of accumulated amortization of $801 at March 31, 2008 and $590 at December 31, 2007	41,775	41,986
Prepaid expenses	19,266	25,222
Other assets	25,048	22,745
Total assets	$ 3,312,596	$ 3,287,349
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Bank loans payable and revolving lines of credit	25,000	65,000
Drafts payable	154,419	127,144
Payable to customers	381,817	406,677
Payable to broker-dealers and clearing organizations	62,397	47,925
Accrued commissions and advisory fees payable	137,447	126,584
Accounts payable and accrued liabilities	125,536	88,662
Income taxes payable	12,761	10,648
Unearned revenue	40,619	40,897
Interest rate swaps	23,497	10,835
Securities sold but not yet purchased at market value	7,037	12,837
Senior credit facilities and subordinated notes	1,383,965	1,386,071
Deferred income taxes net	204,855	216,903
Total liabilities	2,559,350	2,540,183
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 200,000,000 shares authorized; 86,475,344 shares issued and outstanding at March 31, 2008, and 86,249,612 shares issued and outstanding at December 31, 2007	86	86
Additional paid-in capital	666,766	664,568

	March 31, 2008	December 31, 2007
Stockholder loans	(1,256)	(1,242)
Accumulated other comprehensive loss, net of income taxes	(14,281)	(6,512)
Retained earnings	101,931	90,266
Total stockholders' equity	753,246	747,166
Total liabilities and stockholders' equity	$ 3,312,596	$ 3,287,349

(1) Includes $2,810 and $2,769 pledged to clearing organizations at March 31, 2008 and December 31, 2007, respectively.

See notes to condensed consolidated financial statements.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Dollars in thousands)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
REVENUES:		
Commissions	$ 420,645	$ 299,281
Advisory fees	216,277	156,500
Asset-based fees	88,607	52,892
Transaction and other fees	58,477	39,113
Interest income	9,060	7,910
Other	5,581	7,021
Total revenues	798,647	562,717
EXPENSES:		
Commissions and advisory fees	547,469	388,134
Compensation and benefits	92,709	47,281
Promotional	27,182	14,061
Depreciation and amortization	23,622	17,689
Occupancy and equipment	14,800	7,906
Professional services	11,097	4,473
Communications and data processing	10,169	5,758
Regulatory fees and expenses	5,952	3,992
Brokerage, clearing, and exchange	5,862	4,952
Travel and entertainment	4,319	2,450
Other	4,486	2,224
Total noninterest expenses	747,667	498,920
Interest expense from brokerage operations and mortgage lending	514	119
Interest expense from senior credit facilities and subordinated notes	30,167	30,627
Total expenses	778,348	529,666
INCOME BEFORE PROVISION FOR INCOME TAXES	20,299	33,051
PROVISION FOR INCOME TAXES	8,634	14,564
NET INCOME	$ 11,665	$ 18,487

See notes to condensed consolidated financial statements.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Stockholder Loans	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
BALANCE December 31, 2006	$ 83	$ 591,254	$	$ 1,938	$ 33,642	$ 626,917
Comprehensive income:						
Net income					18,487	18,487
Change in unrealized losses on interest rate swaps, net of tax benefit of $836				(1,297)		(1,297)
Total comprehensive income						17,190
Cumulative effect of change in accounting principle upon adoption of FIN 48, net of tax benefit of $2,101					(4,445)	(4,445)
Loans to stockholders			(1,720)			(1,720)
Share-based compensation		407				407
Issuance of common stock for acquisitions (Note 3)	1	12,652				12,653
BALANCE March 31, 2007	$ 84	$ 604,313	$ (1,720)	$ 641	$ 47,684	$ 651,002
BALANCE December 31, 2007	$ 86	$ 664,568	$ (1,242)	$ (6,512)	$ 90,266	$ 747,166
Comprehensive income:						
Net income					11,665	11,665
Change in unrealized losses on interest rate swaps, net of tax benefit of $4,893				(7,769)		(7,769)
Total comprehensive income						3,896
Exercise of stock options		325				325
Tax benefit from stock options exercised		432				432
Interest on loans to stockholders			(14)			(14)
Share-based compensation		815				815
Issuance of 143,884 shares of common stock		4,000				4,000
Repurchase of 121,370 shares of common stock		(3,374)				(3,374)
BALANCE March 31, 2008	$ 86	$ 666,766	$ (1,256)	$ (14,281)	$ 101,931	$ 753,246

See notes to condensed consolidated financial statements.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollars in thousands)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 11,665	$ 18,487
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Benefits received from retention plans (Note 11)	3,573	
Depreciation and amortization	23,622	17,689
Amortization of debt issuance costs	935	899
Loss on disposal of fixed assets		90
Share-based compensation	815	407
Provision for bad debts	949	120
Deferred income tax provision	(7,155)	(5,419)
Other	512	(190)
Mortgage loans held for sale:		
Originations of loans		(33,011)
Proceeds from sale of loans		28,319
Gain on sale of loans		(345)
Changes in operating assets and liabilities:		
Cash and securities segregated under federal and other regulations	4,595	(14,722)
Receivable from customers	23,191	4,263
Receivable from product sponsors, broker-dealers and clearing organizations	36,361	4,136
Receivable from others	4,526	(3,751)
Securities owned	(4,440)	(2,003)
Securities borrowed	(2,012)	458
Prepaid expenses	5,956	2,585
Other assets	(6,124)	1,847
Drafts payable	27,275	46,975
Payable to customers	(24,860)	(90,149)
Payable to broker-dealers and clearing organizations	14,472	8,936
Accrued commissions and advisory fees payable	10,863	6,798
Accounts payable and accrued liabilities	34,513	17,414
Income taxes payable/receivable	2,113	3,362
Unearned revenue	(278)	2,356
Securities sold but not yet purchased	(5,800)	(8,706)
Net cash provided by operating activities	155,267	6,845
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, net of existing cash balance of $14,124		(63,270)
Capital expenditures	(18,453)	(10,462)
Proceeds from disposal of fixed assets		41
Purchase of other securities classified as held-to-maturity	(507)	(1,216)
Proceeds from maturity of other securities classified as held-to-maturity	1,000	2,004
Net cash used in investing activities	(17,960)	(72,903)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of bank loans	(40,000)	
Repayment of senior credit facilities	(2,106)	(1,986)
Excess tax benefit associated with stock options exercises	432	
Loans to stockholders		(1,720)

	Three Months Ended March 31,	
Proceeds from stock options exercised	325	
Proceeds from warehouse line of credit		32,994
Repayment from warehouse line of credit		(28,276)
Issuance of common stock	4,000	
Repurchase of common stock	(3,374)	
Net cash (used in) provided by financing activities	(40,723)	1,012
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	96,584	(65,046)
CASH AND CASH EQUIVALENTS Beginning of period	188,003	245,163
CASH AND CASH EQUIVALENTS End of period	$ 284,587	$ 180,117

See notes to condensed consolidated financial statements.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

(Dollars in thousands)

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 16,079	$ 16,380
Income taxes paid	$ 15,703	$ 16,620
NONCASH DISCLOSURE:		
Increase in unrealized loss on interest rate swaps, net of tax benefit of $4,893 and $836 for the three months ended March 31, 2008 and 2007	$ (7,769)	$ (1,297)
Capital expenditures purchased through short-term credit	$ 2,361	
Income taxes payable recorded as a cumulative effect of change in accounting principle upon the adoption of FIN 48 net of tax benefit of $2,101		$ (4,445)
Acquisition:		
Fair value of assets acquired		$ 110,409
Cash paid for common stock acquired		(78,042)
Common stock issued for acquisition		(11,409)
Liabilities assumed		$ 20,958
Common stock issued to satisfy accrued liability		$ 1,244

See notes to condensed consolidated financial statements.

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LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. ORGANIZATION AND DESCRIPTION OF THE COMPANY

LPL Investment Holdings Inc. ("LPLIH"), a Delaware holding corporation, together with its consolidated subsidiaries (collectively, the "Company") is a provider of brokerage, investment advisory, and infrastructure services to independent financial advisors ("IFAs") and Financial Institutions who employ financial advisors in the United States of America ("Financial Institutions") (collectively, IFAs and financial advisors employed at or otherwise affiliated with Financial Institutions are defined as "FAs"). The Company provides access to a broad array of financial products and services for FAs, to market to their clients, as well as a technology and service platform to enable FAs to more efficiently operate their practices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Quarterly Reporting These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information pursuant to the instructions of Form 10-Q and Rule 10-01 of Regulation S-X, and should be read in conjunction with the Company's 2007 Annual Report on Form 10-K. Accordingly, significant accounting policies and other disclosures normally provided have been omitted since such items are disclosed therein.

In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments (including normal recurring adjustments) necessary to present fairly the financial position as of March 31, 2008, the results of operations for the three-month periods ended March 31, 2008 and March 31, 2007, and the cash flows for the three-month periods ended March 31, 2008 and March 31, 2007. Operating results for the three-month period ended March 31, 2008 are not necessarily indicative of the results that may be expected for the year ending December 31, 2008.

Consolidation These unaudited condensed consolidated financial statements include the accounts of LPLIH and its subsidiaries. Intercompany transactions and balances have been eliminated. Equity investments in which the Company exercises significant influence but does not exercise control and is not the primary beneficiary are accounted for using the equity method.

Reportable Segments In January 2008, the Company completed the first stage of developing its internal reporting on its three new service channels (Independent Advisor Services "IAS", Institution Services "IS", and Custom Clearing Services "CCS"). Its service channels were formed in the latter half of 2007 as part of a management re-organization designed to enhance the services provided to our financial advisors and to support future growth. The service channels qualify as individual operating segments under Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosure about Segments of an Enterprise and Related Information* ("SFAS 131"), but are currently aggregated and reported on as one single reportable segment ("Advisor Services") due to their similar economic characteristics, products and services, production and distribution process, and regulatory environment. The Company has reclassified its prior period segment information to be consistent with the new segment reporting structure and the financial information reviewed by its chief operating decision maker. The Company is still in the process of developing its internal reporting, consequently, the segment reporting information included is subject to change. Refer to Note 12 for further details of the Company's operating segments.

Recently Issued Accounting Pronouncements With the exception of the item discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2008, as compared to the recent accounting pronouncements described

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

in the Company's 2007 Annual Report on Form 10-K, that are of significance, or potential significance, to the Company.

In March 2008, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). SFAS 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, that SFAS 161 will have on its consolidated financial statements.

3. ACQUISITIONS (SPLIT ADJUSTED AS DISCUSSED IN NOTE 14)

The Company completed three significant acquisitions during the year ended December 31, 2007, as follows:

Acquisition of UVEST Financial Services Group

On January 2, 2007, the Company completed its acquisition of UVEST Financial Services Group, Inc. ("UVEST"), augmenting the Company's position in providing services to banks, credit unions, and other financial institutions. In accordance with SFAS No. 141, *Business Combinations* ("SFAS 141"), the acquisition has been accounted for under the purchase method of accounting, which required the purchase price of approximately $89.45 million ($78.04 million in cash and the issuance of 603,660 shares of common stock at an estimated fair value of $18.90 per share) to be allocated to the specific tangible and intangible assets acquired and liabilities assumed based on their fair market values at the date of acquisition.

Acquisition of Pacific Select Group and its affiliated broker-dealers

On June 20, 2007, the Company acquired from Pacific Life Insurance Company all the outstanding membership interests of Pacific Select Group, LLC and its affiliated broker-dealers Mutual Service Corporation ("MSC"), Associated Financial Group, Inc. ("AFG") and Waterstone Financial Group, Inc. ("WFG"). In connection with the acquisition, Pacific Select Group changed its name to LPL Independent Advisor Services Group LLC (collectively "IASG"). The acquisition strengthens the Company's position as a leading independent broker-dealer in the United States. In accordance with SFAS 141, the acquisition has been accounted for under the purchase method of accounting, which required the purchase price, estimated to be approximately $120.48 million ($63.34 million in cash and the issuance of 2,645,500 shares of common stock with an estimated fair value of $21.60 per share) to be allocated to the specific tangible and intangible assets acquired and liabilities assumed based on their fair market values at the date of acquisition.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

3. ACQUISITIONS (SPLIT ADJUSTED AS DISCUSSED IN NOTE 14) (Continued)

Acquisition of IFMG

On November 7, 2007, the Company acquired all of the outstanding capital stock of IFMG Securities, Inc., Independent Financial Marketing Group, Inc., and LSC Insurance Agency of Arizona, Inc. (collectively "IFMG") from Sun Life Financial, Inc. and Sun Life Financial (U.S.) Holdings, Inc. (collectively "Sun Life"). The acquisition was performed solely for the purpose of transferring IFMG's relationships with financial institution clients to other broker-dealers of the Company. The acquisition has been accounted for in conjunction with SFAS 141 under the purchase method of accounting, with certain liabilities recognized for the Shutdown Plan in accordance with Emerging Issues Task Force ("EITF") Issue 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*. Initial purchase consideration of $25.69 million was allocated to the specific tangible and intangible assets acquired and liabilities assumed based on their fair market values at the date of acquisition. In addition to the initial purchase price, the acquisition provides for post-closing payments over the next two years of approximately $5.00 million, based on the successful recruitment and retention of certain customer relationships.

4. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company's adoption of SFAS 157 did not have a material impact on its consolidated financial statements. The Company has segregated all financial assets and liabilities that are measured at fair value on a recurring basis (at least annually) into the most appropriate level within the fair value hierarchy based on the inputs used to determine the fair value at the measurement date in the table below. FASB Staff Position FAS 157-2 delayed the effective date for all nonfinancial assets and liabilities until January 1, 2009, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis.

Effective January 1, 2008, the Company also adopted SFAS No. 159, *the Fair Value Option of Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, which

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

4. FAIR VALUE MEASUREMENTS (Continued)

provides entities the option to measure many financial instruments and certain other items at fair value. Entities that choose the fair value option will recognize unrealized gains and losses on items for which the fair value option was elected in earnings at each subsequent reporting date. The Company has currently chosen not to elect the fair value option for any items that are not already required to be measured at fair value in accordance with accounting principles generally accepted in the United States.

Assets and liabilities measured at fair value on a recurring basis are summarized below (in thousands):

	March 31, 2008			
	Level 1	Level 2	Level 3	Fair Value Measurements
Assets				
Marketable securities(a)	$ 19,246	$	$	$ 19,246
Deferred compensation assets Company owned life insurance(b)		560		560
Deferred compensation assets Other(b)	3,175			3,175
Total assets at fair value	$ 22,421	$ 560	$	$ 22,981
Liabilities				
Securities sold but not yet purchased at market value(a)	$ 7,037	$	$	$ 7,037
Deferred compensation liabilities Company owned life insurance(b)		660		660
Deferred compensation liabilities Other(b)	3,092			3,092
Interest rate swaps(c)		23,497		23,497
Total liabilities at fair value	$ 10,129	$ 24,157	$	$ 34,286

(a) Based on observable market transactions

(b) The fair values of Company owned life insurance deferred compensation assets and liabilities are based on quotes for like instruments with similar credit ratings and terms. The fair values of other deferred compensation assets and liabilities are based on quoted prices in active markets.

(c) Interest rate swap positions, both assets and liabilities, are valued by a third-party pricing model that use readily observable market parameters. The inputs to such a model are the current prevailing interest rate swap curves and the terms of the hedges that the Company has locked-in.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

5. INTANGIBLE ASSETS

The components of intangible assets as of March 31, 2008 are as follows (in thousands):

	Gross carrying value	Accumulated amortization	Net carrying value
Advisor relationships	$ 471,551	$ (50,194)	$ 421,357
Product sponsor relationships	233,663	(24,612)	209,051
Trust clients relationships	2,630	(422)	2,208
Total	$ 707,844	$ (75,228)	$ 632,616

Total amortization expense of intangible assets was $9.52 million and $8.02 million for the three months ended March 31, 2008 and 2007, respectively.

Amortization expense for each of the fiscal years ended December 2008 through 2012 and thereafter is estimated as follows (in thousands):

2008 remainder	$ 28,594
2009	37,647
2010	36,829
2011	36,829
2012	36,538
Thereafter	456,179
Total	$ 632,616

6. INCOME TAXES

The Company's effective income tax rate differs from the federal corporate tax rate of 35%, primarily as a result of state taxes, settlement contingencies, and nondeductible expenses for tax purposes. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

7. INDEBTEDNESS

Senior Secured Credit Facilities The Company's senior secured credit facilities are secured primarily through pledges of capital stock in its subsidiaries. Borrowings under the senior secured credit facilities bear interest at a base rate plus an applicable interest rate margin, depending on the Company's consolidated leverage ratio, its corporate family rating, and the source for the base rate. The Company's base rate is the London Interbank Offered Rate ("LIBOR") and the applicable interest rate margin is 2.00%. The senior secured credit facilities are subject to certain financial and nonfinancial covenants. As of March 31, 2008, the Company was in compliance with all such covenants.

Senior Unsecured Subordinated Notes The Company also has $550.00 million of senior unsecured subordinated notes due December 15, 2015. The notes bear interest at 10.75% per annum and interest payments are payable semiannually in arrears. The Company is not required to make mandatory redemption or sinking-fund payments with respect to the notes. The indenture underlying the senior

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

7. INDEBTEDNESS (Continued)

subordinated notes contains various restrictions with respect to the issuer, including one or more restrictions relating to limitations on liens, sale and leaseback arrangements, and funded debt of subsidiaries. Additionally, the senior subordinated notes are subject to certain financial and nonfinancial covenants. As of March 31, 2008, the Company was in compliance with all such covenants.

Revolving Line of Credit On November 7, 2007, the Company borrowed against its available revolving line of credit facility, which provided the Company with $25.00 million for its acquisition of IFMG, and carries a borrowing rate of one-month LIBOR plus an interest rate margin of an additional 200 basis points.

Bank Loans Payable The Company maintained uncommitted lines of credit, which have an unspecified limit, primarily dependent on the Company's ability to provide sufficient collateral. At December 31, 2007, the Company had a balance outstanding of $40.00 million. The lines were subsequently paid down in full on January 2, 2008.

The Company's outstanding borrowings were as follows (dollars in thousands):

		March 31, 2008		December 31, 2007	
	Maturity	**Balance**	**Interest Rate**	**Balance**	**Interest Rate**
Revolving credit		$ 25,000	4.68%(6)	$ 25,000	7.25%(2)
Bank loans payable	(4)			40,000	8.25(3)
Senior secured notes:					
Unhedged	6/28/2013	338,965	4.70(5)	341,071	6.83(1)
Hedged with interest rate swaps	6/28/2013	495,000	4.70(5)	495,000	6.83(1)
Senior unsecured subordinated notes	12/15/2015	550,000	10.75	550,000	10.75
Total borrowings		1,408,965		1,451,071	
Less current borrowings (maturities within 12 months)		33,424		73,424	
Long-term borrowings net of current portion		$ 1,375,541		$ 1,377,647	

(1) At December 31, 2007, the variable interest rate for the Senior Secured Notes was based on the three-month LIBOR of 4.83% plus the applicable interest rate margin of 2.00%.

(2) At December 31, 2007, the variable interest rate for the Revolver was based on the one month LIBOR of 5.25% plus the applicable interest rate margin of 2.00%.

(3) At December 31, 2007, the variable interest rate for the bank loans payable was based on the Prime Rate of 7.25% plus the applicable interest rate margin of 1.00%.

(4) The bank loans payable have no maturity date, as it is primarily dependent on the Company's ability to provide sufficient collateral.

(5)

As of March 31, 2008, the variable interest rate for the Senior Secured Notes is based on the three-month LIBOR of 2.70% plus the applicable interest rate margin of 2.00%.

(6)

As of March 31, 2008, the variable interest rate for the Revolver is based on the one month LIBOR of 2.68% plus the applicable interest rate margin of 2.00%.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

7. INDEBTEDNESS (Continued)

The following summarizes borrowing activity in the revolving and margin credit facilities (dollars in thousands):

	Three months ended March 31,	
	2008	2007
Average balance outstanding	$ 8,507	$ 1,489
Weighted-average interest rate	4.24%	7.04%

The minimum calendar year principal payments and maturities of borrowings as of March 31, 2008, are as follows (in thousands):

	Senior Secured	Line of Credit	Senior Unsecured	Total Amount
2008 remainder	$ 6,318	$ 25,000	$	$ 31,318
2009	8,424			8,424
2010	8,424			8,424
2011	8,424			8,424
2012	8,424			8,424
Thereafter	793,951		550,000	1,343,951
Total	$ 833,965	$ 25,000	$ 550,000	$ 1,408,965

8. INTEREST RATE SWAPS

On January 30, 2006, the Company entered into five interest rate swap agreements (the "Swaps"). An interest rate swap is a financial derivative instrument whereby two parties enter into a contractual agreement to exchange payments based on underlying interest rates. The Company uses the Swaps to hedge the variability on its floating rate senior secured notes. The Company is required to pay the counterparty to the agreement fixed interest payments on a notional balance, and in turn, receives variable interest payments on that notional balance. Payments are settled quarterly on a net basis.

The following table summarizes information related to the Company's Swaps as of March 31, 2008 (dollars in thousands):

	Notional Balance	Fixed Pay Rate	Variable Receive Rate(1)	Fair Value	Maturity Date
Swap 1	$ 70,000	4.76%	2.70%	$ (362)	June 30, 2008
Swap 2	95,000	4.77%	2.70%	(2,946)	June 30, 2009
Swap 3	120,000	4.79%	2.70%	(6,173)	June 30, 2010
Swap 4	145,000	4.83%	2.70%	(9,312)	June 30, 2011
Swap 5	65,000	4.85%	2.70%	(4,704)	June 30, 2012
	$ 495,000			$ (23,497)	

(1) The variable receive rate is based on the applicable three-month LIBOR. The effective rate from January 1, 2008 through March 31, 2008, was 2.70%.

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LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

8. INTEREST RATE SWAPS (Continued)

Each of the Swaps listed above have been designated as cash flow hedges against specific payments due on the Company's senior secured notes. As of March 31, 2008, the Company assessed the Swaps as being highly effective and expects them to continue to be highly effective. Accordingly, the changes in fair value of the Swaps have been recorded as other comprehensive loss, with the fair value of the Swaps included as a liability on the Company's consolidated statements of financial condition. Based on current interest rate assumptions and assuming no additional Swaps are entered into, the Company expects to reclassify $10.40 million, or $6.02 million after tax, from other comprehensive loss as additional interest expense over the next 12 months.

9. COMMITMENTS AND CONTINGENCIES

Future minimum calendar-year payments for operating lease commitments with remaining terms greater than one year as of March 31, 2008, are approximately as follows (in thousands):

2008 remainder	$	15,012
2009		20,846
2010		19,136
2011		15,420
2012		12,813
Thereafter		22,995
Total	$	106,222

Total rental expense for all operating leases was approximately $5.14 million and $2.80 million for the three months ended March 31, 2008 and 2007, respectively.

Guarantees The Company occasionally enters into certain types of contracts that contingently require it to indemnify certain parties against third-party claims. The terms of these obligations vary and, because a maximum obligation is not explicitly stated, the Company has determined that it is not possible to make an estimate of the amount that it could be obligated to pay under such contracts.

The Company, through its wholly owned affiliate LPL Financial Corporation ("LPL"), provides guarantees to securities clearing houses and exchanges under their standard membership agreements, which require a member to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearing houses and exchanges, all other members would be required to meet any shortfall. The Company's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these agreements is remote. Accordingly, no liability has been recognized for these transactions.

Litigation The Company has been named as a defendant in various legal actions, including arbitrations. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, the Company cannot predict with certainty what the eventual loss or range of loss related to such matters will be. The Company believes, based on current knowledge, after consultation with counsel, and consideration of insurance, if any, that the outcome of such matters will not have a material adverse effect on its accompanying consolidated statements of financial condition, income, or cash flows.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

9. COMMITMENTS AND CONTINGENCIES (Continued)

In November 2005, prior to the Company's acquisition of IASG, MSC received a "Wells" notice from the Financial Industry Regulatory Authority ("FINRA") Department of Enforcement. The staff alleged that MSC had failed to maintain adequate supervisory procedures regarding certain variable annuity transactions, and failed to maintain accurate books and records related thereto. On July 23, 2007, the staff filed a complaint against MSC and certain of its employees in connection with this matter. Pursuant to a contractual arrangement, the Company will be indemnified for such claims and future settlements related to such matters by the prior owners.

Other Commitments As of March 31, 2008, the Company had received collateral primarily in connection with customer margin loans with a market value of approximately $485.11 million, which it can sell or repledge. Of this amount, approximately $182.92 million has been pledged or sold as of March 31, 2008; $126.70 million was pledged to a bank in connection with an unutilized secured margin line of credit, $25.96 million was pledged to various clearing organizations, and $30.26 million was loaned to the Depository Trust Company ("DTC") through participation in its Stock Borrow Program. As of March 31, 2007, the Company had received collateral primarily in connection with customer margin loans with a market value of approximately $385.57 million, which it can sell or repledge. Of this amount, approximately $153.70 million has been pledged or sold as of March 31, 2007: $100.88 million was pledged to a bank in connection with an unutilized secured margin line of credit, $36.23 million was pledged to various clearing organizations, and $16.59 million was loaned to the DTC through participation in its Stock Borrow Program.

10. STOCK-BASED COMPENSATION (SPLIT ADJUSTED)

Certain employees, officers, and directors participate in stock option plans of the Company (the "2005 Plans"). The Company's FAs participate in a stock bonus plan. The terms of these plans are set forth in the 2007 Annual Report on Form 10-K.

The Company adopted a 2008 incentive stock option plan (the "2008 Plan") effective January 1, 2008. Eligible participants include employees, officers, directors and consultants who make a significant contribution to the success of the Company. Subject to the approval of the Company's compensation committee, the 2008 Plan provides for an allocation of up to 2% of the outstanding stock (determined at such date on a fully diluted basis), with an additional 2% available on the first anniversary, and an additional 2½% available on the second and third anniversaries. Notwithstanding the foregoing, unless otherwise specified by the Board, the percentage increases provided in each of the first, second and third anniversaries shall be reduced by the amount of stock options or warrants that are made available under any equity incentive plan established by the Company for the benefit of non-employee advisers to the Company. The exercise price of a stock option is equal to the fair market value of the stock on the grant date. Stock options vest in equal increments of 20% over a five-year period, and expire on the 10th anniversary following the date of grant. Collectively, the 2005 Plans and the 2008 Plan are referred to herein as the "stock option plans".

Stock Option Plans

On January 1, 2006, the Company adopted SFAS No. 123R (Revised), *Share-Based Payment*, ("SFAS 123R"). SFAS 123R requires the recognition of the fair value of share-based compensation in net income. The Company recognizes share-based compensation expense over the requisite service period of the individual grants, which generally equals the vesting period. Prior to January 1, 2006, the

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. STOCK-BASED COMPENSATION (SPLIT ADJUSTED) (Continued)

Company accounted for employee equity awards using APB Opinion No. 25, *Accounting for Stock Issued to Employees*, ("APB 25") and related interpretations in accounting for share-based compensation. The Company has adopted the provisions of SFAS 123R using the prospective transition method, whereby it will continue to account for nonvested equity awards to employees outstanding prior to January 1, 2006, using APB 25, and apply SFAS 123R to all awards granted or modified after that date.

The Company recognized $0 and $350,000 of share based compensation for the three months ended March 31, 2008 and 2007, respectively, under APB 25 related to the vesting of stock options awarded to employees prior to January 1, 2006. The Company also recognized $815,000 and $57,000 of share-based compensation under SFAS 123R related to stock options awarded to employees during the three months ended March 31, 2008 and 2007, respectively. As of March 31, 2008, total unrecognized compensation cost related to nonvested share-based compensation arrangements granted was $20.58 million, which is expected to be recognized over a weighted-average period of 5.76 years. Under SFAS 123R, the Company calculates the compensation cost for stock options based on its estimated fair value. As there are no observable market prices for identical or similar instruments, the Company estimates fair value using a Black-Scholes valuation model. See the 2007 Annual Report on Form 10-K for a discussion of the Company's methodology for each of the assumptions used in the valuation model.

The following table presents the weighted-average assumptions used by the Company in calculating the fair value of stock options with the Black-Scholes valuation model for the three months ended March 31, 2008 and 2007:

	Three months ended March 31,	
	2008	**2007**
Expected life (in years)	5.99	6.48
Expected stock price volatility	30.74%	33.04%
Expected dividend yield		
Annualized forfeiture rate	1.00%	0.27%
Fair value of options	$ 9.77	$ 8.36
Risk-free interest rate	2.71%	5.24%

The following table summarizes the Company's activity in its stock option plans for the three months ended March 31, 2008:

	Number of Shares	Weighted-Average Exercise Price
Options outstanding December 31, 2007	21,748,080	$ 2.46
Granted	1,441,000	27.80
Exercised	(203,218)	1.60
Forfeited	(78,112)	7.34
Options outstanding March 31, 2008	22,907,750	$ 4.05
Options exercisable March 31, 2008	20,656,000	$ 1.67

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

10. STOCK-BASED COMPENSATION (SPLIT ADJUSTED) (Continued)

The following table summarizes information about stock options outstanding:

	Outstanding as of March 31, 2008			Exercisable as of March 31, 2008	
Range of Exercise Prices	Total Number of Shares	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
At March 31, 2008:					
$1.07-$2.38	20,615,590	4.89	$ 1.64	20,615,590	$ 1.64
$10.30-$18.90	232,010	8.70	16.43	40,410	15.41
$21.60-$27.80	2,060,150	9.72	26.76		
	22,907,750	5.36	$ 4.05	20,656,000	$ 1.67

Stock Bonus Plan

The Company's FAs participate in a stock bonus plan, which provides for the grant and allocation of up to 7,716,930 bonus credits. Each bonus credit represents the right to receive shares of common stock in the Company. Participation in the stock bonus plan is dependent upon meeting certain eligibility criteria, and shares are allocated to eligible participants based on certain performance metrics, including amount and type of commissions as well as tenure with the firm. Bonus credits vest annually in equal increments of 33$^{1}/_{3}$% over a three-year period commencing in 2006 and expire on the 10th anniversary following the date of grant. Vested bonus credits convert into shares of common stock only upon the occurrence of a Company sale that constitutes a change in control or subsequent to an initial public offering. Unvested bonus credits held by FAs who terminate prior to vesting will be forfeited and may be reallocated to other FAs eligible under the plan. A summary of the stock bonus plan for the three months ended March 31, 2008, is as follows (split adjusted):

Outstanding December 31, 2007	7,474,320
Granted	
Exercised	
Canceled	(25,290)
Outstanding March 31, 2008	7,449,030

The Company accounts for bonus credits granted to its FAs in accordance with EITF No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services,* and measures such grants at their then-current lowest aggregate value. Since the value is contingent upon the Company's decision to sell itself or perform an initial public offering, the current aggregate value will be zero until such event occurs. Upon the occurrence of such an event, the Company will record an expense related to the vested portion of the stock bonus plan and accrue the remaining portion over the remainder of the vesting period.

11. EMPLOYEE AND ADVISOR BENEFIT PLANS

The Company has a 401(k) defined contribution plan. All employees meeting minimum age and length of service requirements are eligible to participate. The Company has an employer matching program whereby employer contributions are made to the 401(k) plan in an amount equal to 50% of

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. EMPLOYEE AND ADVISOR BENEFIT PLANS (Continued)

the lesser of the amount designated by the employee for withholding and contribution to the 401(k) plan or 10% of the employee's total compensation. The Company's total cost under the 401(k) plan was $1.23 million and $823,000 for the three months ended March 31, 2008 and 2007, respectively.

On January 1, 2008, the Company adopted a non-qualified deferred compensation plan for the purpose of attracting and retaining FAs who operate, for tax purposes, as independent contractors, by providing an opportunity for participating FAs to defer receipt of a portion of their gross commissions generated primarily from commissions earned on the sale of various products. The deferred compensation plan has been fully funded to date by participant contributions. Plan assets are invested in mutual funds, which are held by the Company in a Rabbi Trust and accounted for in accordance with EITF Issue No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested* ("EITF 97-14"). The liability for benefits accrued under the non-qualified deferred compensation plan totaled $3.09 million at March 31, 2008, and is included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial condition. The cash values of the related trust assets was $3.17 million at March 31, 2008, which is included in other assets in the accompanying consolidated statements of financial condition.

The UVEST Non-Qualified Deferred Compensation Plan (the "Compensation Plan"), which is available to certain executives of UVEST, is a supplemental retirement program that allows these executives to make pretax contributions above amounts allowed in qualified plans. No contributions have been made by the Company since the acquisition of UVEST. The Compensation Plan has been fully funded to date by participant contributions. Plan assets are invested in Corporate Owned Life Insurance, which are held by the Company in a Rabbi Trust and accounted for in accordance with EITF 97-14. As of March 31, 2008, the Company has recorded an asset of approximately $560,000 and a liability of $660,000 related to this plan, which is included in other assets and accounts payable and accrued liabilities, respectively, in the accompanying consolidated statements of financial condition.

Certain FAs, employees and officers of the IASG broker-dealer subsidiaries participated in deferred compensation plans provided by Pacific Life Insurance Company. The plans permitted participants to defer portions of their compensation and earn interest on the deferred amounts. The interest rate was determined annually. The assets of the plans are held in a Rabbi Trust and accounted for in accordance with EITF 97-14. The plans ceased on June 20, 2007. Deferred compensation in the amount of $3.91 million is included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial condition for the year ended March 31, 2008.

In conjunction with the sale of IASG to the Company, Pacific Life Insurance Company committed to provide retention plan distributions to employees and FAs of IASG's broker-dealer subsidiaries that remain with the Company through March 31, 2008. Benefits received by the Company are recorded as commission and compensation expense in the accompanying consolidated statements of income. Benefits received under the plans totaled $3.11 million during the three months ended March 31, 2008. The retention plan distributions were made on March 31, 2008 pursuant to the terms of the purchase and sale agreement.

In accordance with the sale of IFMG to the Company, Sun Life committed to provide retention plan distributions to employees of IFMG's broker-dealer subsidiaries that remain with the Company. Benefits received by the Company are recorded as compensation expense in the accompanying

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

11. EMPLOYEE AND ADVISOR BENEFIT PLANS (Continued)

consolidated statements of income. Benefits received under the plans totaled $464,000 during the three months ended March 31, 2008.

12. SEGMENT INFORMATION

As discussed in Note 2, the Company currently believes that its operating segments (IAS, IS, and CCS) offer similar economic characteristics, similar products and services, a similar production and distribution process, and operate in a similar regulatory environment. In accordance with SFAS 131, the Company has combined its operating segments into one reportable segment, "Advisor Services". The Company's chief operating decision maker (the Chief Executive Officer) currently evaluates the performance of its segments based on earnings, excluding indirect costs and costs not managed by the segment manager (the Company's service channel presidents). Such financial information is derived from the Company's internal management reporting system, which does not currently include indirect costs such as compensation and related costs for shared corporate functions (e.g. legal, accounting, finance and human capital), as well as other corporate and shared costs such as occupancy, equipment, interest, depreciation and certain promotional, travel and professional expenses. These costs are presented below as "Unallocated" in reconciling the Company's measure of earnings from its Advisor Services segment to its condensed consolidated financial statements. Balance sheet disclosure information pursuant to SFAS 131 is not presented because the chief operating decision maker does not obtain this information on a segment basis when making decisions about resources or assessing operating segment performance.

The following table presents the Company's segment information as reviewed by its chief operating decision maker and a reconciliation to the Company's condensed consolidated financial statements, including the reclassification of the results presented for March 31, 2007 for comparability to the current period presentation, as discussed in Note 2 (in thousands):

	Advisor Services	Unallocated	Total
Three months ended March 31, 2008			
Revenues	$ 798,647	$	$ 798,647
Production expense(1)	553,331		553,331
Gross margin	245,316		245,316
General and administrative expense	82,638	88,076	170,714
EBITDA	$ 162,678	$ (88,076)	$ 74,602
Three months ended March 31, 2007(2)			
Revenues	$ 562,717	$	$ 562,717
Production expense(1)	393,086		393,086
Gross margin	169,631		169,631
General and administrative expense	66,372	21,773	88,145
EBITDA(3)	$ 103,259	$ (21,773)	$ 81,486

(1) Production expense is comprised of commissions and advisory fees, and brokerage, clearing and exchange expenses.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

12. SEGMENT INFORMATION (Continued)

(2) Certain fiscal year 2008 organization reclassifications have been reflected retroactively to provide improved comparability.

(3) "EBITDA" is defined as earnings before interest, taxes, depreciation, and amortization. EBITDA for the Advisor Services segment represents the Company's measure of earnings excluding unallocated indirect corporate costs.

Revenues from the Company's significant products and services consisted of the following (in thousands):

	For the Three Months Ended March 31,	
	2008	2007
Commission revenues:		
Annuities	$ 204,742	$ 129,023
Mutual funds	135,032	100,037
Other	80,871	70,221
Total commission revenues	420,645	299,281
Advisory fees	216,277	156,500
Asset-based fees	88,607	52,892
Fee revenues	40,156	25,536
Transaction revenues	18,321	13,577
Interest income	9,060	7,910
Other	5,581	7,021
Total revenues	$ 798,647	$ 562,717

13. NET CAPITAL/REGULATORY REQUIREMENTS

The Company's registered broker-dealers are subject to the Securities and Exchange Commission's ("SEC") Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934), which requires the maintenance of minimum net capital, as defined. Net capital is calculated for each broker-dealer subsidiary individually. Excess net capital of one broker-dealer subsidiary may not be used to offset a net capital deficiency of another broker-dealer subsidiary. Net capital and the related net capital requirement may fluctuate on a daily basis.

13. NET CAPITAL/REGULATORY REQUIREMENTS (Continued)

Net capital and net capital requirements for the Company's broker-dealer subsidiaries as of March 31, 2008, are presented in the following table (in thousands):

	March 31, 2008		
	Net Capital	Minimum Net Capital Required	Excess Net Capital
LPL Financial Corporation	$ 62,279	$ 8,303	$ 53,976
UVEST Financial Services Group, Inc.	6,421	2,296	4,125
Mutual Service Corporation	8,274	1,833	6,441
Associated Securities Corp.	2,473	250	2,223
Waterstone Financial Group, Inc.	4,191	544	3,647
IFMG Securities, Inc.	10,761	250	10,511
Total	$ 94,399	$ 13,476	$ 80,923

LPL is a clearing broker-dealer, and the remaining subsidiaries are introducing broker-dealers.

14. STOCK SPLIT

The Company affected a ten-for-one stock split as of January 1, 2008, with all fractional shares being rounded down to the nearest whole share. In accordance with the SEC's Staff Accounting Bulletin Topic 4C, all per share amounts, average shares outstanding, and shares outstanding have been adjusted retroactively to reflect the stock split.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward Looking Statements

This section and other parts of this Form 10-Q contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as "anticipates," "expects," "believes," "plans," "predicts," and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in the subsection entitled "Risk Factors" in Part II, Item 1A of this report. The following discussion should be read in conjunction with our 2007 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission, and the Unaudited Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Form 10-Q.

Our Business

We are a leading provider of technology and infrastructure services to IFAs and to Financial Institutions. We provide access to a broad array of financial products and services for our FAs to market to their customers, as well as a comprehensive technology and service platform to enable our FAs to more efficiently operate their practices. Our strategy is to build long-term relationships with our Financial Institutions and FAs by offering innovative technologies and high-quality services that will enable them to nurture and grow their customer base.

Our revenues are primarily derived from commissions and fees from products and advisory services offered by our FAs to their customers, a substantial portion of which we pay to Financial Institutions and our FAs. Furthermore, we also receive fees from product manufacturers as well as various administrative fees from Financial Institutions, our FAs, and their customers for the use of our proprietary technology and service platform.

Our business model, together with our scale, allows us to gain significant recurring revenue. For the three months ended March 31, 2008 and 2007, our recurring revenues were 60.7% and 58.5%, respectively, of overall revenue. This recurring revenue comes from advisory fees charged to customers, asset-based fees, 12b-1 fees, fees related to our cash sweep programs, interest earned on margin accounts, and technology and service fees charged to our FAs.

Matters that May Affect Comparability

We have made and will continue to consider acquisitions to supplement our organic growth. We intend to strengthen our position in the industry through additional strategic acquisitions and we believe that these acquisitions will enhance our ability to increase the number of FAs as well as broaden our portfolio of products and services. Future acquisitions may be funded through the issuance of debt, existing cash, equity securities or a combination thereof.

On June 20, 2007, we acquired all the outstanding membership interests of IASG, strengthening our position as a leading independent broker-dealer in the United States. Total purchase consideration was $120.48 million ($63.34 million in cash and the issuance of 2,645,500 shares of common stock with an estimated fair value of $21.60 per share), a portion of which was financed with borrowings against our senior secured credit facilities.

On November 7, 2007, we acquired all of the outstanding capital stock of IFMG, further expanding our reach in offering financial services to banks, savings and loan institutions, and credit unions nationwide. Purchase consideration paid at closing was $25.69 million, and was financed with borrowings against our revolving credit facility. In addition to the initial purchase price, the acquisition provides for post-closing payments over the next two and a half years totaling approximately

$5.00 million, based primarily on the successful recruitment and retention of certain customer relationships. These post-closing payments will be recorded as additional consideration when made.

Collectively, the acquisitions of IASG and IFMG are referred to herein as our "acquisitions".

On December 31, 2007 we ceased the operations of our subsidiary Innovex Mortgage inc. ("Innovex"). Prior to that date, Innovex provided comprehensive mortgage services for the residential properties of our IFAs' clients. Innovex enabled our IFAs to build relationships by offering their clients mortgage solutions by originating, underwriting and funding a variety of mortgage and home equity loan products to suit the needs of the borrowers. Through Innovex, we provided mortgage brokerage and lending services in 46 states and the District of Columbia. Innovex originated residential mortgage loans internally through a warehouse line of credit facility or externally as a broker for other banks.

The discussion below relating to our operating results represents our analysis of significant changes or events that impact the comparability of reported amounts. Where appropriate, we have identified specific events and changes that affect comparability or trends (such as our acquisitions) and, where possible and practical, have quantified the impact of such items.

EBITDA

EBITDA is defined as net income plus interest expense, income tax expense, depreciation and amortization. EBITDA is a non-GAAP measure as defined by Regulation G under the Securities Act 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. Additionally, EBITDA is not intended to be a measure of free cash flow available for our discretionary use as it does not consider certain cash requirements such as interest payments, tax payments and debt service requirements. We use EBITDA as a supplemental measure of our consolidated operating performance. We believe that EBITDA helps facilitate operating performance comparisons from period to period by backing out potential differences caused by variations in use of our debt, tax positions (such as the impact on periods for effective tax rates), depreciation of fixed assets and amortization expense of intangible assets recognized through purchase accounting in accordance with SFAS No. 141, *Business Combinations*. Because not all companies use identical calculations, these presentations of EBITDA may not be comparable to other similarly titled measures of other companies. EBITDA should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.

Set forth below is a computation of EBITDA and a reconciliation of EBITDA to net income, the most closely analogous GAAP measure:

	Three months ended March 31,	
	2008	**2007**
	(in thousands)	
Net income	$ 11,665	$ 18,487
Interest expense	30,681	30,746
Income tax expense	8,634	14,564
Depreciation and amortization	23,622	17,689
EBITDA	$ 74,602	$ 81,486

Factors That May Affect Future Operating Results

The following factors may affect our financial performance:

Recruitment and Development of Financial Advisors

Our revenues are impacted by our ability to grow our existing FAs' businesses and to continue to grow the number of our licensed FAs and Financial Institutions.

Mature advisor growth from mature FAs represents the growth in commission and advisory revenues of FAs who have been licensed with us for three or more years. We have been successful at retaining our most productive FAs.

Sales growth from newly recruited FAs. We typically recruit experienced FAs who were previously licensed with other broker-dealers and have established customer bases of their own. As a result, newly recruited FAs are initially focused on transitioning customer assets from their prior firms to us. We expect newly recruited FAs to return to the approximate production levels they achieved with their prior firms within three years of joining us. As a result, a portion of our near-term revenue growth in a given year is driven by the size of the recruiting classes of the prior two years. For example, the recruiting classes of 2006 and 2007 contributed to revenue growth in 2008.

Recurring Revenue

One of our core strategic objectives is to earn a significant portion of our revenues from recurring sources. Our recurring revenues include advisory fees charged to customers, 12b-1 fees, asset-based fees, fees related to our cash sweep programs, interest earned on margin accounts and technology and service fees charged to our FAs. We believe these revenue sources are more stable and less dependent on market conditions than transaction-related commissions.

Our business model, together with our scale, allows us to support significant levels of recurring revenue. The proportion of our total revenue that is recurring has increased slightly from 58.5% for the three months ended March 31, 2007 to 60.7% for the three months ended March 31, 2008. The increase in recurring revenue is primarily attributable to significant increases in revenues related to our acquisitions of IASG, which accounted for an $86.01 million increase in total revenues, and IFMG which accounted for $33.30 million increase in total revenues.

In addition, the stability of our business is further enhanced by our limited reliance on margin lending. Our interest from margin lending represented only 0.9% and 1.1% of our total revenues for the three months ended March 31, 2008 and 2007, respectively. Furthermore, we have experienced no losses from write-offs of margin loans over the past five years.

The table below shows the recurring revenue components of our significant revenue categories for the periods indicated below:

	% of Total Revenue Three Months Ended March 31,	
	2008	2007
Advisory fee revenue	27.1%	27.8%
Asset-based fee revenue	11.1%	9.4%
12b-1 fee revenue	10.3%	9.5%
Variable and group trail and life insurance renewal revenue	6.0%	5.2%
Fee revenue	5.1%	4.7%
Margin interest and other revenue	1.1%	1.9%
Total recurring revenue	60.7%	58.5%

Scale of Operations

As the size of our financial advisor base continues to expand, we will seek to further consolidate our buying power and lower our costs. With our increasing scale, we have an enhanced ability to economically invest in technology and broaden our value added services more efficiently across our financial advisor base. If successful, we expect to increase our profit margins, as well as those of our FAs.

General Economic and Market Factors

Our financial results are influenced by the willingness or ability of our FAs' customers to maintain or increase their investment activities in the financial products offered by our FAs. As a result, general economic and market factors can affect our commission and fee revenue. The performance of our business is correlated with the economy and financial markets, and a slowdown or downturn in the economy or financial markets could adversely affect our business, results of operations, cash flows or financial condition.

Critical Accounting Policies

Our discussion and analysis of our operating results as presented in the following tables are based on our unaudited condensed consolidated financial statements, which have been prepared in conformity with GAAP. We believe that of our critical accounting policies, the following are noteworthy because they are based on estimates and assumptions that require complex, subjective judgments that can materially impact reported results. Changes in these estimates or assumptions could materially impact our financial condition and results of operation.

Commission Revenues and Expenses

We record commissions received from mutual funds, annuity, insurance, equity, fixed income, direct investment, option, and commodity transactions on a trade-date basis. Commissions also include mutual fund and variable annuity trails, which are recognized as a percentage of assets under management over the period for which services are performed. Due to the significant volume of mutual fund and variable annuity purchases and sales transacted by FAs directly with product manufacturers, management must estimate a portion of its upfront commission and trail revenues for each accounting period for which the proceeds have not yet been received. These estimates are based primarily on the volume of transactions in previous periods as well as cash receipts in the current period. Because we record commissions payable based upon standard payout ratios for each product as it accrues for commission revenue, any adjustment between actual and estimated commission revenue will be offset in part by the corresponding adjustment to commission expense.

Legal Reserves

We record reserves for legal proceedings in accounts payable and accrued liabilities in our consolidated statements of financial condition. The determination of these reserve amounts requires significant judgment on the part of management. Management considers many factors including, but not limited to, the amount of the claim, the amount of the loss in the customer's account, the basis and validity of the claim, the possibility of wrongdoing on the part of an FA, likely insurance coverage, previous results in similar cases, and legal precedents and case law. Each legal proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Any change in the reserve amount is recorded as professional services in our consolidated statements of income.

Income Taxes

In preparing the financial statements, we estimate the income tax expense based on the various jurisdictions where we conduct business. We must then assess the likelihood that the deferred tax assets will be realized. A valuation allowance is established to the extent that it is more likely than not that such deferred tax assets will not be realized. When we establish a valuation allowance or modify the existing allowance in a certain reporting period, we generally record a corresponding increase or decrease to tax expense in the consolidated statements of income. Management makes significant judgments in determining the provision for income taxes, the deferred tax assets and liabilities and any valuation allowances recorded against the deferred tax asset. Changes in the estimate of these taxes occur periodically due to changes in the tax rates, changes in the business operations, implementation of tax planning strategies, resolution with taxing authorities of issues where we have previously taken certain tax positions and newly enacted statutory, judicial and regulatory guidance. These changes, when they occur, affect accrued taxes and can be material to our operating results for any particular reporting period.

Additionally, we account for uncertain tax positions in accordance with FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* ("FIN 48"). The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. We are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time. As such, changes in our subjective assumptions and judgments can materially affect amounts recognized in our consolidated financial statements.

Valuation and Accounting for Financial Derivatives

We periodically use financial derivative instruments, such as interest rate swaps, to protect us against changing market prices or interest rates and the related impact to our assets, liabilities, or cash flows. We also evaluate our contracts and commitments for terms that qualify as embedded derivatives. All derivatives are reported at their corresponding fair value in our consolidated statements of financial condition.

Financial derivative instruments expected to be highly effective hedges against changes in cash flows are designated as such upon entering into the agreement. At each reporting date, we reassess the effectiveness of the hedge to determine whether or not it can continue to use hedge accounting. Under hedge accounting, we record the increase or decrease in fair value of the derivative, net of tax impact, as other comprehensive income or losses. If the hedge is not determined to be a perfect hedge, yet still considered highly effective, we will calculate the ineffective portion and record the related change in its fair value as additional interest income or expense in the consolidated statements of income. Amounts accumulated in other comprehensive income are generally reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

Share-Based Compensation

On January 1, 2006, we adopted SFAS 123R, which requires the recognition of the fair value of share-based compensation in net income. We recognize share-based compensation expense over the requisite service period of the individual grants, which generally equals the vesting period. Prior to January 1, 2006, we accounted for employee equity awards using APB 25 and related interpretations in accounting for share-based compensation. We adopted the provisions of SFAS 123R using the prospective transition method, whereby we will continue to account for nonvested equity awards to employees outstanding at December 31, 2005 using APB 25, and apply SFAS 123R to all awards granted or modified after that date.

Under SFAS 123R, we calculate compensation expense for stock options based on their estimated fair value. As there are no observable market prices for identical or similar instruments, we estimate fair value using a Black-Scholes valuation model.

Operating Results for the Three Months Ended March 31, 2008 compared with the Three Months Ended March 31, 2007

	Three Months Ended March 31, 2008	Three Months Ended March 31, 2007	$ Change	% Change
	(in thousands)			
Revenues				
Commissions	$ 420,645	$ 299,281	$ 121,364	40.6%
Advisory fees	216,277	156,500	59,777	38.2%
Asset-based fees	88,607	52,892	35,715	67.5%
Transaction and other fees	58,477	39,113	19,364	49.5%
Other	14,641	14,931	(290)	(1.9)%
Total revenues	**798,647**	**562,717**	**235,930**	**41.9%**
Expenses				
Production	553,330	393,086	160,244	40.8%
Compensation and benefits	92,709	47,281	45,428	96.1%
General and administrative	73,520	38,640	34,880	90.3%
Depreciation and amortization	23,622	17,689	5,933	33.5%
Other	4,486	2,224	2,262	101.7%
Total non-interest expenses	**747,667**	**498,920**	**248,747**	**49.9%**
Interest expense from operations	514	119	395	331.9%
Interest expense from senior credit facilities and subordinated notes	30,167	30,627	(460)	(1.5)%
Total expenses	**778,348**	**529,666**	**248,682**	**47.0%**
Income before provision for income taxes	**20,299**	**33,051**	**(12,752)**	**(38.6)%**
Provision for income taxes	**8,634**	**14,564**	**(5,930)**	**(40.7)%**
Net income	**$ 11,665**	**$ 18,487**	**$ (6,822)**	**(36.9)%**

After five consecutive years of gains through 2007, the Standard & Poors 500 Index and Nasdaq Composite Index declined by 10% and 7.9%, respectively, in the first quarter of 2008. These declines impacted the Company's fee based business, which is based upon asset levels and economic uncertainty contributed to a general slowdown in commissions. During this period of equity market decline, flows increase into the money market and insured cash account products which in turn contributed to the large growth in asset-based fees.

During 2007 we completed three significant business combinations (UVEST, IASG and IFMG), and made several enhancements to our organizational structure. Consequently, additional focus and investments have been made to support and fuel core growth, which includes increased recruiting expenditures, and to adequately address the increased volumes added to the business in the prior year. These additional investments include strengthening of our systems infrastructure, adding significant staff to our service and operations groups, and strengthening our senior management team across the organization.

Total revenues increased $235.93 million, or 41.9%, for the three months ended March 31, 2008, compared to the corresponding period in the prior year. Our acquisitions resulted in a $119.31 million, or 50.6%, of the total revenue increase. Excluding acquisitions, the increase in revenue was driven by a 16.2% net increase in the number of overall FAs.

Our income before provision for income taxes for the three months ended March 31, 2008 was $20.30 million, down 38.6% from $33.05 million for the three months ended March 31, 2007.

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

	Three Months Ended March 31,			
	2008	% Total	2007	% Total
Annuities	$ 204.74	48.7%	$ 129.02	43.1%
Mutual funds	135.03	32.1%	100.04	33.4%
Insurance	23.24	5.5%	17.53	5.9%
Alternative investments	21.89	5.2%	22.41	7.5%
Equities	20.32	4.8%	19.06	6.4%
Fixed income	14.78	3.5%	10.59	3.5%
Other	0.65	0.2%	0.63	0.2%
Total commission revenue	**$ 420.65**	**100.0%**	**$ 299.28**	**100.0%**

Revenues

Summary. In addition to the explanations provided below, in each case, the increase in revenue was mainly driven by an increase in our overall FA base (excluding our acquisitions), which increased 16.2%, from 8,039 as of March 31, 2007 to 9,339 as of March 31, 2008.

Commission revenue. Commission based revenues represent the gross commissions generated by our FAs, primarily from commissions earned on the sale of various products such as fixed and variable annuities, mutual funds, general securities, alternative investments and insurance. We also earn trailing commission type revenues (such as 12(b)-1 fees) on mutual funds and variable annuities held by customers of our FAs. Trail commissions are recurring in nature and are earned based on the current market value of previously purchased investments.

Commission revenue increased $121.36 million, or 40.6%, to $420.65 million for the three months ended March 31, 2008, compared with $299.28 million for the three months ended March 31, 2007. Our acquisitions comprise $89.37 million or 73.6% of the increase. The remaining increase is primarily attributable to increased commissions on the sale of annuities and mutual funds. Commission revenues from the sale of annuities and mutual funds (excluding our acquisitions) grew $31.39 million, or 13.7%, for the three months ended March 31, 2008, as compared to the three months ended March 31, 2007.

Advisory fees. Advisory fee revenues represent fees charged by us and our FAs, to customers based on the value of assets under management.

Advisory fees increased $59.78 million, or 38.2%, to $216.28 million for the three months ended March 31, 2008, compared with $156.50 million for the three months ended March 31, 2007. Our acquisitions comprise $18.65 million, or 31.2% of the increase. The remaining increase was primarily due to higher asset balances in advisory programs, partially due to a trend among our FAs to provide a higher percentage of fee-based advisory services to their customers. Consequently, this trend is driving an increase in recurring revenues (excluding our acquisitions) as a percentage of total revenue.

Asset-based fees. Asset-based fees are comprised of the following:

Fees from cash sweep vehicles. Pursuant to contractual arrangements, uninvested cash balances in customer accounts are swept into either third-party money market funds or deposit accounts at various banks, for which we receive fees, including administrative and record keeping fees based on account type and the invested balances.

Sponsorship fees. We receive fees from certain product manufacturers in connection with programs that support our marketing and sales-force education and training efforts.

Sub-transfer agency fees. We earn fees on mutual fund assets for which we provide administrative and recordkeeping services as a sub-transfer agent.

Networking fees. Our networking fees represent fees paid to us by mutual fund and annuity product manufacturers in exchange for administrative and recordkeeping services that we provide to customers of our FAs. Networking fees are correlated to the number of positions we administer, not the value of assets under administration.

Asset-based fees increased $35.72 million, or 67.5%, to $88.61 million for the three months ended March 31, 2008, compared with $52.89 million for the three months ended March 31, 2007. Our acquisitions comprise $4.72 million, or 13.2% of the increase. The remaining increase was led by a $23.81 million increase in fees from our cash sweep vehicles primarily as a result of an 86.6% increase in customer balances, which increased from $9.70 billion as March 31, 2007, to $18.10 billion as of March 31, 2008.

Transaction and other fees. Revenues earned from transaction and other fees primarily consist of the following categories:

Transaction fees and ticket charges. We charge fees for executing transactions in fee-based advisory customer accounts. We also charge ticket charges to our FAs for executing brokerage transactions.

Subscription fees. We earn subscription fees for the software and technology services that we provide to our FAs.

IRA custodian fees. We earn fees for the IRA custodial services we provide on customer accounts.

Financial advisor contract and license fees. We earn monthly administrative fees from all FAs licensed with us. We also charge our FAs regulatory licensing fees.

Conference fees. We charge product manufacturers fees for participating in our training and marketing conferences for our FAs.

Small/inactive account fees. We charge fees for services related to customer accounts that fail to meet certain specified thresholds of size or activity.

Transaction and other fees increased $19.36 million, or 49.5%, to $58.48 million for the three months ended March 31, 2008, compared with $39.11 million for the three months ended March 31, 2007. Our acquisitions comprise $4.49 million, or 23.2% of the increase. The remaining increase is attributed primarily to the 16.2% growth in our overall FA base (excluding our acquisitions) and an increase in trade volume. Specifically, our total trade volume increased by 1.08 million, or 56.0%, to 3.01 million for the three months ended March 31, 2008, compared with 1.93 million for the three months ended March 31, 2007, which is primarily attributable to an increase in the number of customer accounts.

Other revenue. Other revenue includes marketing re-allowances from certain product manufacturers as well as interest income from customer margin accounts and cash equivalents.

Other revenue decreased $290,000, or 1.9%, to $14.64 million for the three months ended March 31, 2008, compared with $14.93 million for the three months ended March 31, 2007. Through our mortgage affiliate Innovex, we recognized gains related to mortgage loans held for sale during the three months ended March 31, 2007 that did not recur in the same period in 2008 because we ceased the operations of Innovex on December 31, 2007.

Expenses

Production expenses. Production expenses consist of commissions and advisory fees as well as brokerage, clearing, and exchange fees. We pay out the majority of commissions and advisory fees received from sales or services provided by our FAs. Substantially all of these pay-outs are variable and correlated to the revenues generated by each FA.

Production expenses increased $160.24 million, or 40.8%, to $553.33 million for the three months ended March 31, 2008, compared with $393.09 million for the three months ended March 31, 2007. Our acquisitions comprise $97.60 million, or 60.9% of the increase. The remaining increase was primarily attributable to higher payout products making up a larger share of commission and advisory revenue. This increase is consistent with the 16.0% increase in commission and advisory fee revenue, excluding our acquisitions.

Compensation and benefits. Compensation and benefits represent compensation-related expenses, including stock-based compensation for our employees, including temporary employees and consultants.

Compensation and benefits increased $45.43 million, or 96.1%, to $92.71 million for the three months ended March 31, 2008, compared with $47.28 million for the three months ended March 31, 2007. Our acquisitions comprise $13.67 million, or 30.1% of the increase. The remaining increase is primarily attributed to salaries and benefits which comprises $20.77 million, or 45.7% of the increase, excluding our acquisitions. The average number of full-time employees increased by 768, or 45.3%, to 2,464 for the three months ended March 31, 2008, compared to 1,696 for the three months ended March 31, 2007. With our acquisitions, our average number of full-time employees has increased by an additional 371.

General and administrative expenses. General and administrative expenses include promotional fees, occupancy and equipment, communications and data processing, regulatory fees, travel and entertainment, and professional services.

General and administrative expenses increased $34.88 million, or 90.3%, to $73.52 million for the three months ended March 31, 2008, compared with $38.64 million for the three months ended March 31, 2007. Our acquisitions comprise $8.66 million, or 24.8% of the increase. The remaining increase is attributable to increases of $11.30 million in promotional fees, $4.67 million in occupancy and equipment, and $4.79 million in professional fees, all of which are primarily attributable to our overall growth.

Depreciation and amortization. Depreciation expense is related to our capital assets such as office equipment and technology. Amortization expense is primarily related to the amortization of our finite-lived intangible assets and internally developed software.

Depreciation and amortization expense increased $5.93 million, or 33.5%, to $23.62 million for the three months ended March 31, 2008, compared with $17.69 million for the three months ended March 31, 2007. Our capital expenditures increased $7.99 million, to $18.45 million for the three months ended March 31, 2008, compared to $10.46 million for the three months ended March 31, 2007, resulting in an increase in depreciation expense. In addition, depreciation and amortization recognized on recently acquired assets resulting from our acquisitions accounted for $1.45 million of the increase.

Other expenses. Other expenses include bank fees, other taxes, and other miscellaneous expenses.

Other expenses increased $2.26 million, or 101.7%, to $4.49 million for the three months ended March 31, 2008, compared with $2.22 million for the three months ended March 31, 2007. Our acquisitions comprise $1.85 million, or 82.0% of the increase.

Interest expense. Interest expense includes operating interest expense related to brokerage operations and mortgage lending, and non-operating interest expense for debt coverage.

Interest expense decreased $65,000 to $30.68 million for the three months ended March 31, 2008, compared with $30.75 million for the three months ended March 31, 2007, reflecting lower average interest rate on borrowings offset in part by an increase in the principal amount of debt outstanding (due to our acquisitions).

Provision for Income Taxes. Provision for income taxes decreased $5.93 million to $8.63 million for the three months ended March 31, 2008, compared with $14.56 million for the three months ended March 31, 2007. The decrease in income tax expense was primarily related to the decrease in pre-tax income over comparable periods. Our effective tax rate for the three months ended March 31, 2008 was 42.5% as compared to 44.1% for the three months ended March 31, 2007.

Recent Accounting Pronouncements

With the exception of the item discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the three months ended March 31, 2008, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2007, that are of significance, or potential significance, to us.

Additional Disclosures for Derivative Instruments and Hedging Activities

In March 2008, the FASB issued SFAS 161, which requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. We are currently evaluating the impact, if any, that SFAS 161 will have on our consolidated financial statements.

Liquidity and Capital Resources

Summary of Changes in Cash and Cash Equivalents

Net cash provided by operating activities for the three months ended March 31, 2008 and 2007, was $155.27 million and $6.85 million, respectively. The increase is largely attributable to operating cash levels associated with the deposit taking and margin lending activities of our customers, as well as the funding and settling of their transactions.

Net cash used in investing activities for the three months ended March 31, 2008 and 2007, was $17.96 million and $72.90 million, respectively. The decrease is principally due to our January 2, 2007 acquisition of UVEST, for which $63.27 million was paid during the period ended March 31, 2007, offset in part by a $7.99 million annual increase in capital expenditures.

Net cash provided by financing activities for the three months ended March 31, 2008 was $40.72 million as compared to net cash used in financial activities for the three months ended March 31, 2007 of $1.01 million. During fiscal year 2008, we repaid $40.00 million of bank loans.

Operating Capital Requirements

Our primary requirement for working capital relates to funds we loan to customers for trading done on margin and funds we are required to maintain at clearing organizations to support customers' trading activities. We require that customers deposit funds with us in support of their trading activities and we hypothecate securities held as margin collateral, which we in turn use to lend to customers for margin transactions and deposit with our clearing organizations. These activities account for the majority of our working capital requirements, which are primarily funded directly or indirectly by customers. Our other working capital needs are primarily limited to regulatory capital requirements and software development, which we have satisfied in the past from internally generated cash flows.

Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from the delayed receipt of customer funds associated with the settlement of customer transactions in securities markets. Historically, these timing differences were funded either with internally generated cash flow or, if needed, with funds drawn under short-term borrowing facilities, including both committed unsecured lines of credit and uncommitted lines of credit secured by customer securities. We also may borrow up to $100.00 million for working capital and other general corporate purposes under the revolving credit facility which has been provided under our senior secured credit facilities. Currently, $10.00 million of such facility is being utilized to support the issuance of an irrevocable letter of credit issued for the benefit of The Private Trust Company, N.A ("PTC"). Additionally, LPL, one of our broker-dealer subsidiaries, continues to utilize uncommitted lines which are secured by customer securities to fund margin loans.

Our registered broker-dealers are subject to the SEC's Uniform Net Capital Rule, which requires the maintenance of minimum net capital. LPL and Associated Securities Corp., an introducing broker-dealer and wholly owned subsidiary of AFG, compute net capital requirements under the alternative method, which requires firms to maintain minimum net capital, as defined, equal to the greater of $250,000 or 2% of aggregate debit balances arising from customers' transactions, as defined. LPL is also subject to the Commodity Futures Trading Commission's ("CFTC") minimum financial requirements, which require that it maintain net capital, as defined, equal to 4% of customer funds required to be segregated pursuant to the Commodity Exchange Act, less the market value of certain commodity options, all as defined. UVEST, MSC and WFG all compute net capital requirements under the aggregate indebtedness method, which requires firms to maintain minimum net capital, as defined, of not less than $6^2/_3$% of aggregate indebtedness, also as defined.

PTC is subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our consolidated financial statements.

Funding for purposes other than working capital requirements, including capital expenditures and acquisitions, has historically been provided for from internally generated cash flow. Future funding for these needs may also come from our new revolving credit facility.

Liquidity Assessment

We believe that, based on current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, including revolving credit borrowings under our senior secured credit facilities, will be adequate to satisfy our working capital needs, the payment of all of our obligations, and the funding of anticipated capital expenditures, for the foreseeable future. Our conclusion is based on recent levels of net cash flow from our operations of approximately $155.27 million and the significant additional borrowing capacity that exists under our revolving credit facility.

Our ability to meet our debt service obligations and reduce our total debt will depend upon our future performance which, in turn, will be subject to general economic, financial, business, competitive, legislative, regulatory, and other conditions, many of which are beyond our control. In addition, our operating results, cash flow and capital resources may not be sufficient for repayment of our indebtedness in the future. Some risks that could materially adversely affect our ability to meet our debt service obligations include, but are not limited to, general economic conditions and economic activity in the financial markets. The performance of our business is correlated with the economy and financial markets, and a slowdown or downturn in the economy or financial markets could adversely affect our business, results of operations, cash flows or financial condition.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments, seek additional capital or restructure or refinance our indebtedness, including the senior unsecured subordinated notes as discussed below. These measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of sufficient cash flows and capital resources, we could face substantial liquidity problems and might be required to dispose of material assets or operations to meet our debt service and other obligations. However, our new senior secured credit facilities and the indenture governing the notes offered hereby will restrict our ability to dispose of assets and the use of proceeds from any such dispositions. We may not be able to consummate those dispositions or to obtain the proceeds that we could realize from them and, in any event, the proceeds may not be adequate to meet any debt service obligations then due.

Indebtedness

As of March 31, 2008, we had outstanding $550.00 million of borrowings under our senior secured credit facilities and $833.97 million of senior unsecured subordinated notes. The senior secured credit facilities also include a $100.00 million revolving credit facility, $10.00 million of which is currently being utilized to support the issuance of an irrevocable letter of credit. As of March 31, 2008, $65.00 million was available for future borrowings. This facility expires on December 28, 2011. We also maintain uncommitted lines of credit, which have an unspecified limit, primarily dependent on our ability to provide sufficient collateral. Additionally, in an effort to mitigate interest rate risk, we entered into an interest rate swap agreement to hedge the variability on $495.00 million of our floating rate senior secured credit facilities.

Interest Rate and Fees

Borrowings under our senior secured credit facilities bear interest at a base rate equal to LIBOR plus an applicable margin. The applicable margin for borrowings is currently, (x) under the revolving credit facility, 1.00% with respect to base rate borrowings and 2.00% with respect to LIBOR borrowings and (y) under the senior secured term loan facility, 1.50% with respect to base rate borrowings and 2.50% with respect to LIBOR borrowings. The applicable margin on the senior secured term loan facility may be changed depending on what our leverage ratio is or how our credit is rated.

In addition to paying interest on outstanding principal under the senior secured credit facilities, we are required to pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder. The commitment fee rate is currently 0.375% per annum, but is subject to change depending on our leverage ratio is. We must also pay customary letter of credit fees.

Prepayments

The senior secured credit facilities (other than the revolving credit facility) will require us to prepay outstanding senior secured term loans, subject to certain exceptions, with:

- 50% (percentage will be reduced to 25% if our total leverage ratio is 5.00x or less and to 0% if our total leverage ratio is 4.00x or less) of our annual excess cash flow, adjusted for, among other things, changes in our net working capital;

- 100% of the net cash proceeds of all nonordinary course asset sales or other dispositions of property, if we do not (1) reinvest or commit to reinvest those proceeds in assets to be used in our business or to make certain other permitted investments within 15 months as long as such reinvestment is completed within 180 days; and

- 100% of the net cash proceeds of any incurrence of debt, other than proceeds from debt permitted under the senior secured credit facilities.

The foregoing mandatory prepayments will be applied to scheduled installments of principal of the senior secured term loan facility in direct order.

We may voluntarily repay outstanding loans under the senior secured credit facilities at any time without premium or penalty, other than customary "breakage" costs with respect to LIBOR loans.

Amortization

We are required to repay the loans under the senior secured term loan facility in equal quarterly installments in aggregate annual amounts equal to 1% of the original funded principal amount of such facility, with the balance being payable on the final maturity date of such facility.

Principal amounts outstanding under the revolving credit facilities are due and payable in full at maturity.

Guarantee and Security. The senior secured facilities are secured primarily through pledges of the capital stock in our subsidiaries.

Certain Covenants and Events of Default

The senior secured credit facilities will contain a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to:

- incur additional indebtedness;
- create liens;
- enter into sale and leaseback transactions;
- engage in mergers or consolidations;
- sell or transfer assets;
- pay dividends and distributions or repurchase our capital stock;
- make investments, loans or advances;
- prepay certain subordinated indebtedness;
- make certain acquisitions;
- engage in certain transactions with affiliates;
- make capital expenditures;

amend material agreements governing certain subordinated indebtedness; and

change our lines of business.

In addition, the senior secured credit facilities will require us to maintain the following financial covenants:

- a minimum interest coverage ratio; and
- a maximum total leverage ratio.

Interest Rate Swaps

On January 30, 2006, we entered into five interest rate swap agreements ("Swaps"). An interest rate swap is a financial derivative instrument whereby two parties enter into a contractual agreement to exchange payments based on underlying interest rates. We use the Swaps to hedge the variability on our floating rate for approximately $495.00 million of our senior secured notes. We are required to pay the counterparty to the agreement fixed interest payments on a notional balance, and in turn, receive variable interest payments on that notional balance. Payments are settled quarterly on a net basis. As of March 31, 2008, we assessed the Swaps as being highly effective and we expect them to continue to be highly effective. While approximately $338.97 million of our senior secured notes remain unhedged as of March 31, 2008, the risk of variability on our floating interest rate is mitigated by our margin interest loans made to our customers. At March 31, 2008, our receivable from customers for margin loan activity was approximately $346.51 million.

Senior Unsecured Subordinated Notes

The notes are due in 2015, and bear interest at 10.75% per annum. Interest payments are payable semi-annually in arrears. We are not required to make mandatory redemption or sinking fund payments with respect to the notes and at March 31, 2008, the entire $550.00 million was still outstanding. The senior unsecured subordinated notes are subject to certain financial and non-financial covenants. As of March 31, 2008, we were in compliance with all such covenants.

Contractual Obligations

The following table provides information with respect to our commitments and obligations as of March 31, 2008:

	Payments due by period				
	Total(4)	**< 1 year**	**1-3 years**	**4-5 years**	**> 5 years**
			(in thousands)		
Operating Lease Obligations(2)	$ 106,222	$ 20,224	$ 38,625	$ 26,748	$ 20,625
Senior Secured Credit Facilities and Senior Unsecured Notes(1)(3)	1,383,965	8,424	16,848	16,848	1,341,845
Bank loans payable	25,000	25,000			
Fixed Interest Payments	458,219	59,125	118,250	118,250	162,594
Variable Interest Payments(3)	203,280	29,841	78,110	76,609	18,720
Interest Rate Swap Agreements(3)	55,574	21,261	28,621	5,692	
Total contractual cash obligations	$ 2,232,260	$ 163,875	$ 280,454	$ 244,147	$ 1,543,784

(1) Note 7 and 8 of our unaudited condensed consolidated financial statements provides further detail on these debt obligations.

(2) Note 9 of our unaudited condensed consolidated financial statements provides further detail on operating lease obligations.

(3) Our senior credit facilities bear interest at floating rates. Of the $833.97 million outstanding at March 31, 2008, we have hedged the variable rate cash flows using interest rate swaps of

$495.00 million of principle (see Note 8 of our unaudited consolidated financial statements). Variable interest payments are shown for the unhedged ($338.97 million) portion of the senior credit facilities assuming the three-month LIBOR remains unchanged at 2.70% (see Note 7 of our unaudited condensed consolidated financial statements for more information).

(4)

As of March 31, 2008, we reflect a liability for unrecognized tax benefits (FIN 48) of $15.43 million, which we have included in income taxes payable on the accompanying consolidated statements of financial condition. Due to the high degree of uncertainty regarding the timing of our cash outflows of liabilities for unrecognized tax benefits, a reasonable estimate of the period of cash settlement can not be made.

Other Commitments and Contingencies

Guarantees We occasionally enter into certain types of contracts that contingently require us to indemnify certain parties against third-party claims. These contracts primarily relate to real estate leases under which we may be required to indemnify property owners for claims and other liabilities arising from our use of the applicable premises. The terms of these obligations vary, and because a maximum obligation is not explicitly stated, we have determined that it is not possible to make an estimate of the amount that we could be obligated to pay under such contracts.

LPL also provides guarantees to securities clearing houses and exchanges under their standard membership agreements, which require a member to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearing houses and exchanges, all other members would be required to meet any shortfall. Our liability under these arrangements is not quantifiable and may exceed the cash and securities we posted as collateral. However, the potential requirement for us to make payments under these agreements is remote. Accordingly, no liability has been recognized for these transactions.

Litigation We have been named as a defendant in various legal actions, including arbitrations. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, we cannot predict with certainty what the eventual loss or range of loss related to such matters will be. We believe, based on current knowledge, after consultation with counsel, and consideration of insurance, if any, that the outcome of such matters will not have a material adverse effect on our results of operations, cash flows or financial condition.

Regulatory Our businesses, as well as the financial services industry generally, are subject to extensive regulation. As a matter of public policy, securities regulatory bodies are charged with safeguarding the integrity of the securities and other financial markets and with protecting the interests of customers participating in those markets, not with protecting the interests of our stockholders or creditors. The SEC is the federal agency responsible for the administration of the federal securities laws, while the CFTC is the federal agency responsible for the administration of the federal commodities laws. The exchanges, FINRA and the National Futures Association are self-regulatory bodies composed of members, such as our broker-dealer subsidiaries, that have agreed to abide by the respective bodies' rules and regulations. Each of these regulatory bodies may examine the activities of, and may expel, fine, and other wise discipline member firms and their registered representatives. The laws, rules, and regulations comprising this framework of regulation and the interpretation and enforcement of existing laws, rules, and regulations are constantly changing. The effect of any such changes cannot be predicted and may impact the manner of our operations and profitability.

In November 2005, prior to our acquisition of IASG, MSC received a "Wells" notice from FINRA's Department of Enforcement. The staff alleged that MSC had failed to maintain adequate supervisory procedures regarding certain variable annuity transactions, and failed to maintain accurate books and records related thereto. On July 23, 2007, the staff filed a complaint against MSC and certain of its employees in connection with this matter. Pursuant to a contractual arrangement, the

Company will be indemnified for such claims and future settlements related to such matters by the prior owners.

Other Commitments As of March 31, 2008, the Company had received collateral primarily in connection with customer margin loans with a market value of approximately $485.11 million, which we can sell or repledge. Of this amount, approximately $182.92 million has been pledged or sold as of March 31, 2008; $126.70 million was pledged to a bank in connection with an unutilized secured margin line of credit, $25.96 million was pledged to various clearing organizations, and $30.26 million was loaned to the DTC through participation in its Stock Borrow Program. As of March 31, 2007, the Company had received collateral primarily in connection with customer margin loans with a market value of approximately $385.57 million, which it can sell or repledge. Of this amount, approximately $153.70 million had been pledged or sold as of March 31, 2007: $100.88 million was pledged to a bank in connection with an unutilized secured margin line of credit, $36.23 million was pledged to various clearing organizations, and $16.59 million was loaned to the DTC through participation in its Stock Borrow Program.

In August of 2007, pursuant to agreements with a large global insurance company, LPL began providing brokerage, clearing, and custody services on a fully disclosed basis; offering its investment advisory programs and platforms; and providing technology and additional processing and related services to its financial advisors and customers. The terms of the agreements are five years, subject to additional 24-month extensions. Termination fees may be payable by a terminating or breaching party depending on the specific cause leading to termination.

In conjunction with the acquisition of UVEST, we made full-recourse loans to certain members of management (also selling stockholders), all of which are now stockholders. As of March 31, 2008, outstanding stockholder loans, which are reported as a deduction from stockholders' equity, were approximately $1.26 million.

As part of its brokerage operations, LPL periodically enters into when-issued and delayed delivery transactions on behalf of its customers. Settlement of these transactions after March 31, 2008 does not have a material effect on our consolidated statements of financial condition.

Off-balance Sheet Arrangements

At March 31, 2008, we did not have any off-balance sheet arrangements as that term is defined in Item 303 of Regulation S-X of the Securities Act that are likely to have a current or future material effect on our financial condition, revenue or expenses, results of operations, liquidity, capital expenditures or capital resources.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Market Risk

We bear some market risk on margin transactions affected for our FAs' clients. In margin transactions, we extend credit to clients, collateralized by cash and securities in the client's account. As our IFAs execute margin transactions on behalf of their clients, we may incur losses if clients do not fulfill their obligations, the collateral in the client's account is insufficient to fully cover losses from such investments, and our IFAs fail to reimburse us for such losses. The risk of default depends on the creditworthiness of the client. To minimize this risk we assess the creditworthiness of the clients and monitor the margin level daily. Clients are required to deposit additional collateral, or reduce positions, when necessary.

We also have market risk on the fees we earn that are based on the market value of assets in certain client accounts and for which ongoing fees or commissions are paid. We do not enter into derivatives or other similar financial instruments for trading or speculative purposes.

Interest Rate Risk

We are exposed to risk associated with changes in interest rates. As of March 31, 2008, all of the outstanding debt under our senior secured credit facilities, $833.97 million, was subject to floating interest rate risk. To provide some protection against potential rate increases associated with our floating senior secured credit facilities, in January 2006 we entered into derivative instruments in the form of Swaps covering a significant portion ($495.00 million) of our senior secured indebtedness. The Swaps qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities.* Accordingly, any interest rate differential is reflected in an adjustment to interest expense over the lives of the Swaps. While the unhedged portion of our senior secured debt is subject to increases in interest rates, dding-top:2px;padding-bottom:2px;padding-right:2px;border-right:1px solid #a5a5a5;">

- Advisory asset levels
$1,338
31%
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
$477
11%
97%
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
$370
8%
63%
Other
- Margin accounts
- Alternative investment transactions
$71
2%
32%

Total Net Revenue
$4,374
100%

Total Recurring Revenue
$2,988
68%

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, 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, insurance, and group annuities, and from purchases and sales of equities, fixed income, and options. The levels of transaction-based sales 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 to the advisors 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, and 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 the sequential movement in the market or 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.

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, professional services, and other expenses. General and administrative expenses also include the estimated costs of the investigation, settlement, and resolution of regulatory matters and 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 intangible assets established through our acquisitions, as well as fixed assets.

Restructuring Charges

Restructuring charges primarily represent expenses incurred as a result of our expansion of our Service Value Commitment initiative. See Note 3. Restructuring, within the notes to consolidated financial statements for additional information.

Other Expenses

Other expenses represent charges incurred arising from the shutdown of our former subsidiary NestWise, which ceased operations in the third quarter of 2013 (the "NestWise Closure").

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 are as follows:

	December 31,		
	2014	2013	2012
Business Metrics			
Advisors(1)	14,036	13,673	13,352
Advisory and brokerage assets (in billions)(2)	$475.1	$438.4	$373.3
Advisory assets under custody (in billions)(2)(3)	$175.8	$151.6	$122.1
Net new advisory assets (in billions)(4)	$17.5	$14.6	$10.9
Insured cash account balances (in billions)(2)	$18.6	$17.4	$16.3
Money market account balances (in billions)(2)	$7.4	$7.5	$8.4

	Years Ended December 31,		
	2014	2013	2012
Financial Metrics			
Revenue growth from prior year	5.6 %	13.1 %	5.2 %
Recurring revenue as a % of net revenue	68.3 %	64.7 %	65.4 %
Net income (in thousands)	$178,043	$181,857	$151,918
Earnings per share (diluted)	$1.75	$1.72	$1.37
Non-GAAP Measures:			
Gross profit (in thousands)(5)	$1,325,945	$1,248,014	$1,112,251
Gross profit as a % of net revenue	30.3 %	30.1 %	30.4 %
Adjusted EBITDA (in thousands)	$516,507	$511,438	$454,482
Adjusted EBITDA as a % of net revenue	11.8 %	12.4 %	12.4 %
Adjusted EBITDA as a % of gross profit	39.0 %	41.0 %	40.9 %
Adjusted Earnings (in thousands)	$247,621	$258,805	$225,029
Adjusted Earnings per share (diluted)	$2.44	$2.44	$2.03

(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.

(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. Insured cash account and money market account balances are also included in advisory and brokerage assets.

(3) 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) 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.

(5) Gross profit is calculated as net revenues less production expenses. Because our gross profit amounts do not include any depreciation and amortization expense, we consider our gross profit 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.

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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, 2014, 2013, and 2012 (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Net income	$178,043	$181,857	$151,918
Non-operating interest expense	51,538	51,446	54,826
Provision for income taxes	116,654	109,446	98,673
Amortization of intangible assets	38,868	39,006	39,542
Depreciation and amortization of fixed assets	57,977	44,497	32,254
EBITDA	443,080	426,252	377,213
EBITDA Adjustments:			
Employee share-based compensation expense(1)	21,246	15,434	17,544
Acquisition and integration related expenses(2)	1,414	19,890	20,474
Restructuring and conversion costs(3)	34,783	30,812	6,146
Debt amendment and extinguishment costs(4)	4,361	7,968	16,652
Equity issuance and related offering costs(5)	—	—	4,486
Other(6)	11,623	11,082	11,967
Total EBITDA Adjustments	73,427	85,186	77,269
Adjusted EBITDA	$516,507	$511,438	$454,482

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(1) 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.

(2) Represents acquisition and integration costs resulting from various acquisitions, including changes in the estimated fair value of future payments, or contingent consideration, that may be required to be made to former shareholders of certain acquired entities.

(3) Represents organizational restructuring charges, conversion, and other related costs resulting from the expansion of our Service Value Commitment initiative.

(4) Represents expenses incurred resulting from the early extinguishment and repayment of amounts outstanding on our prior senior secured credit facilities, including the accelerated recognition of unamortized debt issuance costs that had no future 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 or amended senior secured credit facilities.

(5) Represents equity issuance and offering costs incurred related to the closing of a secondary offering in the second quarter of 2012. 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").

(6) Results for the year ended December 31, 2014 include approximately $9.6 million in parallel rent, property tax, common area maintenance expenses, and fixed asset disposals incurred in connection with our relocation to our San Diego office building. 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 future

economic benefit. Results also include certain excise and other taxes in all years.

Adjusted Earnings and Adjusted Earnings per share

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

Adjusted Earnings represents net income before: (a) employee share-based compensation expense, (b) amortization of intangible assets, (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 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.

We use 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, 2014, 2013, and 2012 (in thousands, except per share data):

	Years Ended December 31,		
	2014	2013	2012
Net income	$178,043	$181,857	$151,918
After-Tax:			
EBITDA Adjustments			
Employee share-based compensation expense(1)	14,175	11,109	13,161
Acquisition and integration related expenses(2)	366	10,919	11,106
Restructuring and conversion costs	21,357	19,011	3,792
Debt amendment and extinguishment costs	2,678	4,916	10,274
Equity issuance and related offering costs(3)	—	—	4,262
Other(4)	7,137	6,926	7,384
Total EBITDA Adjustments	45,713	52,881	49,979
Amortization of intangible assets	23,865	24,067	24,397
Acquisition related benefit for a net operating loss carry-forward(5)	—	—	(1,265)
Adjusted Earnings	$247,621	$258,805	$225,029
Adjusted Earnings per share(6)	$2.44	$2.44	$2.03
Weighted-average shares outstanding — diluted	101,651	106,003	111,060

Generally, EBITDA Adjustments and amortization of intangible assets have been tax effected for those items for which we receive a tax deduction using a federal rate of 35.0% and the applicable effective state rate, which was 3.6%, 3.3% and 3.3%, net of the federal tax benefit, for the periods ended December 31, 2014, 2013, and 2012, respectively. Items for which we did not receive a tax deduction are noted below.

(1) Includes the 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.

(2) 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 estimated fair value of contingent consideration for the stock acquisition of Concord Capital Partners, Inc. ("CCP"), that are not deductible for tax purposes.

(3) The 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.

(4) Includes the 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 related to the NestWise Closure that occurred during the year ended December 31, 2013 for which we did not receive a tax deduction.

(5) Represents the tax benefit available to us from the accumulated net operating losses of Concord Trust and Wealth Solutions division of LPL Financial that arose prior to our acquisition of CCP.

(6) 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:

	Years Ended December 31,		
	2014	2013	2012
Earnings per share — diluted	$1.75	$1.72	$1.37
After-Tax:			
EBITDA Adjustments per share	0.45	0.49	0.45
Amortization of intangible assets per share	0.24	0.23	0.22
Acquisition related benefit for a net operating loss carry-forward per share	—	—	(0.01)
Adjusted Earnings per share	$2.44	$2.44	$2.03

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Our Service Value Commitment Initiative

The Program

Our Service Value Commitment initiative (the “Program”) is a multi-year 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 to reposition our labor force and invest in technology, human capital, marketing, and other key areas to enable future growth.

As of December 31, 2014, we have incurred $61.1 million of costs related to outsourcing and other related costs, technology transformation costs, employee severance obligations, and other related costs, as well as non-cash charges for impairment of certain fixed assets related to internally developed software. The Program is expected to be completed in 2015, and we estimate total charges to be approximately $68.0 million, with expected annual pre-tax savings of approximately $32.0 million. See Note 3. Restructuring, within the notes to the consolidated financial statements for further detail.

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 and speed and reduce the 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 $10.0 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 9. 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 2014, 2013, and 2012 results.

NestWise Closure

In August 2013, we ceased the operations of our former 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.

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. Total purchase price consideration at the closing of the transaction was $38.8 million.

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 were also required to pay consideration to former shareholders of NRP that was 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.

Economic Overview and Impact of Financial Market Events

Our business is directly and indirectly sensitive to several macroeconomic 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. The Federal Reserve maintained an accommodative 0.0% to 0.25% target range for the federal funds rate throughout the fourth quarter of 2014. At its December policy meeting, the Federal Reserve reaffirmed its rate policy, emphasizing it could be patient in deciding when to start raising rates, a view it deemed consistent with earlier guidance that it would likely be appropriate to keep the target federal funds rate near zero for a "considerable time" following the end of its asset purchase program, which concluded in October 2014. The Federal Reserve has underscored that it would take a balanced approach once it begins to raise rates and that it could keep rates below what members would consider normal in the longer term if conditions warranted, even if inflation and labor markets were near levels consistent with its mandate.

As a result of the accommodative monetary policy, interest rates, including the rate on overnight funds, have remained low on a historical basis, with an average federal funds effective rate in 2014 of 9 basis points. The lower interest rate environment and fee compression, resulting from contract repricing in order to keep yields on our cash sweep programs competitive, has had a negative impact on the profitability of our cash sweep programs, and fee compression is expected to increase further in 2015 and 2016. Additionally, we have seen decreasing levels of demand for fixed income and fixed annuity products as investors move to equity and alternative products as gains in the market have risen.

Another macro economic factor affecting our business is returns on equity securities across the various markets in the United States. We use the S&P 500 index to evaluate and measure this factor. The S&P 500 index closed the year at 2,059, up 11.4% from its close on December 31, 2013, and has now climbed for three straight years and provided investor gains of nearly 64% during that span. The growth in 2014 was largely attributable to improved corporate earnings, steady gains by the U.S. economy, and an accommodative Federal Reserve, which together created a positive environment in which market declines were repeatedly met with buying demand and capital inflows. Although investors endured volatility during the year, the market demonstrated impressive resilience despite lingering economic worries about geopolitical concerns, Federal Reserve monetary policy, U.S. and global growth rates, and policy uncertainty in Washington, D.C.

Results of Operations

The following discussion presents an analysis of our results of operations for the years ended December 31, 2014, 2013, and 2012. 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	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(In thousands)				
Revenues					
Commission	$2,118,494	$2,077,566	$1,820,517	2.0 %	14.1 %
Advisory	1,337,959	1,187,352	1,062,490	12.7 %	11.8 %
Asset-based	476,595	430,990	403,067	10.6 %	6.9 %
Transaction and fee	369,821	361,252	321,558	2.4 %	12.3 %
Other	70,793	83,698	53,456	(15.4)%	56.6 %
Net revenues	4,373,662	4,140,858	3,661,088	5.6 %	13.1 %
Expenses					
Production	3,047,717	2,892,844	2,548,837	5.4 %	13.5 %
Compensation and benefits	421,829	400,967	362,705	5.2 %	10.5 %
General and administrative	422,441	373,368	350,212	13.1 %	6.6 %
Depreciation and amortization	96,845	83,503	71,796	16.0 %	16.3 %
Restructuring charges	34,652	30,186	5,597	14.8 %	*
Other	—	9,279	—	(100.0)%	100.0 %
Total operating expenses	4,023,484	3,790,147	3,339,147	6.2 %	13.5 %
Non-operating interest expense	51,538	51,446	54,826	0.2 %	(6.2)%
Loss on extinguishment of debt	3,943	7,962	16,524	(50.5)%	(51.8)%
Total expenses	4,078,965	3,849,555	3,410,497	6.0 %	12.9 %
Income before provision for income taxes	294,697	291,303	250,591	1.2 %	16.2 %
Provision for income taxes	116,654	109,446	98,673	6.6 %	10.9 %
Net income	$178,043	$181,857	$151,918	(2.1)%	19.7 %

* Not Meaningful

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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,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
Variable annuities	$807,634	$794,898	$764,502	$12,736	1.6 %	$30,396	4.0 %
Mutual funds	610,310	565,951	498,239	44,359	7.8 %	67,712	13.6 %
Alternative investments	211,638	251,113	142,996	(39,475)	(15.7)%	108,117	75.6 %
Fixed annuities	160,287	123,882	98,976	36,405	29.4 %	24,906	25.2 %
Equities	112,091	119,569	99,380	(7,478)	(6.3)%	20,189	20.3 %
Fixed income	85,882	87,243	83,235	(1,361)	(1.6)%	4,008	4.8 %
Insurance	78,659	81,687	81,124	(3,028)	(3.7)%	563	0.7 %
Group annuities	51,250	52,275	50,891	(1,025)	(2.0)%	1,384	2.7 %
Other	743	948	1,174	(205)	(21.6)%	(226)	(19.3)%
Total commission revenue	$2,118,494	$2,077,566	$1,820,517	$40,928	2.0 %	$257,049	14.1 %

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

	Years Ended December 31,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
Sales-based	$1,181,189	$1,254,683	$1,110,041	$(73,494)	(5.9)%	$144,642	13.0 %
Trailing	937,305	822,883	710,476	114,422	13.9 %	112,407	15.8 %
Total commission revenue	$2,118,494	$2,077,566	$1,820,517	$40,928	2.0 %	$257,049	14.1 %

The increase in commission revenue in 2014 compared to 2013 is due primarily to an increase in trailing revenues for mutual funds and variable annuities and in activity for fixed annuities. Such growth reflects strong market conditions, resulting in an increase in value of the underlying assets.

Fixed annuity sales-based commissions have risen, despite historically low interest rates, as investors have sought income streams with minimal risk to principal. Such benefits have attracted the increasing amount of retired investors, and those nearing retirement age, as their investment goals shift from portfolio growth to guaranteed income.

The decrease in alternative investments commission revenue in 2014 as compared to 2013 was due primarily to a higher level of activity during the year ended December 31, 2013, in which commission revenues benefited from liquidity events in several large REITs that allowed for reinvestment into a similar type of investments. Such events resulted in alternative investment commissions during this period being elevated over prior year and subsequent periods.

The increase in commission revenues in 2013 compared to 2012 was 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 reflected 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 reflected market-wide growth and increased investor engagement that has driven advisor productivity.

Advisory Revenues

The following table summarizes the activity within our advisory assets under custody (in billions):

	Years Ended December 31,		
	2014	2013	2012
Beginning balance at January 1	$151.6	$122.1	$101.6
Net new advisory assets	17.5	14.6	10.9
Market impact and other	6.7	14.9	9.6
Ending balance at December 31	$175.8	$151.6	$122.1

Net new advisory assets for the years ended December 31, 2014, 2013, and 2012 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 and have resulted 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. 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 index in 2014 compared to 2013. The average of the S&P 500 index in 2014 was 1,931, which is a 17.5% increase over the 2013 average of 1,644.

The Independent RIA model has continued to grow rapidly as advisors seek the freedom to run their businesses in a manner that they believe 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. Our advisory revenues do not include fees for advisory services charged by Independent RIA advisors to their clients. Accordingly, there is no corresponding payout. However, we charge administrative fees to Independent RIA advisors including custody and clearing fees, based on the value of assets.

The growth in advisory revenue in 2013 compared to 2012 was due to both net new advisory assets in prior periods and higher levels of the S&P 500 on the applicable billing dates in 2013 compared to 2012. The average of the S&P 500 in 2013 was 1,644, which was a 19.2% increase over the average of 1,379 for the prior year. The continued shift of advisors to the Independent RIA platform and a repricing in one of our significant clearing agreements 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 (in billions):

	December 31,			2014 vs. 2013		2013 vs. 2012	
	2014	2013	2012	$ Change	% Change	$ Change	% Change
Advisory assets under management	$125.1	$117.6	$100.7	$7.5	6.4 %	$16.9	16.8 %
Independent RIA assets in advisory accounts custodied by LPL Financial	50.7	34.0	21.4	16.7	49.1 %	12.6	58.9 %
Total advisory assets under custody	$175.8	$151.6	$122.1	$24.2	16.0 %	$29.5	24.2 %

Growth of the Independent RIA assets in advisory accounts custodied by LPL Financial has outpaced the growth in advisory assets under management. This growth is consistent with the industry trend as more advisors shift their business toward the Independent RIA model.

Asset-Based Revenues

Revenues from product sponsors and for record-keeping services, which are largely based on the underlying asset values, increased due to the impact of the higher average market indices on the value of those underlying assets and net new sales of eligible assets. Asset-based revenues also include revenues from our cash sweep programs, which decreased by $19.9 million, or 16.6%, to $99.7 million for the year ended December 31, 2014 from $119.6 million for the year ended December 31, 2013. The decrease is due to fee compression that resulted from a repricing of certain contracts that underlie our cash sweep programs, a year-over-year 2 basis point decline in the average federal funds effective rate to 0.09% for the year ended December 31, 2014, and a decrease of 1.2% in average assets in our cash sweep programs, which were $23.9 billion and $24.2 billion for the year ended December 31, 2014 and 2013, respectively.

Revenues from product sponsors and for record-keeping services increased due to the impact of higher average market indices on the value of those underlying assets and net new sales of eligible assets. Asset-based revenues also include revenues from our cash sweep programs, which decreased by $18.5 million, or 13.4%, to $119.6 million for year ended December 31, 2013 from $138.1 million for the year ended December 31, 2012. The decrease resulted from a re-pricing of certain contracts that underlie our cash sweep programs, partially offset by an increase of 8.5% in average assets in our cash sweep programs, which were $24.2 billion and $22.3 billion for 2013 and 2012, respectively, as investors increased their percentage of cash assets in response to the volatility in the financial markets.

Transaction and Fee Revenues

Transaction and fee revenues increased in 2014 due to a 2.7% increase in the average number of advisors.

Transaction and fee revenues increased in 2013 due to higher trade volumes in certain brokerage and advisory accounts and a 2.6% increase in the average number of advisors. Additionally, our April 2012 acquisition of Fortigent contributed an incremental $4.1 million in revenues for 2013 compared to 2012.

Other Revenues

The primary contributor to the decrease in other revenues during 2014 compared to 2013 was alternative investment marketing allowances received from product sponsor programs, which decreased by $5.8 million compared to the same period in 2013, driven primarily by decreased sales of alternative investments. Other revenue includes gains or losses on assets held for the advisor non-qualified deferred compensation plan. Gains were $2.1 million for 2014, compared to gains of $7.3 million for 2013. The gains or losses on assets held for the advisor non-qualified deferred compensation plan are offset by increases or decreases in non-GDC sensitive production expenses as noted below.

The primary contributor to the increase in 2013 compared to 2012 was direct investment marketing allowances received from product sponsor programs, which increased by $23.5 million, driven primarily by increased sales of alternative investments. Other revenue includes gains or losses on assets held for the advisor non-qualified deferred compensation plan. Gains were $7.3 million for 2013, compared to gains of $2.2 million for 2012. The gains or losses on assets held for the advisor non-qualified deferred compensation plan are offset by increases or decreases in non-GDC sensitive production expenses as noted below.

Expenses

Production Expenses

The following table shows our production payout and total payout ratios, non-GAAP measures:

	Years Ended December 31,						Change	
	2014		2013		2012		2014 vs. 2013	2013 vs. 2012
Base payout rate	83.71	%	84.04	%	84.16	%	(33) bps	(12) bps
Production based bonuses	2.79	%	2.69	%	2.68	%	10 bps	1 bps
GDC sensitive payout	86.50	%	86.73	%	86.84	%	(23) bps	(11) bps
Non-GDC sensitive payout	0.26	%	0.51	%	0.22	%	(25) bps	29 bps
Total Payout Ratio	86.76	%	87.24	%	87.06	%	(48) bps	18 bps

The increase of 5.4% in production expenses in 2014 compared to 2013 correlates with our commission and advisory revenues, which increased by 5.9% during the same period. The decrease in non-GDC sensitive payout ratio is attributable to decreased advisor share-based compensation correlated to market movement in our stock and production expenses related to the advisor non-qualified deferred compensation plan as noted above.

The increase in production expense in 2013 compared to 2012 is correlated with our commission and advisory revenues, which increased by 13.2% during the same period. The GDC sensitive production payout rate decreased in part due to the growth of our advisory platform, which on average has a lower base rate than our brokerage platform. The increase in non-GDC sensitive payout is attributable to increased advisor share-based compensation for the year ended December 31, 2013 compared to the year ended December 31, 2012 correlated to market movement in our stock and production expenses related to the advisor non-qualified deferred compensation plan as noted above.

Compensation and Benefits Expense

The increase in compensation and benefits for 2014 compared with 2013 was a result of the growth in our average number of full-time employees and the salary and group health insurance costs associated with such growth. Our average number of full-time employees increased 9.5% from 3,047 in 2013 to 3,337 in 2014. Additionally, offsetting the increase in compensation and benefits were reduced levels in temporary labor services and a lower base in the discretionary bonus in 2014 compared with 2013.

The increase in compensation and benefits for 2013 compared with 2012 was primarily based on the fact that our average number of full-time employees increased 6.4% from 2,865 in 2012 to 3,047 in 2013, due to higher staffing levels in compliance, control and service to support increased levels of advisor and client activities, as well as to costs associated with our 2012 acquisition of Fortigent.

General and Administrative Expenses

The increase in general and administrative expenses for 2014 compared with 2013 was primarily driven by increases of $15.6 million for professional services, $13.1 million for business development and promotional expenses, $11.6 million for estimated costs of the investigation, settlement, and resolution of regulatory matters, and $9.6 million for parallel rent, property tax, common area maintenance expenses, and fixed asset disposals incurred in connection with the relocation to our San Diego office building.

The increase in general and administrative expenses for 2013 compared with 2012 was primarily driven by increases of $9.4 million for professional services, $4.5 million for business development and promotional expenses, and $9.0 million increase for non-depreciable equipment and licensing fees.

Depreciation and Amortization Expense

The increase in depreciation and amortization in 2014 compared to 2013 was primarily due to capital assets placed into service during the latter half of 2013 and increased levels of capital expenditures in 2014, which were primarily related to the relocation of our San Diego office building and capitalized software.

The increase in depreciation and amortization in 2013 compared to 2012 was due to higher balances of internally developed software to be amortized and a full year impact of depreciation of equipment and leasehold improvements in our office facility in Boston.

Other Expenses

There was no activity related to Other Expenses for the year ended December 31, 2014. Other expenses for the year ended December 31, 2013 include the derecognition of certain fixed assets of $8.4 million and goodwill of $10.2 million, incurred as a result of the NestWise Closure. The assets were from the 2012 acquisition of Veritat by NestWise, and were determined to have no future economic benefit. Additionally, because Veritat was not an operating subsidiary at December 31, 2013, which was a condition of the potential payment of contingent consideration, we decreased the estimated fair value of contingent consideration by $9.3 million to zero during the year ended December 31, 2013.

Restructuring Charges

Restructuring charges represent expenses incurred as a result of our expansion of our Service Value Commitment initiative. Restructuring charges were $34.7 million in 2014. These charges relate primarily to consulting fees paid to support our technology transformation as well as employee severance obligations and other related costs and non-cash charges for impairment incurred through our expansion of our Service Value Commitment initiative. Refer to Note 3. Restructuring, within the notes to consolidated financial statements for additional details regarding this matter.

Restructuring charges were $30.2 million in 2013. These charges relate primarily to consulting fees paid to support our technology transformation and to develop our detailed outsourcing plans, as well as employee severance obligations and other related costs and non-cash charges for impairment incurred through our expansion of our Service Value Commitment initiative. Refer to Note 3. Restructuring, within the notes to consolidated financial statements for additional details regarding this matter.

Interest Expense

Interest expense represents non-operating interest expense for our senior secured credit facilities. The increase in interest expense for 2014 as compared to 2013 is primarily due to changes in the level of outstanding indebtedness following the amendment to the credit agreement in October 2014.

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The reduction in interest expense for 2013 as compared to 2012 is primarily due to the full year effect of the refinancing in March 2012 and the maturity of an interest rate swap agreement with a notional value of $65.0 million on June 30, 2012. The decrease in interest expense due to these two events was partially offset by an increase of approximately $236.1 million in debt resulting from the amendment to the credit agreement in May 2013 of $608.9 million.

Loss on Extinguishment of Debt

In October 2014, we amended the maturity date of certain credit facilities in our previous credit agreement and effectively increased our revolving credit facility by $150.0 million. Accordingly, we accelerated the recognition of $3.9 million of related unamortized debt issuance costs that had no future economic benefit. Refer to Note 11. Debt, within the notes to consolidated financial statements for additional details regarding this matter. In May 2013, we refinanced and amended our previous credit agreement and effectively increased our borrowing by approximately $236.1 million, with net proceeds used primarily for working capital requirements and other general corporate purposes. Accordingly, we accelerated the recognition of $8.0 million of related unamortized debt issuance costs that had no future economic benefit.

Provision for Income Taxes

Our effective income tax rate was 39.6%, 37.6%, and 39.4% for 2014, 2013, and 2012, respectively. The increase in our effective tax rate and income tax expense for 2014 compared to 2013 was primary due to a release of the valuation allowance, larger than usual incentive stock option disqualifying dispositions, and utilization of a business energy tax credit in 2013.

The decrease in our effective tax rate for 2013 and income tax expense for 2012 was primarily due to a release of the valuation allowance, larger than usual incentive stock option disqualifying dispositions and utilization of a business energy tax credit.

Liquidity and Capital Resources

Senior management establishes our liquidity and capital policies. These policies include senior management's review of short- and long-term cash flow forecasts, review of monthly capital expenditures, and daily monitoring of liquidity for our subsidiaries. Decisions on the allocation of capital are based upon, among other things, projected profitability and cash flow, risks of the business, regulatory capital requirements, and future liquidity needs for strategic activities. Our Treasury Department assists in evaluating, monitoring, and controlling the business activities that impact our financial condition, liquidity and capital structure and maintains relationships with various lenders. The objectives of these policies are to support the executive business strategies while ensuring ongoing and sufficient liquidity.

A summary of changes in cash flow data is provided below (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Net cash flows provided by (used in):			
Operating activities	$232,242	$160,117	$254,268
Investing activities	(93,132)	(74,809)	(91,669)
Financing activities	(243,362)	(34,985)	(417,110)
Net increase (decrease) in cash and cash equivalents	(104,252)	50,323	(254,511)
Cash and cash equivalents — beginning of year	516,584	466,261	720,772
Cash and cash equivalents — end of year	$412,332	$516,584	$466,261

Cash requirements and liquidity needs are primarily funded through our cash flow from operations and our capacity for additional borrowing.

Net cash provided by or used in operating activities includes net income adjusted for non-cash expenses such as depreciation and amortization, restructuring related charges, share-based compensation, amortization of debt issuance costs, deferred income tax provision, and changes in operating assets and liabilities. Operating assets and liabilities include balances related to settlement and funding of client transactions, receivables from product sponsors, and accrued commission and advisory expenses due to our advisors. Operating assets and liabilities that arise from the settlement and funding of transactions by our advisors' clients are the principal cause of changes to our net cash from operating activities and can fluctuate significantly from day to day and period to period depending on overall trends and clients' behaviors.

Cash flows from operating activities increased in 2014 when compared to 2013 primarily due to the impact of client trading and settlement activity, which represented a net source of funds of $20.1 million in 2014 compared to a net use of funds of $161.2 million in 2013. Additionally, increases in depreciation and amortization expense due to capital assets placed into service during the latter half of 2013 and increased levels of capital expenditures in 2014, primarily related to the San Diego office building and capitalized software, contributed to the increase in operating activities, which were offset by increases in other assets, including prepaid expenses and deferred compensation related to advisors.

Cash flows from operating activities decreased in 2013 when compared to 2012 primarily due to the impact of client trading and settlement activity, which represented a net use of funds of $161.2 million in 2013 compared to a net source of funds of $51.6 million in 2012. The increased use of cash for client trading and settlement activities was offset in part by higher net income in 2013 compared to 2012, increase in depreciation and amortization expense in 2013 compared to 2012, and a decrease in cash generated from excess tax benefits arising from share-based compensation in 2013 compared to 2012.

Net cash used in investing activities during 2014 increased in comparison to 2013 due to an increase of capital expenditures related to business technology, real estate and facilities, and the purchase of goodwill and other intangible assets of a third party.

Net cash used in investing activities during 2013 decreased in comparison to 2012 due to $43.7 million of acquisition costs, offset by an increase of capital expenditures in 2013 compared to 2012.

Cash flows used in financing activities in 2014 increased in comparison to 2013 as a result of an increase in cash used to repay senior credit facilities and a revolving line of credit and repurchases of outstanding common stock, offset by a decrease in proceeds from senior credit facilities in 2014 compared to 2013.

Cash flows used in financing activities in 2013 decreased in comparison to 2012 as a result of a decrease in repayments of senior secured credit facilities which was $866.6 million in 2013, substantially all related to the May 2013 refinancing, compared to $1,364.8 million in 2012, due primarily to the March 2012 refinancing, and a decrease in cash dividends paid which was $68.0 million in 2013 compared to $248.8 million in 2012, offset by a decrease in proceeds from senior credit facilities which was $1,079.0 million in 2013 compared to $1,330.7 million in 2012 and a decrease in cash generated from excess tax benefits arising from share-based compensation in 2013 compared to 2012.

We believe that based on current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, which include three uncommitted lines of credit available and the revolving credit facility established through our amended credit agreement, will be adequate to satisfy our working capital needs, the payment of all of our obligations, and the funding of anticipated capital expenditures for the foreseeable future. In addition, we have certain capital adequacy requirements due to our registered broker-dealer entity and bank trust subsidiaries and have met all such requirements and expect to continue to do so for the foreseeable future. We regularly evaluate our existing indebtedness, including refinancing thereof, based on a number of factors, including our capital requirements, future prospects, contractual restrictions, the availability of refinancing on attractive terms, and general market conditions.

Share Repurchases

The Board of Directors has approved several share repurchase programs pursuant to which we may repurchase issued and outstanding shares of our common stock. Purchases may be effected in open market or privately negotiated transactions, including transactions with our affiliates, with the timing of purchases and the amount of stock purchased generally determined at our discretion within the constraints of our credit agreement and general operating needs. See Note 14. Stockholders' Equity, within the notes to consolidated financial statements for additional information regarding our share repurchases.

Dividends

The payment, timing, and amount of any dividends are subject to approval by our Board as well as certain limits under our credit facilities. See Note 14. Stockholders' Equity, within the notes to consolidated financial statements for additional information regarding our dividends.

Operating Capital Requirements

Our primary requirement for working capital relates to funds we loan to our advisors' clients for trading conducted on margin and funds we are required to maintain at clearing organizations to support these clients' trading activities. We have several sources of funds that enable us to meet increases in working capital requirements that relate to increases in client margin activities and balances. These sources include cash and cash equivalents on hand, cash and securities segregated under federal and other regulations, and proceeds from re-pledging or selling client securities in margin accounts. When a client purchases securities on margin or uses securities as collateral to borrow from us on margin, we are permitted, pursuant to the applicable securities industry regulations, to repledge, loan, or sell securities that collateralize those margin accounts. As of December 31, 2014, we had received collateral primarily in connection with client margin loans with a fair value of approximately $353.2 million, which we can repledge, loan, or sell. Of these securities, approximately $32.3 million were client-owned securities pledged to the Options Clearing Corporation as collateral to secure client obligations related to options positions. As of December 31, 2014 there were no restrictions that materially limited our ability to repledge, loan, or sell the remaining $320.9 million of client collateral.

Our other working capital needs are primarily related to regulatory capital requirements at our broker-dealer and bank trust subsidiaries and software development, which we have satisfied in the past from internally generated cash flows. 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 on our uncommitted lines of credit at our broker-dealer subsidiary LPL Financial, or under our revolving credit facility.

Our registered broker-dealer, LPL Financial, is subject to the SEC's Uniform Net Capital Rule, which requires the maintenance of minimum net capital. LPL Financial computes net capital requirements under the alternative method, which requires firms to maintain minimum net capital, as defined, equal to the greater of $250,000 or 2.0% of aggregate debit balances arising from client transactions. At December 31, 2014, LPL Financial's excess net capital was $95.2 million.

LPL Financial's ability to pay dividends greater than 10% of its excess net capital during any 35 day rolling period requires approval from FINRA. In addition, payment of dividends is restricted if LPL Financial's net capital would be less than 5.0% of aggregate customer debit balances.

LPL Financial also acts as an introducing broker for commodities and futures. Accordingly, its trading activities are subject to the National Futures Association's ("NFA") financial requirements and it is required to maintain net capital that is in excess of or equal to the greatest of NFA's minimum financial requirements. The NFA was designated by the Commodity Futures Trading Commission as LPL Financial's primary regulator for such activities. Currently, the highest NFA requirement is the minimum net capital calculated and required pursuant to the SEC's Uniform Net Capital Rule.

Our subsidiary, PTC, is also subject to various regulatory capital requirements. Failure to meet the respective minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have substantial monetary and non-monetary impacts on PTC's operations.

Debt and Related Covenants

On October 1, 2014, we entered into the Second Amendment, Extension and Incremental Assumption Agreement ("Credit Agreement") with its wholly owned subsidiary, LPL Holdings, Inc., the other parties thereto. The Credit Agreement amends the our previous credit agreement, which was dated May 13, 2013. See Note 11. Debt, within the notes to consolidated financial statements for further detail.

The Credit Agreement contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to:

- incur additional indebtedness;
- create liens;
- enter into sale and leaseback transactions;
- engage in mergers or consolidations;
- sell or transfer assets;
- pay dividends and distributions or repurchase our capital stock;
- make investments, loans or advances;
- prepay certain subordinated indebtedness;

- engage in certain transactions with affiliates;

- amend material agreements governing certain subordinated indebtedness; and
- change our lines of business.

Our Credit Agreement prohibits us from paying dividends and distributions or repurchasing our capital stock except for limited purposes. In addition, our financial covenant requirements include a total leverage ratio test and an interest coverage ratio test. Under our total leverage ratio test, we covenant not to allow the ratio of our consolidated total debt (as defined in the Amended Credit Agreement) to an adjusted EBITDA reflecting financial covenants in our Credit Agreement to exceed certain prescribed levels set forth in the Credit Agreement. Under our interest coverage ratio test, we covenant not to allow the ratio of our Credit Agreement Adjusted EBITDA to our consolidated interest expense (as defined in the Credit Agreement) to be less than certain prescribed levels set forth in the Credit Agreement. Each of our financial ratios is measured at the end of each fiscal quarter.

As of December 31, 2014 we were in compliance with all of our covenant requirements. Our covenant requirements and actual ratios were as follows:

	December 31, 2014	
Financial Ratio	Covenant Requirement	Actual Ratio
Leverage Test (Maximum)	4.00	2.70
Interest Coverage (Minimum)	3.00	10.61

Off-Balance Sheet Arrangements

We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our advisors' clients. These arrangements include Company commitments to extend credit. For information on these arrangements, see Note 13. Commitments and Contingencies and Note 20. Financial Instruments with Off-Balance-Sheet Credit Risk and Concentrations of Credit Risk, within the notes to consolidated financial statements.

Contractual Obligations

The following table provides information with respect to our commitments and obligations as of December 31, 2014:

	Payments Due by Period				
	Total	< 1 Year	1-3 Years	4-5 Years	> 5 Years
			(In thousands)		
Leases and other obligations(1)(2)	$707,765	$80,775	$164,647	$93,058	$369,285
Senior secured credit facilities(3)	1,634,258	120,839	30,291	1,483,128	—
Variable interest payments(4)	247,206	47,689	111,826	87,691	—
Commitment fee on revolving line of credit(5)	9,115	1,919	5,756	1,440	—
Total contractual cash obligations	$2,598,344	$251,222	$312,520	$1,665,317	$369,285

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(1) Includes a long-term contractual obligation with a third-party service provider for the outsourcing of certain functions. The table above includes the minimum payments due over the duration of the contract. The contractual obligation may be canceled, subject to a termination penalty that is approximately equal to the initial annual minimum payment. The amount of the termination penalty steps down ratably through the passage of time. Future minimum payments have not been reduced by this termination penalty. Additionally, included in the table above are obligations related to the development of land in South Carolina for office space. Under development and agency contracts we expect to pay a pro rata share equal to 27.5% of the design and construction costs, which are expected to be incurred through 2017. The remaining amounts will be paid by the landlord. Additionally, the Company has entered into lease agreements for the office space once developed. These leases, also included above, have an initial lease term of 20 years that commence once the develop is complete and we take occupancy of the buildings.

(2) Future minimum payments for applicable leases have not been reduced by minimum sublease rental income of $3.0 million due in the future under noncancelable subleases. See Note 13. Commitment and Contingencies, within

the notes to consolidated financial statements for further detail on operating lease obligations and obligations under noncancelable service contracts.

(3) Represents principal payments under our Credit Agreement. See Note 11. Debt, within the notes to consolidated financial statements for further detail.

(4) Represents variable interest payments under our Credit Agreement. Variable interest payments assume the applicable interest rates at December 31, 2014 remain unchanged. See Note 11. Debt, within the notes to consolidated financial statements for further detail.

(5) Represents commitment fees for unused borrowings on the revolving credit facility under our Credit Agreement. See Note 11. Debt, within the notes to consolidated financial statements for further detail.

As of December 31, 2014, we have a liability for unrecognized tax benefits of $21.0 million, which we have included in income taxes payable in the consolidated statements of financial condition. This amount has been excluded from the contractual obligations table because we are unable to reasonably predict the ultimate amount or timing of future tax payments.

Fair Value of Financial Instruments

We use fair value measurements to record certain financial assets and liabilities at fair value and to determine fair value disclosures.

We use prices obtained from an independent third-party pricing service to measure the fair value of our trading securities. We validate prices received from the pricing service using various methods including, comparison to prices received from additional pricing services, comparison to available market prices and review of other relevant market data including implied yields of major categories of securities.

At December 31, 2014, we did not adjust prices received from the independent third-party pricing service. For certificates of deposit and treasury securities, we utilize market-based inputs including observable market interest rates that correspond to the remaining maturities or next interest reset dates.

Critical Accounting Estimates

Our consolidated financial statements are prepared in accordance with GAAP, which require management to make estimates, judgments, and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We believe that of our critical accounting policies, the following are noteworthy because they require management to make estimates regarding matters that are uncertain and susceptible to change where such change may result in a material adverse impact on our financial position and reported financial results.

Revenue Recognition

Substantially all of our revenues are based on contractual arrangements. In determining the appropriate recognition of commissions, we review the terms and conditions of the brokerage account agreements between us and our advisors' clients, representative agreements with our advisors, which include payout rates and terms, and selling agreements with product sponsors for packaged investment products such as mutual funds, annuities, insurance and alternative investments. In determining the appropriate recognition of advisory revenues, we review the terms and conditions of the advisory agreements between the advisors' clients and the applicable RIA, representative agreements with advisors, and agreements with third parties who provide specific investment management or investment strategies. Revenues are recognized in the periods in which the related services are performed provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable and collectability is reasonably assured. Payments received by us in advance of the performance of service are deferred and recognized as revenue when earned.

Management considers the nature of our contractual arrangements in determining whether to recognize certain types of revenue on the basis of the gross amount billed or net amount retained after payments are made to providers of certain services related to the product or service offering.

The main factors we use to determine whether to record revenue on a gross or net basis are whether:

- we are primarily responsible for the service to the advisor and its client;
- we have discretion in establishing fees paid by the client and fees due to the third-party service provider; and
- we are involved in the determination of product or service specifications.

When client fees include a portion of charges that are paid to another party and we are primarily responsible for providing the service to the client, we recognize revenue on a gross basis in an amount equal to the fee paid by the client. The cost of revenues recognized by us is the amount due to the other party and is recorded as production expense.

In instances in which another party is primarily responsible for providing the service to the client, we only recognize the net amount retained by us. The portion of the fees that are collected from the client by us and remitted to the other party are considered pass through amounts and accordingly are not a component of revenues or cost of revenues.

Commission revenue represents gross commissions generated by our advisors for their clients' purchases and sales of securities, and various other financial products such as mutual funds, variable and fixed annuities, alternative investments, fixed income, insurance, group annuities, and option and commodity transactions. We generate two types of commission revenues: front-end sales commissions that occur at the point of sale, as well as trailing commissions for which we provide ongoing support, awareness, and education to clients of our advisors.

We recognize front-end sales commissions as revenue on a trade-date basis, which is when our performance obligations in generating the commissions have been substantially completed. We earn commissions on a significant volume of transactions that are placed by our advisors directly with product sponsors, particularly with regard to mutual fund, 529 education savings plan, and fixed and variable annuity and insurance products. As a result, management must estimate a portion of its commission revenues earned from clients for purchases and sales of these products for each accounting period for which the proceeds have not yet been received. These estimates are based on the amount of commissions earned from transactions relating to these products in prior periods.

Commission revenue includes mutual fund, 529 education savings plan and fixed and variable product trailing fees which are recurring in nature. These trailing fees are earned by us, based on a percentage of the current market value of clients' investment holdings in trail-eligible assets, and recognized over the period during which services are performed. Because trail commission revenues are generally paid in arrears, management estimates the majority of trail commission revenues earned during each period. These estimates are based on a number of factors including market levels and the amount of trail commission revenues received in prior periods. The amount of such accruals are classified within receivables from product sponsors, broker-dealers, and clearing organizations in the consolidated statements of financial condition.

A substantial portion of our commission revenue is ultimately paid to our advisors. We record an estimate for commissions payable based upon payout ratios for each product for which we have accrued commission revenue. Such amounts are recorded by us as production expense.

We record fees charged to clients as advisory fee revenue in advisory accounts where LPL Financial or Independent Advisers Group Corporation ("IAG") is the RIA. A substantial portion of these advisory fees are paid to the related advisor and are recorded as production expense.

Certain advisors conduct their advisory business through separate entities by establishing their own RIA pursuant to the Investment Advisers Act of 1940, rather than using our corporate RIA. These stand-alone RIAs ("Independent RIA") engage us for clearing, regulatory, and custody services, as well as access to our investment advisory platforms. The advisory revenue generated by these Independent RIAs is earned by the advisors, and accordingly not included in our advisory fee revenue. We charge administrative fees based on the value of assets within these advisory accounts, and classify such fees as advisory revenues.

Legal Contingencies

Assessing the probability of a loss occurring and the amount of any loss related to a legal proceeding or regulatory matter is inherently difficult. While the Company exercises significant and complex judgments to make certain estimates presented in its consolidated financial statements, there are particular uncertainties and complexities involved when assessing the potential outcomes of legal proceedings and regulatory matters. The Company's assessment process considers a variety of factors and assumptions, which may include the procedural status of the matter and any recent developments; prior experience and the experience of others in similar matters; the size and nature of potential exposures; available defenses; the progress of fact discovery; the opinions of counsel and experts; potential opportunities for settlement and the status of any settlement discussions; as well as the potential for insurance coverage and indemnification, if available. The Company monitors these factors and assumptions for new developments and re-assesses the likelihood that a loss will occur and the estimated range or amount of loss, if those amounts can be reasonably determined. The Company has established an accrual for those legal proceedings and regulatory matters for which a loss is both probable and the amount can be reasonably estimated. When it is not probable, but at least reasonably possible that a loss has been incurred, a disclosure of fact is made when the underlying loss or range of losses can also be reasonably estimated. The Company estimates that, as of December 31, 2014, exposure to those losses could range from $0 to $15 million in excess of the accrued liability, if any, related to those matters. Due to the inherent unpredictability of such matters, the Company may have exposure to losses that are not yet predictable or cannot yet be reasonably estimated in addition to those amounts that have been accrued or disclosed.

The Company maintains insurance coverage for certain legal proceedings, including those involving client claims. With respect to client claims, the estimated losses on many of the pending matters are less than the applicable deductibles of the insurance policies. The Company is also subject to extensive regulation and supervision by U.S. federal and state agencies and various self-regulatory organizations. The Company and its advisors periodically engage with such agencies and organizations, in the context of examinations or otherwise, to respond to inquiries, informational requests, and investigations. From time to time, such engagements result in regulatory complaints or other matters, the resolution of which can include fines and other remediation.

Valuation of Goodwill and Other Intangibles

Goodwill and other indefinite-lived intangible assets are tested annually for impairment in the fourth fiscal quarter and in interim periods if certain events occur indicating that the carrying amounts may be impaired. If a qualitative assessment is used and we determine that the fair value of a reporting unit or indefinite-lived intangible asset is more-likely-than-not (i.e., a likelihood of more than 50%) less than its carrying amount, a quantitative impairment test will be performed. If goodwill is quantitatively assessed for impairment, a two-step approach is applied. First, we compare the estimated fair value of the reporting unit in which the goodwill resides to its carrying value. The second step, if necessary, measures the amount of such impairment by comparing the implied fair value of goodwill to its carrying value. Other indefinite-lived intangible assets are quantitatively assessed for impairment, if necessary, by comparing their estimated fair values to their carrying values. If the carrying value exceeds the fair value, the difference is recorded as impairment. No impairment of goodwill or other indefinite-live intangible assets has been recognized during the years ended December 31, 2014, 2013, and 2012.

Long-lived assets, such as property, plant and equipment and intangible assets subject to amortization, are reviewed for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds the estimated fair value of the asset or asset group. Long-lived assets to be disposed of by sale are reported at the lower of their carrying amounts or their estimated fair values less costs to sell and are not depreciated.

Income Taxes

In preparing the consolidated financial statements, we estimate income tax expense based on various jurisdictions in which we conduct business. We then must assess the likelihood that the deferred tax assets will be realized. A valuation allowance is established to the extent that it is more-likely-than-not that such deferred tax assets will not be realized. When we establish a valuation allowance or modify the existing allowance in a certain reporting period, we generally record a corresponding increase or decrease to tax expense in the consolidated statements of income. Management makes significant judgments in determining the provision for income taxes, the deferred tax assets and liabilities, and any valuation allowances recorded against the deferred tax asset. Changes in the estimate of these taxes occur periodically due to changes in the tax rates, changes in business operations, implementation of tax planning strategies, resolution with taxing authorities of issues where we had previously taken certain tax positions, and newly enacted statutory, judicial, and regulatory guidance. These changes could have a material effect on our consolidated statements of income, financial condition, or cash flows in the period or periods in which they occur.

We recognize the tax effects of a position in the consolidated financial statements only if it is more-likely-than-not to be sustained based solely on its technical merits, otherwise no benefits of the position are to be recognized. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. Moreover, each tax position meeting the recognition threshold is required to be measured as the largest amount that is greater than 50 percent likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information.

Employee Health Care Self-Insurance

We are partially self-insured for benefits paid under employee healthcare programs. Self-insurance estimates are determined with the assistance of insurance actuaries, based on historical experience and trends related to claims and payments, information provided by the insurance broker, and industry experience. We have coverage for excess losses on either an individual or an aggregate case basis. Estimates of future claim costs are recorded on an undiscounted basis, and are recognized as a liability within accounts payable and accrued liabilities in the consolidated statements of financial condition.

Share-Based Compensation

Certain of our employees, officers, directors, advisors, and financial institutions participate in various long-term incentive plans that provide for granting stock options, warrants, restricted stock awards, and restricted stock units. Stock options and warrants generally vest in equal increments over a three- to five-year period and expire on the tenth anniversary following the date of grant. Restricted stock awards and restricted stock units generally vest over a two- to four-year period.

We recognize share-based compensation for equity awards granted to employees, officers, and directors as compensation and benefits expense on the consolidated statements of income. The fair value for stock options is estimated using a Black-Scholes valuation model on the grant date. The fair value of restricted stock awards and restricted stock units is equal to the closing price of the Company’s stock on the date of grant. Share-based compensation is recognized over the requisite service period of the individual awards, which generally equals the vesting period.

We recognize share-based compensation for equity awards granted to advisors and financial institutions as commissions and advisory expense on the consolidated statements of income. The fair value for stock options and warrants is estimated using a Black-Scholes valuation model on the date of grant and is revalued at each reporting period. The fair value of restricted stock units is equal to the market price of the Company’s stock on the last day of each reporting period. Share-based compensation is recognized over the requisite service period of the individual awards, which generally equals the vesting period.

We must also make assumptions regarding the number of stock options, warrants, restricted stock awards, and restricted stock units that will be forfeited. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeiture assumptions do not impact the total amount of expense ultimately recognized over the vesting period. Rather, different forfeiture assumptions would only impact the timing of expense recognition over the vesting period. See Note 15. Share-Based Compensation, for additional information regarding share-based compensation for equity awards granted.

Acquisitions

When we acquire companies, we recognize separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While we use our best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, our estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, we record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to our consolidated statements of income.

Accounting for business combinations requires our management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, liabilities assumed, and pre-acquisition contingencies. These assumptions are based in part on historical experience, market data, and information obtained from the management of the acquired companies and are inherently uncertain.

Examples of critical estimates in valuing certain of the intangible assets we have acquired include but are not limited to: (i) future expected cash flows from client relationships, advisor relationships and product sponsor relationships; (ii) estimates to develop or use software; and (iii) discount rates.

If we determine that a pre-acquisition contingency is probable in nature and estimable as of the acquisition date, we record our best estimate for such a contingency as a part of the preliminary purchase price allocation. We continue to gather information for and evaluate our pre-acquisition contingencies throughout the measurement period and if we make changes to the amounts recorded or if we identify additional pre-acquisition contingencies during the measurement period, such amounts will be included in the purchase price allocation during the measurement period and, subsequently, in our results of operations.

We may be required to pay future consideration to the former shareholders of acquired companies, depending upon the terms of the applicable purchase agreement, that is contingent upon the achievement of certain financial or operating targets. The fair value of the contingent consideration is determined using financial forecasts and other estimates that assess the probability and timing of the financial targets being reached, and measuring the associated cash payments at their present value using a risk-adjusted rate of return. The estimated fair value of the contingent consideration on the acquisition date is included in the purchase price of the acquired company. At each reporting date, or whenever there are significant changes in underlying key assumptions, a review of these assumptions is performed and the contingent consideration liability is updated to its estimated fair value. If there are no significant changes in the assumptions, the quarterly determination of the fair value of contingent consideration reflects the implied interest for the passage of time. Changes in the estimated fair value of the contingent consideration obligations may result from changes in the terms of the contingent payments, changes in discount periods and rates, changes in assumptions with respect to the timing and likelihood of achieving the applicable targets, and other related developments. Actual progress toward achieving the financial targets for the remaining measurement periods may be different than our expectations of future performance. The change in the estimated fair value of contingent consideration has been classified as other expenses in the consolidated statements of income.

Recent Accounting Pronouncements

Refer to Note 2. Summary of Significant Accounting Policies, within the notes to consolidated financial statements for a discussion of recent accounting pronouncements or changes in accounting pronouncements that are of significance, or potential significance, to us.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

We maintain trading securities owned and securities sold, but not yet purchased in order to facilitate client transactions, to meet a portion of our clearing deposit requirements at various clearing organizations, and to track the performance of our research models. These securities could include mutual funds, debt securities issued by the U.S. government, money market funds, corporate debt securities, certificates of deposit, and equity securities. Changes in the value of our trading inventory may result from fluctuations in interest rates, credit ratings of the issuer, equity prices and the correlation among these factors. We manage our trading inventory by product type. Our activities to facilitate client transactions generally involve mutual fund activities, including dividend reinvestments. The balances are based upon pending client activities which are monitored by our broker-dealer support services department. Because these positions arise from pending client transactions, there are no specific trading or position limits. Positions held to meet clearing deposit requirements consist of U.S. government securities. The amount of securities deposited depends upon the requirements of the clearing organization. The level of securities deposited is monitored by the settlement area within our broker-dealer support services department. Our research department develops model portfolios that are used by advisors in developing client portfolios. We currently maintain approximately 190 accounts based on model portfolios. At the time a portfolio is developed, we purchase the securities in that model portfolio in an amount equal to the account minimum for a client. Account minimums vary by product and can range from $10,000 to $250,000 per model. We utilize these positions to track the performance of the research department. The limits on this activity are based at the inception of each new model.

At December 31, 2014, the fair value of our trading securities owned were $13.5 million. Securities sold, but not yet purchased were $0.3 million at December 31, 2014. The fair value of securities included within other assets were $80.6 million at December 31, 2014. See Note 4. Fair Value Measurements, within the notes to consolidated financial statements for information regarding the fair value of trading securities owned, securities sold, but not yet purchased and other assets associated with our client facilitation activities. See Note 5. Held to Maturity Securities, within the notes to consolidated financial statements for information regarding the fair value of securities held to maturity.

We do not enter into contracts involving derivatives or other similar financial instruments for trading or proprietary purposes.

We also have market risk on the fees we earn that are based on the market value of advisory and brokerage assets, assets on which trail commissions are paid, and assets eligible for sponsor payments.

Interest Rate Risk

We are exposed to risk associated with changes in interest rates. As of December 31, 2014, all of the outstanding debt under our Amended Credit Agreement, $1.6 billion, was subject to floating interest rate risk. While our senior secured term loans are subject to increases in interest rates, we do not believe that a short-term change in interest rates would have a material impact on our income before taxes.

The following table summarizes the impact of increasing interest rates on our interest expense from the variable portion of our debt outstanding at December 31, 2014 (in thousands):

	Outstanding at	Annual Impact of an Interest Rate Increase of			
Senior Secured Term Loans	Variable Interest Rates	10 Basis Points	25 Basis Points	50 Basis Points	100 Basis Points
Term Loan A	459,375	459	1,148	2,297	4,594
Term Loan B	1,064,883	—	—	598	5,484
Variable Rate Debt Outstanding	$1,524,258	$459	$1,148	$2,895	$10,078

See Note 11. Debt, within the notes to consolidated financial statements for additional information.

We offer our advisors and their clients two primary cash sweep programs that are interest rate sensitive: our insured cash programs and money market sweep vehicles involving multiple money market fund providers. Our insured cash programs use multiple non-affiliated banks to provide up to $1.5 million ($3.0 million in joint accounts) of FDIC insurance for client deposits custodied at the banks. While clients earn interest for balances on deposit in the insured cash programs, we earn a fee. Our fees from the insured cash programs are based on prevailing interest rates in the current interest rate environment. Changes in interest rates and fees for the insured cash

programs are monitored by our fee and rate setting committee (the “FRS committee”), which governs and approves any changes to our fees. By meeting promptly after interest rates change, or for other market or non-market reasons, the FRS committee balances financial risk of the insured cash programs with products that offer competitive client yields. However, as short-term interest rates hit lower levels, the FRS committee may be compelled to lower fees.

The average Federal Reserve effective federal funds rate ("FFER") for December 2014 was 0.12%. The following table reflects the approximate annual impact to asset-based revenues on our insured cash programs (assuming that client balances at December 31, 2014 remain unchanged) of an upward or downward change in short-term interest rates of one basis point (dollars in thousands):

Federal Reserve Effective Federal Funds Rate	Annualized Increase or Decrease in Asset-Based Revenues per One Basis Point Change	
0.00% - 0.25%		$1,900
0.26% - 1.25%		900
1.26% - 2.70%		800

The actual impact to asset-based revenues, including a change in the FFER of greater than 2.70%, may vary depending on the FRS committee's strategy in response to a change in interest rate levels, the significance of a change and actual balances at the time of such change.

Credit Risk

Credit risk is the risk of loss due to adverse changes in a borrower’s, issuer’s or counterparty’s ability to meet its financial obligations under contractual or agreed upon terms. Credit risk includes the risk that collateral posted with LPL by clients to support margin lending or derivative trading is insufficient to meet client’s contractual obligations to LPL. We bear credit risk on the activities of our advisors’ clients, including the execution, settlement and financing of various transactions on behalf of these clients.

These activities are transacted on either a cash or margin basis. Our credit exposure in these transactions consists primarily of margin accounts, through which we extend credit to advisors' clients collateralized by cash (for purposes of margin lending, cash is not used as collateral) and securities in the client’s account. Under many of these agreements, we are permitted to sell, re-pledge or loan these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions.

As our advisors execute margin transactions on behalf of their clients, we may incur losses if clients do not fulfill their obligations, the collateral in the client’s account is insufficient to fully cover losses from such investments, and our advisors fail to reimburse us for such losses. Our loss on margin accounts is immaterial and did not exceed $0.3 million during any of the years ended December 31, 2014, 2013, and 2012. We monitor exposure to industry sectors and individual securities and perform analyses on a regular basis in connection with our margin lending activities. We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions.

We are subject to concentration risk if we extend large loans to or have large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (e.g. in the same industry), or if we accept a concentrated position as collateral for a margin loan. Receivables from and payables to clients and stock borrowing and lending activities are conducted with a large number of clients and counterparties and potential concentration is carefully monitored. We seek to limit this risk through careful review of the underlying business and the use of limits established by senior management, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment and other positions or commitments outstanding.

Operational Risk

Operational risk is defined as the risk of loss resulting from failed or inadequate processes or systems, actions by people, or external events. We operate in diverse markets and are reliant on the ability of our employees and systems, as well as third-party service providers and their systems, to process a large number of transactions effectively. These risks are less direct and quantifiable than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes and in light of increasing reliance on third-party service providers. In the event of a breakdown or improper operation of systems or improper action by employees, advisors or third-party service providers, we could suffer financial loss, data loss, regulatory sanctions and damage to our reputation. Business continuity plans exist for critical systems, and redundancies are built into the systems as deemed appropriate. In order to assist in the mitigation and control of operational risk, we have an Operational Risk Management department and framework that enables assessment and reporting on operational risk across the firm. This framework helps ensure policies and procedures are in place and appropriately designed to identify and manage operational risk at appropriate levels throughout our organization and within various departments. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our employees and advisors operate within established corporate policies and limits. Notwithstanding the foregoing, please consult the Risks Related to our Technology section within Part I, “Item 1A. Risk Factors” for more information about the risks associated with our technology, including risks related to security, and the potential related effects on our operations.

Regulatory and Legal Risk

The regulatory environment in which we operate is discussed in detail within Part I, “Item 1, Business Section” of this Annual Report on Form 10-K. During the period presented in this Annual Report on Form 10-K, we have observed regulators broaden the scope, frequency, and depth of their examinations to include greater emphasis on the quality and consistency of the industry’s execution of policies and procedures. Please consult the Risks Related to Our Regulatory Environment section within Part I, “Item 1A. Risk Factors” for more information about the risks associated with operating within our regulatory environment, and the potential related effects on our operations.

Risk Management

We employ an enterprise risk management framework ("ERM") that is intended to address key risks and responsibilities, enable us to execute our business strategy, and protect our Company and its franchise. Our framework is designed to promote clear lines of risk management accountability and a structured escalation process for key risk information and events.

Our risk management governance approach includes our Board of Directors (the “Board”) and certain of its committees; the Risk Oversight Committee of LPL Financial (the “ROC”) and its subcommittees; the Internal Audit Department and the Governance, Risk and Compliance (“GRC”) Department of LPL Financial; and business line management. We regularly reevaluate and, when necessary, modify our processes to improve the identification and escalation of risks and events.

Audit Committee of the Board

In addition to its other responsibilities, the Audit Committee of the Board (the “Audit Committee”) reviews our policies with respect to risk assessment and risk management, as well as our major financial risk exposures and the steps management has undertaken to control them. The Audit Committee provides reports to the Board at each of the Board’s regularly scheduled quarterly meetings.

Compensation and Human Resources Committee of the Board

In addition to its other responsibilities, the Compensation and Human Resources Committee of the Board assesses whether our compensation arrangements encourage inappropriate risk-taking, and whether risks arising from our compensation arrangements are reasonably likely to have a material adverse effect on the Company.

Risk Oversight Committee of LPL Financial

The Audit Committee has mandated that the ROC oversee our risk management activities, including those of our subsidiaries. The Chief Risk Officer of LPL Financial serves as chair, and our Executive Vice President, Deputy General Counsel, Regulatory, serves as vice chair, of the ROC, which generally meets on a monthly basis with ad hoc meetings as necessary. Each member of the Management Committee of LPL Financial and the three other Managing Directors (Managing Director, Chief Investment Officer; Managing Director, Independent Advisor Services; and Managing Director, Institution Services) serve on the ROC. Additional members of the Company’s senior management team are also included as ex-officio members, representing the key control areas of the Company. These individuals include, but are not limited to, the Chief Compliance Officer, Brokerage; the Chief Compliance Officer, Advisory; the Chief Information Security Officer; and the Chief Privacy Officer of LPL Financial. Participation in the ROC by senior officers is intended to ensure that the ROC covers the key risk areas of the Company, including its subsidiaries, and that the ROC thoroughly reviews significant matters relating to risk priorities, policies, control procedures and related exceptions, certain new and complex products and business arrangements, transactions with significant risk elements, and identified emerging risks.

The chair of the ROC provides reports to the Audit Committee at each of the Audit Committee's regularly scheduled quarterly meetings and, as necessary or requested, to the Board. The reports generally cover topics addressed by the ROC at its meetings since the immediately preceding report. If warranted, matters of material risk are escalated to the Audit Committee or Board more frequently.

Subcommittees of the Risk Oversight Committee

The ROC has established multiple subcommittees that cover key areas of risk. The subcommittees meet regularly and are responsible for keeping the ROC informed and escalating issues in accordance with the Company's escalation policies. The responsibilities of such subcommittees include, for example, oversight of the approval of new and complex investment products offered to advisors' clients; oversight of the Company's investment advisory business; issues and trends related to advisor compliance and examination findings; whistle-blower hotline allegations; and oversight of disclosures related to our financial reporting.

Internal Audit Department

The Internal Audit Department provides independent verification of the effectiveness of the Company's internal controls by conducting risk assessments and audits designed to identify and cover important risk categories. The Internal Audit Department provides regular reports to the ROC and reports to the Audit Committee at least as often as quarterly.

Control Groups

The GRC Department provides compliance oversight and guidance, and conducts various risk and other assessments to address regulatory and Company-specific risks and requirements. The GRC Department reports to the Chief Risk Officer, who reviews the results of the Company's risk management process with the ROC, the Audit Committee, and the Board as necessary. We also consider the Internal Audit Department to be a control group.

Business Line Management

Each business line is responsible for managing its risk, and business line management is responsible for keeping senior management, including the members of the ROC, informed of operational risk and escalating risk matters (as defined by the Company's escalation policies). We have conducted Company-wide escalation training for our employees. Certain business lines, including Client Support Services and Business Technology Services, have dedicated personnel with responsibilities for monitoring and managing risk-related matters. Business lines are subject to oversight by the control groups, and the Finance, Legal, Business Technology Services, and Human Capital Departments also execute certain control functions and report matters to the ROC, Audit Committee, and Board as appropriate.

In addition to the ERM framework, we have written policies and procedures that govern the conduct of business by our advisors, employees, and the terms and conditions of our relationships with product manufacturers. Our client and advisor policies address the extension of credit for client accounts, data and physical security, compliance with industry regulation, and codes of ethics to govern employee and advisor conduct, among other matters.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements and Supplementary Data are included as an annex to this Annual Report on Form 10-K. See the Index to Consolidated Financial Statements and Supplementary Data on page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Disclosure Committee, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective.

Change in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter ended December 31, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting process and the preparation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our consolidated financial statements.

As of December 31, 2014, management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that our internal control over financial reporting as of December 31, 2014 was effective.

Deloitte & Touche LLP, our independent registered public accounting firm, has issued an audit report appearing on the following page on the effectiveness of our internal control over financial reporting as of December 31, 2014.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholders of
LPL Financial Holdings Inc.
Boston, Massachusetts

We have audited the internal control over financial reporting of LPL Financial Holdings Inc. and subsidiaries (the "Company") as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014 of the Company and our report dated February 20, 2015 expressed an unqualified opinion on those consolidated financial statements.

/s/ DELOITTE & TOUCHE LLP
San Diego, California
February 20, 2015

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Item 9B. Other Information
None.

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

Other than the information relating to our executive officers provided below, the information required to be furnished pursuant to this item is incorporated by reference to the Company's definitive proxy statement for the 2014 Annual Meeting of Stockholders.

The following table provides certain information about each of the Company's current executive officers as of the date this Annual Report on Form 10-K has been filed with the SEC:

Name	Age	Position
Mark S. Casady	54	Chief Executive Officer and Chairman of the Board
Dan H. Arnold	50	Chief Financial Officer
David P. Bergers	47	Managing Director, Legal and Government Relations, General Counsel
Mimi Bock*	51	Managing Director, Client Experience and Training
Victor P. Fetter	46	Managing Director, Chief Information Officer
Mark R. Helliker	51	Managing Director, Clearing and Compliance Services
J. Andrew Kalbaugh	51	Managing Director, Institution Services
Sallie R. Larsen	61	Managing Director, Chief Human Capital Officer
Robert J. Moore	53	President
William Morrissey	50	Managing Director, Independent Advisor Services
Michelle Oroschakoff	53	Managing Director, Chief Risk Officer
Ryan Parker	40	Managing Director, Investment and Planning Solutions
George B. White	45	Managing Director, Research and Chief Investment Officer

* Identified in filings made pursuant to Section 16 of the Exchange Act under her legal name, Mary Frances Schott.

Executive Officers

Mark S. Casady — Chief Executive Officer and Chairman of the Board

Mr. Casady is chairman of the board of directors and our chief executive officer. He joined us in May 2002 as chief operating officer, became our president in April 2003, and became our chief executive officer of LPL Financial in August 2004. He was named the Company's chairman in December 2005 and its chief executive officer in March 2006. Before joining our Company, Mr. Casady was managing director, mutual fund group for Deutsche Asset Management, Americas — formerly Scudder Investments. He joined Scudder in 1994 and held roles as managing director — Americas; head of global mutual fund group and head of defined contribution services. He was also a member of the Scudder, Stevens and Clark Board of Directors and Management Committee. He is former chairman and a current board member of the Insured Retirement Institute and Eze Software Group, and serves on FINRA's board of governors. Mr. Casady received his B.S. from Indiana University and his M.B.A. from DePaul University.

Dan H. Arnold — Chief Financial Officer

Mr. Arnold serves as chief financial officer for the Company. He is responsible for formulating financial policy, leading the Company's capital management efforts, and ensuring the effectiveness of the organization's financial functions. Before assuming this role in 2012, Mr. Arnold was managing director, head of strategy, with responsibility for developing our long-term strategic plans and assessing the trends prevalent in our industry. He has also served as divisional president of our Institution Services business. Mr. Arnold joined our Company in January 2007 following our acquisition of UVEST. Prior to joining us, Mr. Arnold worked at UVEST for 13 years, serving most recently as president and chief operating officer. Mr. Arnold is a graduate of Auburn University and holds an M.B.A. in finance from Georgia State University.

David P. Bergers — Managing Director, Legal and Government Relations, General Counsel

Mr. Bergers is general counsel of LPL Financial Holdings Inc. and managing director of Legal and Government Relations at LPL Financial. Mr. Bergers has more than 20 years of industry experience as a practicing attorney, corporate counsel and government regulator. He joined us in 2013 from the Securities and Exchange Commission, where he served 13 years, most recently as acting deputy director of the enforcement division in Washington, DC. From 2006 to 2013, he served as director of the SEC's Boston regional office. Previously, Mr. Bergers was vice president and assistant general counsel at Tucker Anthony, an independent investment banking and brokerage firm that was later acquired by Royal Bank of Canada, and counsel to Freedom Capital Management, an affiliated investment adviser. He also was a litigator for several years with law firms in the Boston and Philadelphia areas. Mr. Bergers earned a B.A. in history from Eastern Nazarene College in Massachusetts and a J.D. from Yale Law School.

Mimi Bock — Managing Director, Client Experience and Training

Ms. Bock serves as managing director of Client Experience and Training for the LPL Financial Advisor and Institution Solutions business unit. In this role, she oversees client communications, marketing support services, client insights, conference planning, and client learning and development for independent financial advisors and institutions. Previously, she served as LPL Financial's executive vice president of Independent Advisor Services business consulting and was responsible for the growth, satisfaction, and retention of advisors. Prior to joining LPL Financial in 2012, Ms. Bock was a managing director in the global wealth management division of Morgan Stanley Smith Barney, where she also served as director for the southeast U.S. region. During her time at Morgan Stanley, Ms. Bock also held a variety of leadership positions in equity sales, financial advisor development, client marketing, and field management. Ms. Bock earned a double B.A. in economics and sociology from Denison University in Ohio.

Victor P. Fetter — Managing Director, Chief Information Officer

Managing director and chief information officer since 2012, Mr. Fetter has oversight of the LPL Financial Business Technology Services business unit. He is responsible for executing the company's commitment to investing in the people and processes necessary to deliver the best technologies in the industry for LPL Financial advisors and employees. Prior to joining us in December 2012, Mr. Fetter was vice president and chief information officer for Dell Online, where he led the digital transformation of Dell's approach to providing global, multi-channel solutions for consumers and commercial customers. Earlier, Mr. Fetter worked at Mercer Human Resource Consulting, where he served as director of global applications development, chief information officer, and ultimately global chief information officer during his tenure. He held previous positions at Hewitt Associates LLC and Electronic Data Systems. Mr. Fetter has a B.S. in computer information systems from Spring Hill College in Mobile, AL.

Mark R. Helliker — Managing Director, Client Support Services

Mr. Helliker has served as managing director of Client Support Services for LPL Financial since September 2013. Mr. Helliker oversees the Company's service and client-facing operations organizations on behalf the company's Independent Advisor Services and Institution Services business units. In this role, he is responsible for driving innovation and ensuring the delivery of extraordinary service and support to financial advisors, banks, and credit unions. Mr. Helliker joined us in July 2008 as managing director of Broker/Dealer Support Services, responsible for enhancing the customer experience by overseeing the day-to-day management of customer-side operations and new-advisor transitions. From June 2012 to September 2013, he served as managing director of Clearing and Compliance Services, responsible for both Broker/Dealer Support Services and the Governance, Risk, & Compliance business unit, for which he oversaw enterprise-wide risk management processes. Prior to joining us, Mr. Helliker worked at Charles Schwab for 10 years, most recently as senior vice president of Charles Schwab Institutional. Mr. Helliker has a B.A. in political science from the University of Portsmouth in England and an M.B.A. in management from San Diego State University.

J. Andrew Kalbaugh — Managing Director, Institution Services

Mr. Kalbaugh has served as our managing director of Institution Services since 2012. He is responsible for the growth, satisfaction, and retention of financial institutions; attracting new financial institutions to the Company; and helping banks and credit unions add new advisors to their programs. Previously, Mr. Kalbaugh served as executive vice president, business consulting, for Independent Advisor Services. Prior to joining us in 2007, he was president, CEO, and chairman of American General Securities Incorporated and served as director of the AIG Advisor Group. Earlier, he was vice president and chief marketing officer for American General Securities Incorporated. Previous positions include eastern regional director of sales for The Advisors Group and senior trader for Calvert Securities Corporation.

Mr. Kalbaugh is a Certified Financial Planner and has a B.A. in business and economics from the University of Maryland.

Sallie R. Larsen — Managing Director, Chief Human Capital Officer
Ms. Larsen has served as our managing director, chief human capital officer since 2012. She is responsible for overseeing Compensation & Benefits, Corporate Communication, Corporate Real Estate, Human Resources Operations, Human Resources Client Consulting, and Talent Development. Ms. Larsen joined us in 2012 from the Federal Home Loan Bank/Office of Finance, where she was the chief human resources officer. In earlier roles, Ms. Larsen was a managing vice president of human resources for Capital One Financial Corporation, senior vice president of human resources for Marriott International, and vice president of human resources and communications for TRW Inc. Ms. Larsen earned a M.A. in communications from Purdue University, a B.A. in sociology from California Lutheran University, and a certificate in executive leadership coaching from Georgetown University.
Robert J. Moore — President
Mr. Moore has served as president of LPL Financial since May 2012. He joined us in 2008 as our chief financial officer until his appointment as president and chief operating officer in May 2012. The title of chief operating officer was subsequently determined to be unnecessary to reflect Mr. Moore's role and responsibilities associated with his May 2012 appointment, and his title was subsequently changed to president. In this role, Mr. Moore oversees the Company's primary client-facing functions, including Advisor and Institution Solutions, which delivers services that support client growth, and Client Support Services, which consists of the company's client service and operations teams. Prior to joining LPL Financial, from 2006 to 2008, Mr. Moore served as chief executive officer and chief financial officer at ABN AMRO North America and LaSalle Bank Corporation. Before those roles, Mr. Moore worked for Diageo PLC, Europe and Great Britain, in a number of finance management positions, ultimately serving as chief financial officer. Mr. Moore is the chairman of the Insured Retirement Institute (IRI) board of directors, a member of the board of the Securities Industry and Financial Markets Association (SIFMA), a member of the board of the Financial Services Institute, and a member of the Financial Services Roundtable. He is also on the University of Texas at Austin Development Board and is an independent director of Legal & General Investment Management America Co. Mr. Moore has a B.B.A. in finance from the University of Texas, Austin and a M.M. in finance, marketing and international business from Northwestern University and is a Chartered Financial Analyst (CFA).
William P. Morrissey, Jr. — Managing Director, Independent Advisor Services
Mr. Morrissey is managing director of Independent Advisor Services for the LPL Financial Advisor and Institution Solutions business unit. In this role, he has responsibility for business development and business consulting for all independent advisors and registered investment advisors and is focused on driving client satisfaction, supporting practice development, providing acquisition and succession planning expertise, and delivering best-in class retirement support services. Previously, Mr. Morrissey served as LPL Financial's executive vice president of business development, responsible for recruiting new advisors and their practices. He joined the Company in 2004 as senior vice president of Advisory Consulting Services, responsible for overseeing and successfully building the sales, marketing and development of LPL's advisory platforms. Prior to joining LPL Financial, Mr. Morrissey worked at Fidelity Investments for 17 years, most recently as senior vice president of institutional services. Earlier, Mr. Morrissey served as senior vice president at Merrill Lynch. He received a B.A. in political science from Boston College.
Michelle Oroschakoff — Managing Director, Chief Risk Officer
Ms. Oroschakoff is managing director, chief risk officer for LPL Financial and vice chairman of the Risk Oversight Committee. Ms. Oroschakoff has more than 20 years of financial services industry experience deeply rooted in legal, compliance and risk management. She joined us in 2013 from Morgan Stanley, where she most recently served as managing director and global chief risk officer of the firm's Wealth Management Group, as well as chief compliance officer for Morgan Stanley Smith Barney. Earlier in her career at Morgan Stanley, Ms. Oroschakoff spent 11 years in a variety of legal and compliance roles, including associate general counsel and head of the firm's San Francisco litigation department. She also served as the general counsel for a large and successful RIA firm, where she became familiar with the independent model. Ms. Oroschakoff earned a J.D. from the University of Michigan and a B.A. in English literature from the University of Oregon.
Ryan Parker — Managing Director, Investment and Planning Solutions

Mr. Parker is managing director, Investment and Planning Solutions for the LPL Financial Advisor and Institution Solutions business unit. He leads distribution strategy for the Advisory, Brokerage, Insurance and Financial Planning businesses, helping advisors and institutions navigate an increasingly complex landscape of platforms, products, services, and tools. Prior to his promotion to managing director in June 2014, Mr. Parker served as LPL Financial's executive vice president, Investment and Planning Solutions. Prior to joining LPL Financial in 2013, he was managing director, National Accounts and Business Development at Russell Investments, the global asset manager. At Russell Investments, he served in a range of senior leadership roles in the U.S. advisor market, spanning the sales, marketing, and product functions. Earlier in his career, he worked for Franklin Templeton and Putnam Investments. He earned a B.A. in political science from the University of Michigan at Ann Arbor and studied finance and accounting at Stanford Graduate School of Business.

George B. White — Managing Director, Research and Chief Investment Officer

Mr. White has served as our managing director, research and chief investment officer since 2007. He is responsible for the strategic direction and continued growth of the LPL Financial research platform. His role includes setting the vision for superior research capabilities and enabling the delivery of conflict-free, objective investment advice by LPL Financial advisors. Prior to joining us in 2007, Mr. White served as a managing director and director of research for Wachovia Securities for 10 years. Mr. White also was an investment analyst for Mercer Investment Consulting, where he provided investment advice to institutional clients. He started his financial services career on the buy side of the business as a research analyst for Thompson, Siegel, and Walmsley, a value-oriented asset manager. Mr. White received a B.B.A. from the College of William and Mary.

Items 11, 12, 13, and 14.

The information required by Items 11, 12, 13, and 14 is incorporated by reference from the Company's definitive proxy statement for the 2015 Annual Meeting of Stockholders, which the Company intends to file with the SEC within 120 days of the end of the fiscal year end to which this report relates.

PART IV

Item 15. Exhibits and Financial Statement Schedules
(a) Consolidated Financial Statements
Our consolidated financial statements appearing on pages F-1 through F-35 are incorporated herein by reference.
(b) Exhibits

Exhibit No.	Description of Exhibit
3.1	Amended and Restated Certificate of Incorporation of LPL Investment Holdings Inc., dated November 23, 2010. (1)
3.2	Certificate of Ownership and Merger Merging LPL Financial Holdings Inc. with and into LPL Investment Holdings Inc., dated June 14, 2012. (2)
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of LPL Financial Holdings Inc., dated May 8, 2014. (3)
3.4	Fifth Amended and Restated Bylaws of LPL Financial Holdings Inc. (4)
4.1	Stockholders' Agreement, dated as of December 28, 2005, among LPL Investment Holdings Inc., LPL Holdings, Inc. and other stockholders party thereto. (5)
4.2	First Amendment to Stockholders' Agreement dated December 28, 2005, among LPL Investment Holdings Inc., LPL Holdings, Inc. and other stockholders party thereto, dated November 23, 2010. (6)
4.3	Stockholders' Agreement among the Company and Hellman & Friedman Capital Partners V, L.P., Hellman & Friedman Capital Partners V (Parallel), L.P., Hellman & Friedman Capital Associates V, L.P., TPG Partners IV, L.P. and other parties thereto, dated November 23, 2010. (7)
4.4	First Amendment to Stockholders' Agreement, entered into as of September 24, 2014, by and between LPL Financial Holdings Inc., a Delaware corporation (f/k/a LPL Investment Holdings Inc., "LPL"), and TPG Partners IV, L.P., a Delaware limited partnership ("TPG"). (8)
4.5	Fifth Amended and Restated LPL Investment Holdings Inc. 2000 Stock Bonus Plan. (9)
10.1	Amended and Restated Executive Employment Agreement among William E. Dwyer III, LPL Investment Holdings Inc., LPL Holdings, Inc. and LPL Financial Corporation, dated July 23, 2010. (10)
10.2	Revised Separation Agreement and General Release with William E. Dwyer, dated March 14, 2014. (11)
10.3	Separation Agreement and General Release with Derek Bruton, dated April 3, 2014. (12)
10.4	Form of Indemnification Agreement. (1)
10.5	2005 LPL Investment Holdings Inc. Stock Option Plan for Incentive Stock Options. (13)
10.6	2005 LPL Investment Holdings Inc. Stock Option Plan for Non-Qualified Stock Options. (13)
10.7	LPL Investment Holdings Inc. 2008 Stock Option Plan. (14)
10.8	Form of LPL Investment Holdings Inc. Stock Option Agreement granted under the LPL Investment Holdings Inc. 2008 Stock Option Plan. (15)
10.9	LPL Investment Holdings Inc. 2008 Nonqualified Deferred Compensation Plan. (16)
10.10	Amendment to the LPL Investment Holdings Inc. 2008 Nonqualified Deferred Compensation Plan, dated December 1, 2011. (7)
10.11	LPL Investment Holdings Inc. Advisor Incentive Plan. (17)
10.12	LPL Investment Holdings Inc. Financial Institution Incentive Plan. (14)
10.13	LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan. (18)
10.14	Form of Senior Executive Stock Option Award granted under the LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan. (19)
10.15	Form of Senior Management Stock Option Award granted under the LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan. (19)
10.16	Form of Senior Executive Restricted Stock Unit Award granted under the LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan. (19)

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Exhibit No.	Description of Exhibit
10.17	Form of Senior Management Restricted Stock Unit Award granted under the LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan. (19)
10.18	LPL Investment Holdings Inc. and Affiliates Corporate Executive Bonus Plan. (20)
10.19	Form of Employee Non-Qualified Stock Option Award granted under the LPL Financial Holdings Inc., 2010 Omnibus Equity Incentive Plan. (21)
10.20	Form of Employee Restricted Stock Unit Award granted under the LPL Financial Holdings Inc., 2010 Omnibus Equity Incentive Plan. (21)
10.21	Form of Advisor Restricted Stock Unit Award granted under the LPL Financial Holdings Inc., 2010 Omnibus Equity Incentive Plan. (21)
10.22	Form of Financial Institution Restricted Stock Unit Award granted under the LPL Financial Holdings Inc., 2010 Omnibus Equity Incentive Plan. (21)
10.23	LPL Financial LLC Executive Severance Plan, amended and restated as of February 24, 2014. (21)
10.24	Form of Supplemental Restricted Stock Unit Award granted under the 2010 LPL Financial Holdings Inc. 2010 Omnibus Equity Incentive Plan. (21)
10.25	LPL Financial Holdings Inc. Non-Employee Director Compensation Policy. (22)
10.26	Credit Agreement, dated as of March 29, 2012, by and among LPL Investment Holdings, Inc., LPL Holdings, Inc., the several lenders from time to time party thereto, and Bank of America, N.A. as Administrative Agent Collateral Agent, Letter of Credit Issuer and Swingline Lender. (23)
10.27	First Amendment and Incremental Assumption Agreement, dated as of May 13, 2013, by and among LPL Financial Holdings, Inc., LPL Holdings, Inc., certain subsidiaries, the several lenders from time to time party thereto, and Bank of America, N.A. as Administrative Agent. (24)
10.28	Second Amendment and Incremental Assumption Agreement, dated as of October 1, 2014, by and among LPL Financial Holdings, Inc., LPL Holdings, Inc., certain subsidiaries, the several lenders from time to time party thereto, and Bank of America, N.A. as Administrative Agent. (8)
10.29	Thomson Transaction Services Master Subscription Agreement dated as of January 5, 2009 between LPL Financial Corporation and Thomson Financial LLC. (25)†
10.30	First Amendment dated July 28, 2014 to Master Subscription Agreement dated as of January 5, 2009 between LPL Financial Corporation and Thomson Financial LLC(22)†
10.31	Stock Repurchase Agreement by and among LPL Financial Holdings Inc. and TPG Partners IV, L.P., made as of February 12, 2014. (21)
21.1	List of Subsidiaries of LPL Financial Holdings Inc.*
23.1	Consent of Deloitte & Touche LLP, independent registered public accounting firm.*
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document*
101.SCH	XBRL Taxonomy Extension Schema*
101.CAL	XBRL Taxonomy Extension Calculation*
101.DEF	XBRL Taxonomy Extension Definition*
101.LAB	XBRL Taxonomy Extension Label*
101.PRE	XBRL Taxonomy Extension Presentation*

*	Filed herewith.
†	Confidential treatment granted by the Securities and Exchange Commission.
(1)	Incorporated by reference to Amendment No. 2 to the Registration Statement on Form S-1 filed on July 9, 2010.
(2)	Incorporated by reference to the Form 8-K filed on June 19, 2012.
(3)	Incorporated by reference to the Form 8-K filed on May 9, 2014.
(4)	Incorporated by reference to the Form 8-K filed on March 12, 2014.
(5)	Incorporated by reference to Amendment No. 1 to the Registration Statement on Form 10 filed on July 10, 2007.
(6)	Incorporated by reference to the Form 10-K filed on March 9, 2011.
(7)	Incorporated by reference to the Form 10-K filed on February 27, 2012.
(8)	Incorporated by reference to the Form 10-Q filed on October 30, 2014.
(9)	Incorporated by reference to the Form 8-K filed on December 18, 2008.
(10)	Incorporated by reference to the Form 8-K filed on December 26, 2012.
(11)	Incorporated by reference to the Form 10-Q filed on April 25, 2013.
(12)	Incorporated by reference to the Form 10-Q filed on April 25, 2014.
(13)	Incorporated by reference to the Registration Statement on Form 10 filed on April 30, 2007.
(14)	Incorporated by reference to the Form 8-K filed on February 21, 2008.
(15)	Incorporated by reference to the Registration Statement on Form S-1 filed on June 4, 2010.
(16)	Incorporated by reference to Form 8-K filed on November 25, 2008.
(17)	Incorporated by reference to the Form S-8 filed on June 5, 2008.
(18)	Incorporated by reference to Amendment No. 4 to the Registration Statement on Form S-1 filed on November 3, 2010.
(19)	Incorporated by reference to the Form 10-K filed on February 26, 2013.
(20)	Incorporated by reference to the Schedule 14A filed on April 27, 2010.
(21)	Incorporated by reference to the Form 10-K filed on February 25, 2014.
(22)	Incorporated by reference to the Form 10-Q filed on July 30, 2014.
(23)	Incorporated by reference to the Form 8-K filed on April 2, 2012.
(24)	Incorporated by reference to the Form 8-K filed on May 13, 2013.
(25)	Incorporated by reference to Amendment No. 1 to the Registration Statement on Form S-1 filed on June 22, 2010.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

LPL Financial Holdings Inc.

By: /s/ Mark S. Casady
Mark S. Casady
Chief Executive Officer and Chairman

Dated: February 20, 2015

Pursuant to the requirements of the Securities and Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Mark S. Casady Mark S. Casady	Chief Executive Officer and Chairman	February 20, 2015
/s/ Dan H. Arnold Dan H. Arnold	Chief Financial Officer	February 20, 2015
/s/ Jeffrey R. Buchheister Jeffrey R. Buchheister	Chief Accounting Officer	February 20, 2015
/s/ Richard W. Boyce Richard W. Boyce	Director	February 20, 2015
/s/ John J. Brennan John J. Brennan	Director	February 20, 2015
/s/ Paulett Eberhart Paulett Eberhart	Director	February 20, 2015
/s/ Anne M. Mulcahy Anne M. Mulcahy	Director	February 20, 2015
/s/ James S. Putnam James S. Putnam	Director	February 20, 2015
/s/ James S. Riepe James S. Riepe	Director	February 20, 2015
/s/ Richard P. Schifter Richard P. Schifter	Director	February 20, 2015

LPL FINANCIAL HOLDINGS INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of LPL Financial Holdings Inc. are included in response to Item 8:

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
To the Board of Directors and Stockholders of
LPL Financial Holdings Inc.
Boston, Massachusetts

We have audited the accompanying consolidated statements of financial condition of LPL Financial Holdings Inc. and subsidiaries (the "Company") as of December 31, 2014 and 2013 and the related consolidated statements of income, comprehensive income, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2014. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2014 and 2013, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 20, 2015 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 20, 2015

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Income
(In thousands, except per share data)

	Years Ended December 31,		
	2014	2013	2012
REVENUES:			
Commission	$2,118,494	$2,077,566	$1,820,517
Advisory	1,337,959	1,187,352	1,062,490
Asset-based	476,595	430,990	403,067
Transaction and fee	369,821	361,252	321,558
Interest income, net of interest expense	18,982	17,887	18,742
Other	51,811	65,811	34,714
Total net revenues	4,373,662	4,140,858	3,661,088
EXPENSES:			
Commission and advisory	2,998,702	2,847,785	2,509,913
Compensation and benefits	421,829	400,967	362,705
Promotional	124,677	111,539	107,074
Depreciation and amortization	96,845	83,503	71,796
Professional services	62,184	46,559	41,773
Occupancy and equipment	82,430	67,551	58,568
Brokerage, clearing, and exchange	49,015	45,059	38,924
Communications and data processing	43,823	43,075	39,522
Restructuring charges	34,652	30,186	5,597
Other	109,327	113,923	103,275
Total operating expenses	4,023,484	3,790,147	3,339,147
Non-operating interest expense	51,538	51,446	54,826
Loss on extinguishment of debt	3,943	7,962	16,524
Total expenses	4,078,965	3,849,555	3,410,497
INCOME BEFORE PROVISION FOR INCOME TAXES	294,697	291,303	250,591
PROVISION FOR INCOME TAXES	116,654	109,446	98,673
NET INCOME	$178,043	$181,857	$151,918
EARNINGS PER SHARE (NOTE 16)			
Earnings per share, basic	$1.78	$1.74	$1.39
Earnings per share, diluted	$1.75	$1.72	$1.37
Weighted-average shares outstanding, basic	99,847	104,698	109,443
Weighted-average shares outstanding, diluted	101,651	106,003	111,060

See notes to consolidated financial statements.

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LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Comprehensive Income
(In thousands)

	Years Ended December 31,		
	2014	2013	2012
NET INCOME	$178,043	$181,857	$151,918
Other comprehensive income, net of tax:			
Unrealized gain on cash flow hedges, net of tax expense of $722, $72, and $0 for the years ended December 31, 2014, 2013, and 2012, respectively	1,137	115	—
Reclassification adjustment for realized (gain) loss on cash flow hedges included in net income, net of tax expense (benefit) of $198, $0, and ($527) for the years ended December 31, 2014, 2013, and 2012, respectively	(315)	—	850
Total other comprehensive income, net of tax	822	115	850
TOTAL COMPREHENSIVE INCOME	$178,865	$181,972	$152,768

See notes to consolidated financial statements.

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LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Financial Condition
(Dollars in thousands, except par value)

	December 31, 2014	December 31, 2013
ASSETS		
Cash and cash equivalents	$412,332	$516,584
Cash and securities segregated under federal and other regulations	568,930	512,351
Receivables from:		
Clients, net	365,390	373,675
Product sponsors, broker-dealers, and clearing organizations	177,470	174,070
Others, net	291,449	272,018
Securities owned:		
Trading — at fair value	13,466	8,964
Held-to-maturity	8,594	6,853
Securities borrowed	5,035	7,102
Income taxes receivable	84	—
Fixed assets, net	214,154	189,059
Debt issuance costs, net of accumulated amortization of $11,724 and $7,751 at December 31, 2014 and 2013, respectively	13,241	16,281
Goodwill	1,365,838	1,361,361
Intangible assets, net	430,704	464,522
Other assets	184,306	139,991
Total assets	$4,050,993	$4,042,831
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	$180,099	$194,971
Payables to clients	652,714	565,204
Payables to broker-dealers and clearing organizations	45,427	43,157
Accrued commission and advisory expenses payable	146,504	135,149
Accounts payable and accrued liabilities	289,426	301,644
Income taxes payable	—	4,320
Unearned revenue	64,482	73,739
Securities sold, but not yet purchased — at fair value	302	211
Senior secured credit facilities	1,634,258	1,535,096
Deferred income taxes, net	66,181	89,369
Total liabilities	3,079,393	2,942,860
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 600,000,000 shares authorized; 118,234,552 shares and 117,112,465 shares issued at December 31, 2014 and 2013, respectively	118	117
Additional paid-in capital	1,355,085	1,292,374
Treasury stock, at cost — 21,089,882 shares and 15,216,301 shares at December 31, 2014 and 2013, respectively	(780,661)	(506,205)
Accumulated other comprehensive income	937	115
Retained earnings	396,121	313,570
Total stockholders' equity	971,600	1,099,971
Total liabilities and stockholders' equity	$4,050,993	$4,042,831

See notes to consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Stockholders' Equity
(In thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE — December 31, 2011	110,532	$110	$1,137,723	2,618	(89,037)	$ (850)	$296,802	$1,344,748
Net income and other comprehensive income, net of tax expense						850	151,918	152,768
Issuance of common stock to settle restricted stock units	2,823	3	(3)					—
Treasury stock purchases				6,812	(199,222)			(199,222)
Cash dividends on common stock							(248,809)	(248,809)
Stock option exercises and other	2,337	3	15,937	(8)	261		(84)	16,117
Excess tax benefits from share-based compensation			53,296					53,296
Share-based compensation	22		21,122					21,122
BALANCE — December 31, 2012	115,714	$116	$1,228,075	9,422	$(287,998)	$ —	$199,827	$1,140,020
Net income and other comprehensive income, net of tax expense						115	181,857	181,972
Treasury stock purchases				5,820	(219,091)			(219,091)
Cash dividends on common stock							(68,008)	(68,008)
Stock option exercises and other	1,398	1	34,246	(26)	884		(106)	35,025
Excess tax benefits from share-based compensation			5,381					5,381
Share-based compensation			24,672					24,672
BALANCE — December 31, 2013	117,112	$117	$1,292,374	15,216	$(506,205)	$ 115	$313,570	$1,099,971
Net income and other comprehensive income, net of tax expense						822	178,043	178,865

Issuance of common stock to settle restricted stock units	50	1		17	(869)			(868)
Treasury stock purchases				5,899	(275,079)			(275,079)
Cash dividends on common stock							(95,616)	(95,616)
Stock option exercises and other	1,073		26,914	(42)	1,492		124	28,530
Excess tax benefits from share-based compensation			8,218					8,218
Share-based compensation			27,579					27,579
BALANCE — December 31, 2014	118,235	$118	$1,355,085	21,090	$(780,661)	$937	$396,121	$971,600

See notes to consolidated financial statements.

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LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(Dollars in thousands)

	Years Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$178,043	$181,857	$151,918
Adjustments to reconcile net income to net cash provided by operating activities:			
Noncash items:			
Depreciation and amortization	96,845	83,503	71,796
Amortization of debt issuance costs	3,973	4,365	4,591
Impairment of fixed assets	—	842	4,033
Loss on disposal of fixed assets	1,761	173	204
Share-based compensation	27,579	24,672	21,122
Excess tax benefits related to share-based compensation	(8,685)	(7,172)	(53,296)
Provision for bad debts	2,432	2,021	1,159
Deferred income taxes	(24,100)	(28,943)	(12,219)
Loss on extinguishment of debt	3,943	7,962	16,524
Net changes in estimated fair value of contingent consideration obligations	—	12,676	11,353
Closure of NestWise	—	9,279	—
Loan forgiveness	28,409	21,006	1,468
Other	1,246	583	455
Changes in operating assets and liabilities:			
Cash and securities segregated under federal and other regulations	(56,579)	65,082	(194,528)
Receivables from clients	7,628	(3,862)	(68,393)
Receivables from product sponsors, broker-dealers and clearing organizations	(3,400)	(21,120)	(9,457)
Receivables from others	(49,615)	(53,720)	(53,124)
Securities owned	(4,638)	(1,148)	(1,321)
Securities borrowed	2,067	2,346	(1,558)
Other assets	(45,523)	(19,458)	(52,216)
Drafts payable	(14,872)	(8,161)	15,557
Payables to clients	87,510	(184,301)	292,786
Payables to broker-dealers and clearing organizations	2,270	(9,874)	18,276
Accrued commission and advisory expenses payable	11,355	6,690	18,744
Accounts payable and accrued liabilities	(10,522)	48,127	20,743
Income taxes receivable/payable	4,281	14,916	47,175
Unearned revenue	(9,257)	11,931	2,271
Securities sold, but not yet purchased	91	(155)	205
Net cash provided by operating activities	232,242	160,117	254,268

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LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Consolidated Statements of Cash Flows - Continued
(Dollars in thousands)

	Years Ended December 31,		
	2014	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(89,648)	(78,239)	(54,786)
Purchase of goodwill and other intangible assets	(9,000)	—	—
Proceeds from disposal of fixed assets	7,123	—	—
Purchase of securities classified as held-to-maturity	(7,498)	(2,595)	(7,210)
Proceeds from maturity of securities classified as held-to-maturity	5,750	5,900	8,100
Deposits of restricted cash	(4,679)	(1,500)	(64)
Release of restricted cash	4,820	815	7,550
Acquisitions, net of cash acquired	—	—	(43,684)
Proceeds from sale of equity investment	—	3,310	—
Purchases of minority interest investments	—	(2,500)	(1,575)
Net cash used in investing activities	(93,132)	(74,809)	(91,669)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolving credit facility	110,000	—	—
Repayment of senior secured term loans	(10,838)	(866,579)	(1,364,843)
Proceeds from senior secured term loans	—	1,078,957	1,330,681
Payment of debt issuance costs	(4,876)	(2,461)	(4,431)
Payment of contingent consideration	(3,300)	—	—
Tax payments related to settlement of restricted stock units	(868)	—	—
Repurchase of common stock	(275,079)	(219,091)	(199,121)
Dividends on common stock	(95,616)	(68,008)	(248,809)
Excess tax benefits related to share-based compensation	8,685	7,172	53,296
Proceeds from stock option exercises and other	28,530	35,025	16,117
Net cash used in financing activities	(243,362)	(34,985)	(417,110)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(104,252)	50,323	(254,511)
CASH AND CASH EQUIVALENTS — Beginning of year	516,584	466,261	720,772
CASH AND CASH EQUIVALENTS — End of year	$412,332	$516,584	$466,261
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$51,588	$51,712	$54,883
Income taxes paid	$139,315	$123,583	$62,260
NONCASH DISCLOSURES:			
Capital expenditures included in accounts payable and accrued liabilities	$8,184	$16,075	$5,181
Fixed assets acquired under build-to-suit lease	$8,114	$22,979	$5,599
Discount on proceeds from senior secured credit facilities recorded as debt issuance costs	$—	$4,893	$19,319
Pending settlement of treasury stock purchases	$—	$—	$101

See notes to consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

1. Organization and Description of the Company

LPL Financial Holdings Inc. (“LPLFH”), a Delaware holding corporation, together with its consolidated subsidiaries (collectively, the “Company”) provides an integrated platform of brokerage and investment advisory services to independent financial advisors and financial advisors at financial institutions (collectively “advisors”) in the United States of America. Through its custody and clearing platform, using both proprietary and third-party technology, the Company provides access to diversified financial products and services, enabling its advisors to offer independent financial advice and brokerage services to retail investors (their “clients”).

Description of Subsidiaries

LPL Holdings, Inc. (“LPLH”), a Massachusetts holding corporation, owns 100% of the issued and outstanding common stock or other ownership interest in each of LPL Financial LLC (“LPL Financial”), Fortigent Holdings Company, Inc., Independent Advisers Group Corporation (“IAG”), LPL Insurance Associates, Inc. (“LPLIA”), LPL Independent Advisor Services Group LLC (“IASG”), and UVEST Financial Services Group, Inc. (“UVEST”). LPLH is also the majority stockholder in PTC Holdings, Inc. (“PTCH”), and owns 100% of the issued and outstanding voting common stock. Each member of PTCH's board of directors meets the direct equity ownership interest requirements that are required by the Office of the Comptroller of the Currency. In late 2014, the Company entered into a subscription agreement to establish a series captive insurance entity that will underwrite insurance for various legal and regulatory risks that have previously been self-insured.

LPL Financial, with primary offices in Boston, San Diego, and Charlotte, is a clearing broker-dealer and an investment adviser that principally transacts business as an agent for its advisors and financial institutions on behalf of their clients in a broad array of financial products and services. LPL Financial is licensed to operate in all 50 states, Washington D.C., Puerto Rico, and the U.S. Virgin Islands.

Fortigent Holdings Company, Inc. and its subsidiaries (“Fortigent”), acquired in April 2012, provides solutions and consulting services to registered investment advisors, banks, and trust companies serving high-net-worth clients.

PTCH is a holding company for The Private Trust Company, N.A. (“PTC”). PTC is chartered as a non-depository limited purpose national bank, providing a wide range of trust, investment management oversight, and custodial services for estates and families. PTC also provides Individual Retirement Account custodial services for LPL Financial.

IAG is a registered investment adviser that offers an investment advisory platform for clients of advisors working for other financial institutions.

LPLIA operates as an insurance brokerage general agency that offers life, long-term care, and disability insurance products and services for LPL Financial advisors.

2. Summary of Significant Accounting Policies

Basis of Presentation

These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”), which require the Company to make estimates and assumptions regarding the valuation of certain financial instruments, intangible assets, allowance for doubtful accounts, share-based compensation, accruals for liabilities, income taxes, revenue and expense accruals, and other matters that affect the consolidated financial statements and related disclosures. Actual results could differ from those estimates under different assumptions or conditions and the differences may be material to the consolidated financial statements.

In the consolidated statements of income, the Company reclassified certain legal and regulatory costs from Professional Services to Other expenses to improve the transparency of its professional services costs provided by third-party vendors and to be consistent with industry peers in the presentation of costs related to these types of regulatory and legal matters. Additionally, the Company combined Regulatory Fees and Other expenses, which included certain licensing, insurance, and regulatory fee expenses, with Other expenses to be consistent with industry peers. The total amounts reclassified to Other expenses were $59.4 million and $52.8 million for the years ended

December 31, 2013 and 2012, respectively.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Consolidated Financial Statements

Consolidation
These consolidated financial statements include the accounts of LPLFH and its subsidiaries. Intercompany transactions and balances have been eliminated. Equity investments in which the Company exercises significant influence, but does not exercise control and is not the primary beneficiary, are accounted for using the equity method.
Reportable Segment
The Company's internal reporting is organized into two service channels: Independent Advisor Services and Institution Services. These service channels are aggregated and viewed as one operating segment, and therefore, one reportable segment due to their similar economic characteristics, products and services, production and distribution processes, and regulatory environment.
Revenue Recognition
Substantially all of the Company's revenues are based on contractual arrangements. In determining the appropriate recognition of commissions, the Company reviews the terms and conditions of the brokerage account agreements between the Company and its advisors' clients, representative agreements with its advisors, which include payout rates and terms, and selling agreements with product sponsors for packaged investment products such as mutual funds, annuities, insurance, and alternative investments. In determining the appropriate recognition of advisory revenues, the Company reviews the terms and conditions of the advisory agreements between the advisors' clients and the applicable registered investment advisor (“RIA”), representative agreements with its advisors, and agreements with third parties who provide specific investment management or investment strategies.
Revenues are recognized in the periods in which the related services are performed provided that persuasive evidence of an arrangement exists, the fee is fixed or determinable, and collectability is reasonably assured. Payments received by the Company in advance of the performance of service are deferred and recognized as revenue when earned.
Management considers the nature of the Company's contractual arrangements in determining whether to recognize certain types of revenue on the basis of the gross amount billed or net amount retained after payments are made to providers of certain services related to the product or service offering.
The main factors the Company uses to determine whether to record revenue on a gross or net basis are whether:
- the Company is primarily responsible for the service to the advisor and their client;
- the Company has discretion in establishing fees paid by the client and fees due to the third-party service provider; and
- the Company is involved in the determination of product or service specifications.

When client fees include a portion of charges that are paid to another party and the Company is primarily responsible for providing the service to the client, revenue is recognized on a gross basis in an amount equal to the fee paid by the client. The cost of revenues recognized is the amount due to the other party and is recorded as commission and advisory expense in the consolidated statements of income.
In instances in which another party is primarily responsible for providing the service to the client, revenue is recognized in the net amount retained by the Company. The portion of the fees that are collected from the client by the Company and remitted to the other party are considered pass through amounts and accordingly are not a component of revenues or cost of revenues.
The Company recognizes revenue related to commission, advisory fees, asset-based fees, transaction and fees, and interest income, net of interest expense.
Commission Revenues
Commission revenues represent commissions generated by the Company's advisors for their clients' purchases and sales of securities on exchanges and over-the-counter, as well as purchases of various investment products such as mutual funds, variable and fixed annuities, alternative investments including non-traded real estate investment trusts and business development companies, fixed income, insurance, group annuities, and option and commodity transactions. The Company generates two types of commission revenues: transaction-based

sales commissions that occur at the point of sale, as well as trailing commissions for which the Company provides ongoing support, awareness, and education to clients of its advisors.

Transaction-based sales commissions are recognized as revenue on a trade-date basis, which is when the Company's performance obligations in generating the commissions have been substantially completed. The Company settles a significant volume of transactions that are initiated directly between its advisors and product sponsors, particularly with regard to mutual fund, 529 education savings plan, fixed and variable annuity, and insurance products. As a result, management must estimate a portion of its commission revenues earned from clients for purchases and sales of these products for each accounting period for which the proceeds have not yet been received. These estimates are based on the amount of commissions earned from transactions in these products in prior periods.

Trailing commission revenues include mutual fund, 529 education savings plan, and fixed and variable product trailing fees, which are recurring in nature. These trailing fees are earned by the Company based on a percentage of the current market value of clients' investment holdings in trail-eligible assets, and recognized over the period during which services are performed. Because trailing commission revenues are generally paid in arrears, management estimates the majority of trailing commission revenues earned during each period. These estimates are based on a number of factors, including market levels and the amount of trailing commission revenues received in prior periods. Commission revenue accruals are classified within receivables from product sponsors, broker-dealers, and clearing organizations in the consolidated statements of financial condition.

A substantial portion of the commission revenue is ultimately paid to the advisors. The Company records an estimate for commissions payable based upon average payout ratios for each product for which the Company has accrued commission revenue. Such amounts are classified as payables to broker-dealers and clearing organizations in the consolidated statements of financial condition and commission and advisory expense in the consolidated statements of income.

Advisory Revenues

The Company records fees charged to clients as advisory revenues in advisory accounts where LPL Financial or IAG is the RIA. A substantial portion of these advisory fees are paid to the related advisor and these payments are classified as commission and advisory expense in the consolidated statements of income.

Certain advisors conduct their advisory business through separate entities by establishing their own RIA pursuant to the Investment Advisers Act of 1940, rather than using the Company's corporate RIA. These stand-alone RIAs ("Independent RIA") engage the Company for clearing, regulatory and custody services, as well as access to the Company's investment advisory platforms. The advisory revenue generated by these Independent RIAs is earned by the advisors, and accordingly not included in the Company's advisory revenues.

The Company charges administrative fees based on the value of assets within these advisory accounts, which are classified as advisory revenues in the consolidated statements of income.

Asset-Based Revenues

Asset-based revenues are comprised of fees from cash sweep programs, financial product manufacturer sponsorship programs, and omnibus processing and networking services and are recognized ratably over the period in which services are provided.

Transaction and Fee Revenues

The Company charges fees for executing certain transactions in client accounts. Transaction related charges are recognized on a trade-date basis. Other fees relate to services provided and other account charges generally outlined in agreements with clients, advisors, and financial institutions. Such fees are recognized as services are performed or as earned, as applicable. In addition, the Company offers various services for which fees are charged on a subscription basis and recognized over the subscription period.

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Interest Income, Net of Interest Expense
The Company earns interest income from its cash equivalents and client margin balances, less interest expense on related transactions. Because interest expense incurred in connection with cash equivalents and client margin balances is completely offset by revenue on related transactions, the Company considers such interest to be an operating expense. Interest expense from operations for the years ended December 31, 2014, 2013, and 2012 did not exceed $1.0 million.
Compensation and Benefits
The Company records compensation and benefits expense for all cash and deferred compensation, benefits, and related taxes as earned by its employees. Compensation and benefits expense also includes fees earned by temporary employees and contractors who perform similar services to those performed by the Company's employees, primarily software development and project management activities.
Share-Based Compensation
Certain employees, officers, directors, advisors, and financial institutions of the Company participate in various long-term incentive plans that provide for granting stock options, warrants, restricted stock awards, and restricted stock units. Stock options and warrants generally vest in equal increments over a three- to five-year period and expire on the tenth anniversary following the date of grant. Restricted stock awards and restricted stock units generally vest over a two- to four-year period.
The Company recognizes share-based compensation for equity awards granted to employees, officers, and directors as compensation and benefits expense on the consolidated statements of income. The fair value of stock options is estimated using a Black-Scholes valuation model on the date of grant. The fair value of restricted stock awards and restricted stock units is equal to the closing price of the Company's stock on the date of grant. Share-based compensation is recognized over the requisite service period of the individual awards, which generally equals the vesting period.
The Company recognizes share-based compensation for equity awards granted to advisors and financial institutions as commissions and advisory expense on the consolidated statements of income. The fair value of stock options and warrants is estimated using a Black-Scholes valuation model on the date of grant and is revalued at each reporting period. The fair value of restricted stock units is equal to the closing price of the Company's stock on the date of grant and on the last day of each reporting period. Share-based compensation is recognized over the requisite service period of the individual awards, which generally equals the vesting period.
The Company must also make assumptions regarding the number of stock options, warrants, restricted stock awards, and restricted stock units that will be forfeited. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeiture assumptions do not impact the total amount of expense ultimately recognized over the vesting period. Rather, different forfeiture assumptions would only impact the timing of expense recognition over the vesting period. See Note 15. Share-Based Compensation, for additional information regarding share-based compensation for equity awards granted.
Earnings Per Share
Basic earnings per share is computed by dividing net income available to common shareholders by the basic weighted-average number of shares of common stock outstanding during the period. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the denominator is increased to include the number of additional shares of common stock that would have been outstanding if dilutive potential shares of common stock had been issued.
Income Taxes
In preparing the consolidated financial statements, the Company estimates income tax expense based on various jurisdictions where it conducts business. The Company then must assess the likelihood that the deferred tax assets will be realized. A valuation allowance is established to the extent that it is more-likely-than-not that such deferred tax assets will not be realized. When the Company establishes a valuation allowance or modifies the existing allowance in

a certain reporting period, it generally records a corresponding increase or decrease to tax expense in the consolidated statements of income. Management makes significant judgments in determining the provision for income taxes, the deferred tax assets and liabilities, and any valuation allowances recorded against

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the deferred tax asset. Changes in the estimate of these taxes occur periodically due to changes in the tax rates, changes in the business operations, implementation of tax planning strategies, resolution with taxing authorities of issues where the Company had previously taken certain tax positions, and newly enacted statutory, judicial, and regulatory guidance. These changes could have a material effect on the Company's consolidated statements of income, financial condition, or cash flows in the period or periods in which they occur. Income tax credits are accounted for using the flow-through method as a reduction of income tax in the years utilized.

The Company recognizes the tax effects of a position in the consolidated financial statements only if it is more-likely-than-not to be sustained based solely on its technical merits, otherwise no benefits of the position are to be recognized. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. Moreover, each tax position meeting the recognition threshold is required to be measured as the largest amount that is greater than 50 percent likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information.

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with an original maturity of 90 days or less that are not required to be segregated under federal or other regulations. The Company's cash and cash equivalents are composed of interest and noninterest-bearing deposits, money market funds, and U.S. government obligations.

Cash and Securities Segregated Under Federal and Other Regulations

The Company's subsidiary, LPL Financial, is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its customers in accordance with Rule 15c3-3 of the Security Exchange Act of 1934, as amended, and other regulations.

Receivables From and Payables to Clients

Receivables from clients include amounts due on cash and margin transactions. The Company extends credit to clients of its advisors to finance their purchases of securities on margin and receives income from interest charged on such extensions of credit. Payables to clients represent credit balances in client accounts arising from deposits of funds, proceeds from sales of securities, and dividend and interest payments received on securities held in client accounts at LPL Financial. At December 31, 2014 and 2013, $646.4 million and $549.5 million, respectively, of the balance represent free credit balances that are held pending re-investment by the clients. The Company pays interest on certain client payable balances.

To the extent that margin loans and other receivables from clients are not fully collateralized by client securities, management establishes an allowance that it believes is sufficient to cover any probable losses. When establishing this allowance, management considers a number of factors, including its ability to collect from the client or the client's advisor and the Company's historical experience in collecting on such transactions.

The following schedule reflects the Company's activity in providing for an allowance for uncollectible amounts due from clients (in thousands):

	December 31,	
	2014	2013
Beginning balance — January 1	$588	$587
Provision for doubtful accounts	657	1
Ending balance — December 31	$1,245	$588

Receivables From Others

Receivables from others primarily consist of accrued fees from product sponsors and amounts due from advisors. The Company periodically extends credit to its advisors in the form of recruiting loans, commission advances, and other loans. The decisions to extend credit to advisors are generally based on either the advisors' credit history and their ability to generate future commissions. Certain loans made in connection with recruiting are forgivable over terms ranging from three to five years provided that the advisor remains licensed through LPL Financial. At December 31, 2014, advisor loans totaled $121.0 million, of which $68.6 million was forgivable. Management maintains an allowance for uncollectible amounts, which excludes advisor loans that are forgivable, using an aging analysis that takes into account the advisors' registration status and the specific type of receivable.

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The aging thresholds and specific percentages used represent management's best estimates of probable losses. Management monitors the adequacy of these estimates through periodic evaluations against actual trends experienced. The following schedule reflects the Company's activity in providing for an allowance for uncollectible amounts due from others (in thousands):

	December 31,	
	2014	2013
Beginning balance — January 1	$7,091	$6,675
Provision for doubtful accounts	1,775	2,020
Charge-offs, net of recoveries	(487)	(1,604)
Ending balance — December 31	$8,379	$7,091

Securities Owned and Securities Sold, But Not Yet Purchased

Securities owned and securities sold, but not yet purchased include trading and held-to-maturity securities. The Company generally classifies its investments in debt and equity instruments (including mutual funds, annuities, corporate bonds, government bonds, and municipal bonds) as trading securities, except for U.S. government notes held by PTC, which are classified as held-to-maturity securities. The Company has not classified any investments as available-for-sale. Investment classifications are subject to ongoing review and can change.

Securities classified as trading are carried at fair value, while securities classified as held-to-maturity are carried at amortized cost. The Company uses prices obtained from independent third-party pricing services to measure the fair value of its trading securities. Prices received from the pricing services are validated using various methods including comparison to prices received from additional pricing services, comparison to available quoted market prices, and review of other relevant market data including implied yields of major categories of securities. In general, these quoted prices are derived from active markets for identical assets or liabilities. When quoted prices in active markets for identical assets and liabilities are not available, the quoted prices are based on similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. For certificates of deposit and treasury securities, the Company utilizes market-based inputs, including observable market interest rates that correspond to the remaining maturities or the next interest reset dates. At December 31, 2014, the Company did not adjust prices received from the independent third-party pricing services.

Interest income is accrued as earned. Premiums and discounts are amortized using a method that approximates the effective yield method over the term of the security and are recorded as an adjustment to the investment yield. The Company makes estimates about the fair value of investments and the timing for recognizing losses based on market conditions and other factors. If these estimates change, the Company may recognize additional losses. Both unrealized and realized gains and losses on trading securities are recognized in other revenue on a net basis in the consolidated statements of income.

Securities Borrowed

Securities borrowed are accounted for as collateralized financings and are recorded at contract value, representing the amount of cash provided for securities borrowed transactions (generally in excess of market values). The adequacy of the collateral deposited, which is determined by comparing the market value of the securities borrowed to the cash loaned, is continuously monitored and is adjusted when considered necessary to minimize the risk associated with this activity.

The Company borrows securities from other broker-dealers to make deliveries or to facilitate customer short sales. As of December 31, 2014, the contract and collateral market values of borrowed securities were $5.0 million and $4.9 million, respectively. As of December 31, 2013, the contract and collateral market values of borrowed securities were $7.1 million and $7.0 million, respectively.

Fixed Assets

Internally developed software, leasehold improvements, computers and software, and furniture and equipment are recorded at historical cost, net of accumulated depreciation and amortization. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets. The Company charges software development costs to operations as incurred during the preliminary project stage, while capitalizing costs at the point at which the conceptual formulation, design, and testing of possible software project alternatives are complete and management authorizes and commits to funding the project. The costs of internally developed software that qualify for capitalization are capitalized as fixed assets and subsequently amortized over the estimated useful life of the software, which is generally three years. The Company does not capitalize pilot projects and projects for which it believes that the future economic benefits are less than probable. Leasehold improvements are amortized over the lesser of their useful lives or the terms of the underlying leases. Computers and software, as well as furniture and equipment, are depreciated over a period of three to seven years. Land is not depreciated.

Management reviews fixed assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. During the years ended December 31, 2013 and 2012, the Company recorded an asset impairment charge of $0.8 million and $4.0 million, respectively, for certain fixed assets related to internally developed software that were determined to no longer have future economic benefit. The $0.8 million asset impairment charge for the year ended December 31, 2013 is included in restructuring charges within the consolidated statements of income. No impairment occurred for the year ended December 31, 2014.

Acquisitions

When acquiring companies, the Company recognizes separately from goodwill the assets acquired and the liabilities assumed at their acquisition date fair values. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed. While the Company uses its best estimates and assumptions as a part of the purchase price allocation process to accurately value assets acquired and liabilities assumed at the acquisition date, these estimates are inherently uncertain and subject to refinement. As a result, during the measurement period, which may be up to one year from the acquisition date, the Company records adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period or final determination of the values of assets acquired or liabilities assumed, whichever comes first, any subsequent adjustments are recorded to the consolidated statements of income.

Accounting for business combinations requires the Company's management to make significant estimates and assumptions, especially at the acquisition date with respect to intangible assets, support liabilities assumed, and pre-acquisition contingencies. These assumptions are based in part on historical experience, market data, and information obtained from the management of the acquired companies and are inherently uncertain.

Examples of critical estimates in valuing certain of the intangible assets the Company has acquired include, but are not limited to: (i) future expected cash flows from client relationships, advisor relationships, and product sponsor relationships; (ii) estimates to develop or use software; and (iii) discount rates.

If the Company determines that a pre-acquisition contingency is probable in nature and estimable as of the acquisition date, the Company records its best estimate for such a contingency as a part of the preliminary purchase price allocation. The Company continues to gather information for and evaluate pre-acquisition contingencies throughout the measurement period, with changes to the amounts recorded or identified additional pre-acquisition contingencies included in the purchase price allocation and, subsequently, in the Company's results of operations.

The Company may be required to pay future consideration to the former shareholders of acquired companies, depending upon the terms of the applicable purchase agreement, that is contingent upon the achievement of certain financial or operating targets. The fair value of the contingent consideration is determined using financial forecasts and other estimates that assess the probability and timing of the financial targets being reached, and measuring the associated cash payments at their present value using a risk-adjusted rate of return. The estimated fair value of the contingent consideration on the acquisition date is included in the purchase price of the acquired company. At each reporting date, or whenever there are significant changes in underlying key assumptions, a review of these assumptions is performed and the contingent consideration liability is updated to its estimated fair value. If there are no significant changes in the assumptions, the quarterly determination of the fair value of contingent consideration reflects the implied interest for the passage of time. Changes in the estimated fair value of the contingent consideration obligations may result from changes in the terms of the contingent payments, changes in discount periods and rates, changes in assumptions with respect to the timing and likelihood of achieving the applicable targets, and other related developments. Actual progress toward achieving the financial targets for the remaining measurement periods may be different than the Company's expectations of future performance. The

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change in the estimated fair value of contingent consideration has been classified as other expenses in the consolidated statements of income.

Goodwill and Other Intangible Assets

Goodwill and other indefinite-lived assets are not amortized; however, intangible assets that are deemed to have definite lives are amortized over their useful lives, generally ranging from 5 - 20 years. See Note 8. Goodwill and Other Intangible Assets, for additional information regarding the Company's goodwill and other intangible assets. Goodwill and other indefinite-lived intangible assets are tested annually for impairment in the fourth fiscal quarter and between annual tests if certain events occur indicating that the carrying amounts may be impaired. If a qualitative assessment is used and the Company determines that the fair value of a reporting unit or indefinite-lived intangible asset is more likely than not (i.e., a likelihood of more than 50%) less than its carrying amount, a quantitative impairment test will be performed. If goodwill or other indefinite-lived intangible assets are quantitatively assessed for impairment, a two-step approach is applied. First, the Company compares the estimated fair value of the reporting unit in which the asset resides to its carrying value. The second step, if necessary, measures the amount of such impairment by comparing the implied fair value of the asset to its carrying value. No impairment of goodwill or other indefinite-lived intangible assets was recognized during the years ended December 31, 2014, 2013, or 2012.

Long-lived assets, such as intangible assets subject to amortization, are reviewed for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount of an asset or asset group to estimated undiscounted future cash flows expected to be generated by the asset or asset group. If the carrying amount of an asset or asset group exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset or asset group exceeds the estimated fair value of the asset or asset group. Long-lived assets to be disposed of by sale are reported at the lower of their carrying amounts or their estimated fair values less costs to sell and are not depreciated. No impairment of definite-lived intangible assets was recognized during the years ended December 31, 2014, 2013, or 2012.

Debt Issuance Costs

Debt issuance and amendment costs have been capitalized and are being amortized as additional interest expense over the expected terms of the related debt agreements.

Derivative Financial Instruments

The Company uses derivative financial instruments, consisting of non-deliverable foreign currency forward contracts, to mitigate foreign currency exchange rate risk related to operating expenses that are subject to repricing. The Company has designated these derivative financial instruments as cash flow hedges, all of which qualify for hedge accounting. The Company assesses the ongoing effectiveness of its cash flow hedges. Changes in the fair value for the effective portion of the Company's cash flow hedges are presented in other comprehensive income and reclassified into earnings to match the timing of the underlying hedged item. Hedge ineffectiveness is measured at the end of each fiscal quarter, with any gains or losses realized into earnings in the current period. See Note 9. Derivative Financial Instruments, for additional information regarding the Company's derivative financial instruments.

Fair Value of Debt Instruments

The Company carries its indebtedness at amortized cost. The Company measures the implied fair value of its debt instruments using trading levels obtained from a third-party service provider. Accordingly, the debt instruments qualify as Level 2 fair value measurements. See Note 4. Fair Value Measurements, for additional information regarding the Company's fair value measurements. As of December 31, 2014, the carrying amount and fair value of the Company’s indebtedness was approximately $1,634.3 million and $1,620.8 million, respectively. As of December 31, 2013, the carrying amount and fair value was approximately $1,535.1 million and $1,533.3 million, respectively.

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Commitments and Contingencies
The Company recognizes a liability with regard to loss contingencies when it believes it is probable a liability has occurred and the amount can be reasonably estimated. If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, the Company accrues that amount. When no amount within the range is a better estimate than any other amount, however, the Company accrues the minimum amount in the range.
The Company records legal accruals and related insurance recoveries on a gross basis. Defense costs are expensed as incurred and classified as other expenses within the consolidated statements of income.
Recently Issued Accounting Pronouncements
In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, Revenue from Contracts with Customers (Topic 606), which completes the joint effort by the FASB and the International Accounting Standards Board to improve financial reporting by creating common revenue recognition guidance for GAAP and the International Financial Reporting Standards. ASU 2014-09 will become effective for the Company beginning January 1, 2017 and early adoption is not permitted. The Company is currently evaluating the potential impact of ASU 2014-09 on its financial statements.
In August 2014, the FASB issued ASU 2014-15, Presentation of Financial Statements—Going Concern, which will require an entity's management to assess, for each annual and interim period, whether there is substantial doubt about the entity's ability to continue as a going concern within one year of the financial statement issuance date. The definition of substantial doubt within the new standard incorporates a likelihood threshold of "probable" similar to the use of that term under current GAAP for loss contingencies. Certain disclosures will be required if conditions give rise to substantial doubt. ASU 2014-15 will be effective for the Company beginning January 1, 2017 and early adoption is permitted. The Company does not anticipate the adoption of ASU 2014-15 to have a material impact on its financial statements.
3. Restructuring
Service Value Commitment Initiative
In February 2013, the Company committed to an expansion of its Service Value Commitment initiative (the “Program”), an ongoing effort to position the Company's people, processes, and technology for sustainable long-term growth while improving the service experience of its advisors and delivering efficiencies in its operating model. The Program is expected to be completed in 2015.
The Company estimates total charges in connection with the Program will approach $68.0 million. These expenditures are comprised of outsourcing and other related costs, technology transformation costs, employee severance obligations, and other related costs, as well as non-cash charges for impairment of certain fixed assets related to internally developed software.
The following table summarizes the balance of accrued expenses and the changes in the accrued amounts for the Program as of and for the year ended December 31, 2014 (in thousands):

	Accrued Balance at December 31, 2013	Costs Incurred	Payments	Accrued Balance at December 31, 2014	Cumulative Costs Incurred to Date	Total Expected Restructuring Costs
Outsourcing and other related costs	$1,424	$6,207	$(7,631)	$—	$21,488	$23,500
Technology transformation costs	1,753	20,649	(17,944)	4,458	29,918	30,300
Employee severance obligations and other related costs	820	6,427	(5,248)	1,999	8,885	13,400
Asset impairments	—	—	—	—	842	842
Total	$3,997	$33,283	$(30,823)	$6,457	$61,133	$68,042

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4. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Inputs used to measure fair value are prioritized within a three-level fair value hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

There were no transfers of assets or liabilities between these fair value measurement classifications during the years ended December 31, 2014 and 2013.

The Company’s fair value measurements are evaluated within the fair value hierarchy, based on the nature of inputs used to determine the fair value at the measurement date. At December 31, 2014, the Company had the following financial assets and liabilities that are measured at fair value on a recurring basis:

Cash Equivalents — The Company’s cash equivalents include money market funds, which are short term in nature with readily determinable values derived from active markets.

Securities Owned and Securities Sold, But Not Yet Purchased — The Company’s trading securities consist of house account model portfolios established and managed for the purpose of benchmarking the performance of its fee-based advisory platforms and temporary positions resulting from the processing of client transactions. Examples of these securities include money market funds, U.S. treasury obligations, mutual funds, certificates of deposit, and traded equity and debt securities.

Other Assets — The Company’s other assets include: (1) deferred compensation plan assets that are invested in money market and other mutual funds, which are actively traded and valued based on quoted market prices; (2) certain non-traded real estate investment trusts and auction rate notes, which are valued using quoted prices for identical or similar securities and other inputs that are observable or can be corroborated by observable market data; and (3) cash flow hedges, which are measured using quoted prices for similar cash flow hedges, taking into account counterparty credit risk and the Company's own non-performance risk.

Accounts Payable and Accrued Liabilities — The Company's accounts payable and accrued liabilities include contingent consideration liabilities that are measured using Level 3 inputs.

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The following table summarizes the Company’s financial assets and financial liabilities measured at fair value on a recurring basis at December 31, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$22,592	$—	$—	$22,592
Securities owned — trading:				
Money market funds	293	—	—	293
Mutual funds	7,570	—	—	7,570
Equity securities	224	—	—	224
Debt securities	—	1,379	—	1,379
U.S. treasury obligations	4,000	—	—	4,000
Total securities owned — trading	12,087	1,379	—	13,466
Other assets	75,540	5,058	—	80,598
Total assets at fair value	$110,219	$6,437	$—	$116,656
Liabilities				
Securities sold, but not yet purchased:				
Mutual funds	$13	$—	$—	$13
Equity securities	279	—	—	279
Debt securities	—	10	—	10
Total securities sold, but not yet purchased	292	10	—	302
Accounts payable and accrued liabilities	—	—	527	527
Total liabilities at fair value	$292	$10	$527	$829

The following table summarizes the Company’s financial assets and liabilities measured at fair value on a recurring basis at December 31, 2013 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$254,032	$—	$—	$254,032
Securities owned — trading:				
Money market funds	170	—	—	170
Mutual funds	7,291	—	—	7,291
Equity securities	103	—	—	103
U.S. treasury obligations	1,400	—	—	1,400
Total securities owned — trading	8,964	—	—	8,964
Other assets	47,539	3,072	—	50,611
Total assets at fair value	$310,535	$3,072	$—	$313,607
Liabilities				
Securities sold, but not yet purchased:				
Mutual funds	$63	$—	$—	$63
Equity securities	127	—	—	127
Debt securities	—	10	—	10
Certificates of deposit	—	11	—	11
Total securities sold, but not yet purchased	190	21	—	211
Accounts payable and accrued liabilities	—	—	39,293	39,293
Total liabilities at fair value	$190	$21	$39,293	$39,504

Changes in Level 3 Recurring Fair Value Measurements

At December 31, 2013, the Company had a contingent consideration obligation related to the acquisition of

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National Retirement Partners, Inc. ("NRP"). This obligation was based on the achievement of certain revenue-based targets for the twelve-month period ended November 30, 2013. As of December 31, 2013, the Company had 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.

5. Held-to-Maturity Securities

At December 31, 2014 and 2013, the Company's held-to-maturity securities consisted of U.S. government notes. The Company discloses the fair value of its securities held-to-maturity using quoted prices in active markets, which is a Level 1 fair value measurement. The amortized cost, gross unrealized loss, and fair value of securities held-to-maturity were as follows (in thousands):

	December 31, 2014	2013
Amortized cost	$8,594	$6,853
Gross unrealized loss	(14)	(58)
Fair value	$8,580	$6,795

At December 31, 2014, the securities held-to-maturity were scheduled to mature as follows (in thousands):

	Within one year	After one but within five years	After five but within ten years	Total
U.S. government notes — at amortized cost	$3,099	$4,995	$500	$8,594
U.S. government notes — at fair value	$3,099	$4,983	$498	$8,580

6. Receivables from Product Sponsors, Broker-Dealers, and Clearing Organizations and Payables to Broker-Dealers and Clearing Organizations

Receivables from product sponsors, broker-dealers, and clearing organizations and payables to broker-dealers and clearing organizations were as follows (in thousands):

	December 31, 2014	2013
Receivables:		
Commissions receivable from product sponsors and others	$122,207	$112,575
Receivable from clearing organizations	38,873	49,295
Receivable from broker-dealers	10,814	7,060
Securities failed-to-deliver	5,576	5,140
Total receivables	$177,470	$174,070
Payables:		
Payable to clearing organizations	$19,580	$28,433
Payable to broker-dealers	20,208	9,884
Securities failed-to-receive	5,639	4,840
Total payables	$45,427	$43,157

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7. Fixed Assets

The components of fixed assets were as follows (in thousands):

	December 31, 2014	2013
Internally developed software	$259,335	$232,448
Leasehold improvements	95,846	89,259
Computers and software	95,406	86,163
Furniture and equipment	47,658	37,868
Land	4,743	6,642
Total fixed assets	502,988	452,380
Accumulated depreciation and amortization	(288,834)	(263,321)
Fixed assets, net	$214,154	$189,059

Depreciation and amortization expense was $58.0 million, $44.5 million, and $32.3 million for the years ended December 31, 2014, 2013, and 2012, respectively.

8. Goodwill and Other Intangible Assets

A summary of the activity in goodwill is presented below (in thousands):

Balance at December 31, 2012	$1,371,523
Closure of NestWise	(10,162)
Balance at December 31, 2013	$1,361,361
Goodwill acquired	4,477
Balance at December 31, 2014	$1,365,838

In 2014, the Company purchased certain intangible assets of a third party, which included $4.5 million in goodwill and $5.1 million in other intangible assets. During 2013, in conjunction with the closure of our former subsidiary, NestWise, certain assets of NestWise, including goodwill, were determined to have no future economic benefit. Accordingly, the Company derecognized $10.2 million of goodwill held at NestWise, which is included within other expenses in the consolidated statements of income.

The components of intangible assets were as follows at December 31, 2014 (dollars in thousands):

	Weighted-Average Life Remaining (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Definite-lived intangible assets:				
Advisor and financial institution relationships	10.9	$440,533	$(195,835)	$244,698
Product sponsor relationships	11.1	234,086	(101,377)	132,709
Client relationships	9.4	20,220	(7,622)	12,598
Trade names	7.3	1,200	(320)	880
Total definite-lived intangible assets		$696,039	$(305,154)	$390,885
Indefinite-lived intangible assets:				
Trademark and trade name				39,819
Total intangible assets				$430,704

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The components of intangible assets were as follows at December 31, 2013 (dollars in thousands):

	Weighted-Average Life Remaining (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Definite-lived intangible assets:				
Advisor and financial institution relationships	11.8	$439,762	$(171,453)	$268,309
Product sponsor relationships	12.1	230,916	(88,751)	142,165
Client relationships	10.2	19,110	(5,881)	13,229
Trade names	8.3	1,200	(200)	1,000
Total definite-lived intangible assets		$690,988	$(266,285)	$424,703
Indefinite-lived intangible assets:				
Trademark and trade name				39,819
Total intangible assets				$464,522

Total amortization expense of intangible assets was $38.9 million, $39.0 million, and $39.5 million for the years ended December 31, 2014, 2013, and 2012, respectively. Future amortization expense is estimated as follows (in thousands):

2015	$38,288
2016	38,161
2017	37,276
2018	34,833
2019	34,768
Thereafter	207,559
Total	$390,885

9. Derivative Financial Instruments

In May 2013, in conjunction with its Service Value Commitment initiative, the Company entered into a long-term contractual obligation (the "Agreement") with a third-party provider to enhance the quality, speed, and cost of 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 the Company and provides for the Company to settle the cost of its contractual obligation to the third-party provider in U.S. dollars each month. However, the Agreement provides that on each annual anniversary date of the signing of the Agreement, the price for services (denominated in U.S. dollars) is to be adjusted for the then-current exchange rate between the U.S. dollar ("USD") and the Indian rupee ("INR"). The Agreement provides that, once an annual adjustment is calculated, there are no further modifications to the amounts paid by the Company to the third-party provider for fluctuations in the exchange rate between the USD and the INR until the reset on the next anniversary date of the signing of the Agreement.

The third-party provider bore the risk of currency movement from the date of signing the Agreement until the reset on the first anniversary of its signing, and bears such risk during each period until the next annual reset date. The Company bears the risk of currency movement at each of the annual reset dates following the first anniversary.

To mitigate foreign currency risk arising from these annual anniversary events, the Company entered into four non-deliverable foreign currency contracts, all of which have been designated as cash flow hedges. The first cash flow hedge, with a notional amount of 560.4 million INR, or $8.5 million, settled in June 2014. The Company received a settlement of $1.0 million that will be reclassified out of accumulated other comprehensive income and recognized in net income ratably over a 12-month period ending May 31, 2015 to match the timing of the underlying hedged item.

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The details related to the non-deliverable foreign currency contracts at December 31, 2014 are as follows:

	Settlement Date	Hedged Notional Amount (INR) (in millions)	Contractual INR/USD Foreign Exchange Rate	Hedged Notional Amount (USD) (in millions)
Cash flow hedge #2	6/2/2015	560.4	69.35	$8.1
Cash flow hedge #3	6/2/2016	560.4	72.21	7.8
Cash flow hedge #4	6/2/2017	560.4	74.20	7.5
Total hedged amount				$23.4

The fair value of the derivative instruments, included in other assets in the consolidated statements of financial condition, were as follows (in thousands):

	December 31,	
	2014	2013
Cash flow hedges	$1,179	$187

10. Accounts Payable and Accrued Liabilities

Accounts payable and accrued liabilities were as follows (in thousands):

	December 31,	
	2014	2013
Accounts payable	$56,776	$59,299
Accrued payroll	66,816	73,135
Contingent consideration obligations	527	39,436
Advisor deferred compensation plan liability	72,763	45,461
Deferred rent	48,629	35,156
Other accrued liabilities	43,915	49,157
Total accounts payable and accrued liabilities	$289,426	$301,644

11. Debt

Senior Secured Credit Facilities — On October 1, 2014, the Company entered into the Second Amendment, Extension and Incremental Assumption Agreement (“Credit Agreement”) with its wholly owned subsidiary, LPL Holdings, Inc., the other parties thereto. The Credit Agreement amends the Company's previous credit agreement, which was dated May 13, 2013.

The Credit Agreement includes a term loan A (“Term Loan A”), a term loan B (“Term Loan B”), and a revolving credit facility (“Revolving Credit Facility”). This agreement amends the Term Loan A and Revolving Credit Facility maturity date to September 30, 2019 from March 29, 2017, and the Revolving Credit Facility borrowing capacity to $400.0 million from $250.0 million.

In connection with the execution of the Credit Agreement, the Company incurred $4.9 million in costs, which are capitalized as debt issuance costs in the consolidated statements of financial condition, and accelerated the recognition of $3.9 million of unamortized costs attributable to Term Loan A related to the previous credit agreement, which has been recorded as a loss on extinguishment of debt within the consolidated statements of income for the year ended December 31, 2014.

At the time the Company entered into the Credit Agreement, all mandatory payments required under Term Loan A had been prepaid, with the remaining principal and accrued interest due upon maturity. Term Loan B includes quarterly payments at an annual rate of 1.0% of principal per year, with the remaining principal and accrued interest due upon maturity.

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The Company's outstanding borrowings were as follows (dollars in thousands):

Senior Secured Credit Facilities	Maturity	December 31, 2014 Balance	Interest Rate		2013 Balance	Interest Rate	
Revolving Credit Facility	9/30/2019	$110,000	4.75	%	$—	—	%
Senior secured term loans:							
Term Loan A	9/30/2019	459,375	2.67	%	459,375	2.67	%
Term Loan B	3/29/2019	1,064,883	3.25	%	1,075,721	3.25	%
Total borrowings		1,634,258			1,535,096		
Less current portion		120,839			10,839		
Long-term borrowings — net of current portion		$1,513,419			$1,524,257		

As of December 31, 2014, the Company had $21.5 million of irrevocable letters of credit, with an applicable interest rate margin of 2.50%, which were supported by the Revolving Credit Facility.

The Credit Agreement subjects the Company to certain financial and non-financial covenants. As of December 31, 2014, the Company was in compliance with such covenants.

Bank Loans Payable — The Company maintains three uncommitted lines of credit. Two of the lines have unspecified limits, which are primarily dependent on the Company's ability to provide sufficient collateral. The third line has a $200.0 million limit and allows for both collateralized and uncollateralized borrowings. The lines were not utilized in 2014, but were utilized in 2013; however, there were no balances outstanding at December 31, 2014 or 2013.

The minimum calendar year payments and maturities of the senior secured borrowings as of December 31, 2014 are as follows (in thousands):

2015	$120,839
2016	10,839
2017	19,452
2018	45,292
2019	1,437,836
Thereafter	—
Total	$1,634,258

12. Income Taxes

The Company's provision for income taxes was as follows (in thousands):

	December 31, 2014	2013	2012
Current provision:			
Federal	$120,995	$119,327	$96,983
State	19,759	19,062	13,909
Total current provision	140,754	138,389	110,892
Deferred benefit:			
Federal	(20,800)	(25,586)	(11,137)
State	(3,300)	(3,357)	(1,082)
Total deferred benefit	(24,100)	(28,943)	(12,219)
Provision for income taxes	$116,654	$109,446	$98,673

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A reconciliation of the U.S. federal statutory income tax rates to the Company’s effective income tax rates is set forth below:

	Years Ended December 31,		
	2014	2013	2012
Federal statutory income tax rates	35.0 %	35.0 %	35.0 %
State income taxes, net of federal benefit	3.6	3.5	3.3
Non-deductible expenses	0.7	0.4	1.1
Share-based compensation	(0.1)	(0.1)	0.1
Business energy tax credit	—	(0.5)	—
Transaction costs	—	—	0.1
Goodwill derecognition	—	1.2	—
Contingent consideration obligations	(0.1)	(1.5)	(0.7)
Other	0.5	(0.4)	0.5
Effective income tax rates	39.6 %	37.6 %	39.4 %

The Company's 2013 effective tax rate and income tax expense was lower primarily due to a release of the valuation allowance and utilization of a business energy tax credit.

The components of the net deferred income taxes included in the consolidated statements of financial condition were as follows (in thousands):

	December 31,	
	2014	2013
Deferred tax assets:		
Accrued liabilities	$55,731	$39,265
Share-based compensation	24,537	19,442
State taxes	8,500	8,447
Deferred rent	4,768	2,337
Provision for bad debts	4,192	3,110
Net operating losses	999	1,594
Other	4,339	1,788
Total deferred tax assets	103,066	75,983
Deferred tax liabilities:		
Amortization of intangible assets	(136,140)	(144,392)
Depreciation of fixed assets	(32,509)	(20,888)
Other	(598)	(72)
Total deferred tax liabilities	(169,247)	(165,352)
Deferred income taxes, net	$(66,181)	$(89,369)

The table of deferred tax assets and liabilities shown above does not include certain carryforwards related to federal and state net operating losses and other federal credits that arose directly from tax deductions related to equity compensation in excess of share-based compensation recognized for financial reporting. To the extent that the Company utilizes all of these tax attributes in the future to reduce income taxes payable, the Company will record an increase to additional paid-in capital of $2.6 million. The Company uses “with and without ordering” for purposes of determining when excess tax benefits have been realized.

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The following table reflects a reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits, including interest and penalties (in thousands):

	December 31,		
	2014	2013	2012
Balance — Beginning of year	$19,522	$19,867	$20,120
Increases for tax positions related to the current year	4,656	3,972	3,296
Reductions as a result of a lapse of the applicable statute of limitations	(3,191)	(4,317)	(3,549)
Balance — End of year	$20,987	$19,522	$19,867

At December 31, 2014 and 2013, the gross unrecognized tax benefits included $15.0 million and $13.9 million (net of the federal benefit on state issues), respectively, that represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes within the consolidated statements of financial condition. At December 31, 2014 and 2013, the liability for unrecognized tax benefits included accrued interest of $2.3 million and $2.1 million, respectively, and penalties of $3.7 million and $3.3 million, respectively.

The Company and its subsidiaries file income tax returns in the federal jurisdiction, as well as most state jurisdictions, and are subject to routine examinations by the respective taxing authorities. The Company has concluded all federal income tax matters for years through 2010 and all state income tax matters for years through 2006.

The tax years of 2011 to 2014 remain open to examination in the federal jurisdiction. The tax years of 2007 to 2014 remain open to examination in the state jurisdictions. In the next 12 months, it is reasonably possible that the Company expects a reduction in unrecognized tax benefits of $1.6 million primarily related to the statute of limitations expiration in various state jurisdictions.

13. Commitments and Contingencies

Leases

The Company leases office space and equipment under various operating leases. These leases are generally subject to scheduled base rent and maintenance cost increases, which are recognized on a straight-line basis over the period of the leases. Total rental expense for all operating leases was approximately $30.1 million, $19.4 million, and $18.8 million for the years ended December 31, 2014, 2013, and 2012, respectively.

Service and Development Contracts

The Company is party to certain long-term contracts for systems and services that enable back office trade processing and clearing for its product and service offerings.

The Company also has contractual obligations related to the development of land in South Carolina for office space. Under development and agency contracts the Company expects to pay a pro rata share equal to 27.5% of the design and construction costs. The remaining amounts will be paid by the landlord. The Company’s share of these costs is expected to be approximately $72.8 million, incurred through 2017. Additionally, the Company has entered into lease agreements for the office space once developed. These leases have an initial lease term of 20 years that commence once the development is complete and the Company takes occupancy of the buildings.

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Future minimum payments under leases, lease commitments, service, development and agency contracts, and other contractual obligations with initial terms greater than one year were as follows at December 31, 2014 (in thousands):

2015	$80,775
2016	107,132
2017	57,515
2018	54,409
2019	38,649
Thereafter	369,285
Total(1)(2)	$707,765

(1) The table above includes the minimum payments due over the duration of a contractual obligation, which may be canceled, subject to a termination penalty that is approximately equal to the initial annual minimum payment. The amount constituting the termination penalty steps down ratably through the passage of time. Future minimum payments have not been reduced by this termination penalty.

(2) Future minimum payments have not been reduced by minimum sublease rental income of $3.0 million due in the future under noncancellable subleases.

Guarantees

The Company occasionally enters into certain types of contracts that contingently require it to indemnify certain parties against third-party claims. The terms of these obligations vary and, because a maximum obligation is not explicitly stated, the Company has determined that it is not possible to make an estimate of the amount that it could be obligated to pay under such contracts.

The Company’s subsidiary, LPL Financial, provides guarantees to securities clearing houses and exchanges under their standard membership agreements, which require a member to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearing houses and exchanges, all other members would be required to meet any shortfall. The Company’s liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these agreements is remote. Accordingly, no liability has been recognized for these transactions.

Loan Commitments

From time to time, LPL Financial makes loans to its advisors, primarily to newly recruited advisors to assist in the transition process, which may be forgivable. Due to timing differences, LPL Financial may make commitments to issue such loans prior to actually funding them. These commitments are generally contingent upon certain events occurring, including but not limited to the advisor joining LPL Financial. LPL Financial had no significant unfunded commitments at December 31, 2014.

Legal & Regulatory Matters

Assessing the probability of a loss occurring and the amount of any loss related to a legal proceeding or regulatory matter is inherently difficult. While the Company exercises significant and complex judgments to make certain estimates presented in its consolidated financial statements, there are particular uncertainties and complexities involved when assessing the potential outcomes of legal proceedings and regulatory matters. The Company's assessment process considers a variety of factors and assumptions, which may include the procedural status of the matter and any recent developments; prior experience and the experience of others in similar matters; the size and nature of potential exposures; available defenses; the progress of fact discovery; the opinions of counsel and experts; potential opportunities for settlement and the status of any settlement discussions; as well as the potential for insurance coverage and indemnification, if available. The Company monitors these factors and assumptions for new developments and re-assesses the likelihood that a loss will occur and the estimated range or amount of loss, if those amounts can be reasonably determined. The Company has established an accrual for those legal proceedings and regulatory matters for which a loss is both probable and the amount can be reasonably estimated. When it is not probable, but at least reasonably possible that a loss has been incurred, a disclosure of fact is made when the underlying loss or range of losses can also be reasonably estimated. The Company

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estimates that, as of December 31, 2014, exposure to those losses could range from $0 to $15 million in excess of the accrued liability, if any, related to those matters. Due to the inherent unpredictability of such matters, the Company may have exposure to losses that are not yet predictable or cannot yet be reasonably estimated in addition to those amounts that have been accrued or disclosed.

The Company maintains insurance coverage for certain legal proceedings, including those involving client claims. With respect to client claims, the estimated losses on many of the pending matters are less than the applicable deductibles of the insurance policies. The Company is also subject to extensive regulation and supervision by U.S. federal and state agencies and various self-regulatory organizations. The Company and its advisors periodically engage with such agencies and organizations, in the context of examinations or otherwise, to respond to inquiries, informational requests, and investigations. From time to time, such engagements result in regulatory complaints or other matters, the resolution of which can include fines and other remediation.

Other Commitments

As of December 31, 2014, the Company had received collateral, primarily in connection with client margin loans, with a market value of approximately $353.2 million, which it can repledge, loan, or sell. Of these securities, approximately $32.3 million were client-owned securities pledged to the Options Clearing Corporation as collateral to secure client obligations related to options positions. As of December 31, 2014 there were no restrictions that materially limited the Company's ability to repledge, loan, or sell the remaining $320.9 million of client collateral.

Trading securities on the consolidated statements of financial condition includes $4.0 million and $1.4 million pledged to clearing organizations at December 31, 2014 and 2013, respectively.

14. Stockholders' Equity

Dividends

The payment, timing and amount of any dividends permitted under the Company's credit facilities are subject to approval by the Board of Directors. Cash dividends per share of common stock and total cash dividends paid during each quarter were as follows (in millions, except per share data):

	2014		2013	
	Dividend per Share	Total Cash Dividend	Dividend per Share	Total Cash Dividend
First quarter	$0.24	$24.1	$0.135	$14.4
Second quarter	$0.24	$24.0	$0.135	$14.4
Third quarter	$0.24	$24.0	$0.190	$19.9
Fourth quarter	$0.24	$23.5	$0.190	$19.3

Share Repurchases

The Board of Directors has approved several share repurchase programs pursuant to which the Company may repurchase its issued and outstanding shares of common stock from time to time. Repurchased shares are included in treasury stock on the consolidated statements of financial condition. Purchases may be effected in open market or privately negotiated transactions, including transactions with affiliates, with the timing of purchases and the amount of stock purchased generally determined at the discretion of the Company's management.

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The Company had the following activity under its approved share repurchase programs (in millions, except share and per share data):

			2014			2013		
Approval Date	Authorized Repurchase Amount	Amount Remaining at December 31, 2014	Shares Purchased	Weighted-Average Price Paid Per Share	Total Cost(1)	Shares Purchased	Weighted-Average Price Paid Per Share	Total Cost(1)
September 27, 2012	$150.0	$—	—	$ —	$—	2,343,651	$ 37.10	$87.0
May 28, 2013	$200.0	$—	1,306,288	$ 52.00	$67.9	3,476,137	$ 38.01	$132.1
February 10, 2014	$150.0	$—	3,250,516	$ 46.16	$150.1	—	$ —	$—
October 1, 2014	$150.0	$92.9	1,342,405	$ 42.54	$57.1	—	$ —	$—
		$92.9	5,899,209	$ 46.63	$275.1	5,819,788	$ 37.65	$219.1

(1) Included in the total cost of shares purchased is a commission fee of $0.02 per share.

See Note 18. Related Party Transactions, for details regarding the repurchase of shares from related parties.

15. Share-Based Compensation

On November 17, 2010, the Company adopted a 2010 Omnibus Equity Incentive Plan (the "2010 Plan"), which provides for the granting of stock options, warrants, restricted stock awards, restricted stock units, and other equity-based compensation. The 2010 Plan serves as the successor to the 2005 Stock Option Plan for Incentive Stock Options, the 2005 Stock Option Plan for Non-qualified Stock Options, the 2008 Advisor and Institution Incentive Plan, the 2008 Stock Option Plan and the Director Restricted Stock Plan (collectively, the "Predecessor Plans"). Upon adoption of the 2010 Plan, awards were no longer made under the Predecessor Plans; however, awards previously granted under the Predecessor Plans remain outstanding until exercised or forfeited.

There are 12,055,945 shares authorized for grant under the 2010 Plan. As of December 31, 2014, there were 6,318,795 shares reserved for issuance upon exercise or conversion of outstanding awards granted under the 2010 Plan.

Stock Options and Warrants

The following table presents the weighted-average assumptions used in the Black-Scholes valuation model by the Company in calculating the fair value of stock options granted to its employees, officers, and directors:

	Years Ended December 31,		
	2014	2013	2012
Expected life (in years)	6.02	6.25	6.49
Expected stock price volatility	44.25 %	45.03 %	45.73 %
Expected dividend yield	1.77 %	1.72 %	0.29 %
Risk-free interest rate	2.17 %	1.39 %	1.34 %
Fair value of options	$20.51	$12.05	$14.43

The fair value of stock options and warrants awarded to advisors and financial institutions are estimated on the date of grant and revalued at each reporting period using the Black-Scholes valuation model with the following weighted-average assumptions:

	Years Ended December 31,		
	2014	2013	2012
Expected life (in years)	6.82	6.24	7.61
Expected stock price volatility	25.87 %	40.99 %	43.97 %

Expected dividend yield	2.24 %	1.89 %	1.70 %
Risk-free interest rate	1.96 %	2.04 %	1.28 %
Fair value of options	$15.12	$25.92	$11.46

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Beginning in the fourth quarter of 2014, the Company updated certain assumptions it uses to estimate expected life, stock price volatility, and dividend yield in the Black-Scholes valuation model. The Company currently estimates the expected life for stock options awarded to employees, officers, and directors using historical experience and estimates the expected life for stock options and warrants awarded to advisors and financial institutions using the remaining contractual term. The Company estimates expected stock price volatility using historical trading data for the period of time there has been a public market for the Company's stock. The dividend yield is based on an expected dividend as a percentage of the trailing three-month average of the Company's stock price as of the valuation date. The risk-free interest rates are based on the implied yield available on U.S. Treasury constant maturities with remaining terms equivalent to the respective expected lives of the options on the date of grant. No stock options were granted to employees, officers, and directors in the fourth quarter of 2014; therefore, the related weighted-average assumptions used during the year ended December 31, 2014 were not impacted by the change in assumptions. The estimated fair value of stock options and warrants awarded to advisors and financial institutions are revalued at each reporting period; therefore, the weighted-average assumptions used during the year ended December 31, 2014 are estimated using the updated assumptions.

Prior to the fourth quarter of 2014, the Company estimated the expected life for stock options awarded to employees, officers, and directors using the simplified method in accordance with Staff Accounting Bulletin 110, Certain Assumptions Used in Valuation Methods, because the Company did not have sufficient relevant historical information to develop reasonable expectations about future exercise patterns. The Company estimated the expected stock price volatility using the stock price volatility of comparable companies, as well as the historical trading data for the period of time there was a public market for the Company's stock. The dividend yield was based on an expected dividend as a percentage of the Company's stock price on the valuation date.

The following table summarizes the Company’s stock option and warrant activity:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding — December 31, 2011	9,022,750	$21.83		
Granted	1,978,862	30.99		
Exercised	(2,335,026)	7.69		
Forfeited	(524,577)	29.75		
Outstanding — December 31, 2012	8,142,009	27.61		
Granted	1,278,508	31.88		
Exercised	(1,387,918)	24.67		
Forfeited	(1,016,078)	31.15		
Outstanding — December 31, 2013	7,016,521	28.45		
Granted	748,353	54.21		
Exercised	(1,060,017)	25.39		
Forfeited	(417,447)	35.11		
Outstanding — December 31, 2014	6,287,410	$31.59	6.38	$81,465
Exercisable — December 31, 2014	3,626,762	$27.49	5.31	$61,872

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The following table summarizes information about outstanding stock options and warrants as of December 31, 2014:

Range of Exercise Prices	Outstanding Total Number of Shares	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Exercisable Number of Shares	Weighted-Average Exercise Price
$2.38	17,382	0.42	$2.38	17,382	$2.38
$15.84 - $23.02	1,289,104	4.45	21.41	1,289,104	21.41
$23.41 - $30.00	1,575,697	5.71	28.10	1,065,607	27.83
$31.60 - $32.33	1,576,431	7.66	31.88	462,151	31.96
$34.01 - $39.60	1,156,984	6.15	34.59	779,015	34.52
$45.89 - $54.81	671,812	9.19	54.25	13,503	54.81
	6,287,410	6.38	$31.59	3,626,762	$27.49

The Company recognized $14.7 million, $12.7 million, and $15.9 million of share-based compensation related to the vesting of stock options awarded to employees, officers, and directors during the years ended December 31, 2014, 2013, and 2012, respectively. As of December 31, 2014, total unrecognized compensation cost for these awards was $21.4 million, which is expected to be recognized over a weighted-average period of 2.05 years.

The Company recognized $5.3 million, $9.2 million, and $3.8 million of share-based compensation related to the vesting of stock options and warrants awarded to its advisors and to financial institutions during the years ended December 31, 2014, 2013, and 2012, respectively. As of December 31, 2014, total unrecognized compensation cost for these awards was $7.7 million, which is expected to be recognized over a weighted-average period of 2.35 years.

Restricted Stock

The following summarizes the Company's restricted stock awards and restricted stock units activity:

	Restricted Stock Awards Number of Shares	Restricted Stock Awards Weighted-Average Grant-Date Fair Value	Restricted Stock Units Number of Shares	Restricted Stock Units Weighted-Average Grant-Date Fair Value
Nonvested — December 31, 2011	36,132	$ 30.51	—	$ —
Granted	26,680	29.99	8,925	28.01
Vested	(10,692)	28.30	—	—
Forfeited	(3,180)	31.44	—	—
Nonvested — December 31, 2012	48,940	30.65	8,925	28.01
Granted	22,307	35.85	270,733	32.11
Vested	(20,593)	31.56	—	—
Forfeited	(11,501)	30.43	(22,974)	30.37
Nonvested — December 31, 2013	39,153	33.20	256,684	32.12
Granted	17,256	48.62	395,987	48.49
Vested	(18,225)	30.18	(49,364)	31.01
Forfeited	(4,550)	32.96	(56,582)	39.18
Nonvested — December 31, 2014	33,634	$ 42.78	546,725	$ 43.34

The Company recognized $6.1 million, $2.5 million, and $0.6 million of share-based compensation related to the vesting of restricted stock awards and restricted stock units awarded to its employees, officers, and directors during the years ended December 31, 2014, 2013, and 2012, respectively. As of December 31, 2014, total

unrecognized compensation cost for these awards was $11.5 million, which is expected to be recognized over a weighted-average remaining period of 2.15 years.

The Company began granting restricted stock units to its advisors and to financial institutions in the second quarter of 2014. The Company recognized share-based compensation of $1.0 million related to the vesting of these awards during the year ended December 31, 2014. As of December 31, 2014, total unrecognized compensation cost for these awards was $3.8 million, which is expected to be recognized over a weighted-average remaining period of 2.37 years.

16. Earnings per Share

The calculation of basic and diluted earnings per share for the years noted was as follows (in thousands):

	Years Ended December 31,		
	2014	2013	2012
Net income	$178,043	$181,857	$151,918
Basic weighted-average number of shares outstanding	99,847	104,698	109,443
Dilutive common share equivalents	1,804	1,305	1,617
Diluted weighted-average number of shares outstanding	101,651	106,003	111,060
Basic earnings per share	$1.78	$1.74	$1.39
Diluted earnings per share	$1.75	$1.72	$1.37

The computation of diluted earnings per share excludes stock options, warrants, and restricted stock units that are anti-dilutive. For the years ended December 31, 2014, 2013, and 2012, stock options, warrants, and restricted stock units representing common share equivalents of 864,488 shares, 3,440,171 shares, and 4,615,244 shares, respectively, were anti-dilutive.

17. Employee and Advisor Benefit Plans

The Company participates in a 401(k) defined contribution plan sponsored by LPL Financial. All employees meeting minimum age and length of service requirements are eligible to participate. The Company has an employer matching program whereby employer contributions are made to the 401(k) plan, and employees are eligible for matching contributions after completing one year of service. For 2014, employer contributions were made in an amount equal to 65% of the first 8% of an employee's designated deferral of their eligible compensation. For 2013 and 2012, contributions were made in an amount equal to 50% and 40%, respectively, of the first 10% of an employee's designated deferral of their eligible compensation. The Company’s total cost related to the 401(k) plan was $8.7 million, $6.3 million, and $4.5 million for the years ended December 31, 2014, 2013, and 2012, respectively, which is classified as compensation and benefits expense in the consolidated statements of income.

In August 2012, the Company established the 2012 Employee Stock Purchase Plan (the “ESPP”) as a benefit to enable eligible employees to purchase common stock of LPLFH at a discount from the market price through payroll deductions, subject to limitations. Eligible employees may elect to participate in the ESPP only during an open enrollment period. The offering period immediately follows the open enrollment window, upon which time ESPP contributions are withheld from the participant's regular paycheck. The ESPP provides for a 15% discount on the market value of the stock at the lower of the grant date price (first day of the offering period) and the purchase date price (last day of the offering period).

On January 1, 2008, the Company adopted a non-qualified deferred compensation plan for the purpose of attracting and retaining advisors who operate, for tax purposes, as independent contractors, by providing an opportunity for participating advisors to defer receipt of a portion of their gross commissions generated primarily from commissions earned on the sale of various products. The deferred compensation plan has been fully funded to date by participant contributions. Plan assets are invested in mutual funds, which are held by the Company in a Rabbi Trust. The liability for benefits accrued under the non-qualified deferred compensation plan totaled $72.8 million at December 31, 2014, which is included in accounts payable and accrued liabilities in the consolidated statements of financial condition. The cash values of the related trust assets was $73.6 million at December 31, 2014, which is measured at fair value and included in other assets in the consolidated statements of financial condition.

Certain employees and advisors of the Company's subsidiaries participated in non-qualified deferred compensation plans (the "Plans") that permitted participants to defer portions of their compensation and earn interest on the deferred amounts. The Plans have been closed to new participants and no contributions have been made since the acquisition date. Plan assets are held by the Company in a Rabbi Trust and accounted for in the manner described above. As of December 31, 2014, the Company has recorded assets of $1.9 million and liabilities of $0.7 million, which are included in other assets and accounts payable and accrued liabilities, respectively, in the consolidated statements of financial condition.

18. Related Party Transactions

The Company has related party transactions with TPG Capital, a 13% shareholder of the Company's common stock, as well as certain portfolio companies of TPG Capital. During the years ended December 31, 2014, 2013, and 2012 the Company recognized revenue for services provided to these portfolio companies of $1.0 million, $0.5 million, and $0.4 million, respectively. During the years ended December 31, 2014, 2013, and 2012, the Company incurred expenses for services provided by TPG Capital or these portfolio companies of $4.2 million, $0.6 million, and $0.9 million, respectively. As of December 31, 2014 and 2013, payables to related parties were $0.5 million and less than $0.1 million, respectively, and receivables from related parties were $0.2 million and less than $0.1 million, respectively.

On February 12, 2014, the Company entered into a share repurchase agreement with an investment fund associated with TPG Capital, pursuant to which the Company repurchased 1.9 million shares of its common stock at a price of $52.00 per share, for total consideration of $100.0 million. The repurchase transaction closed on February 19, 2014.

Through its subsidiary LPL Financial, the Company also provides charitable contributions to the LPL Financial Foundation, an organization that provides volunteer and financial support within its local communities. During the year ended December 31, 2014 the Company donated $2.0 million to the LPL Financial Foundation, which is included in other expenses in the consolidated statements of income.

19. Net Capital and Regulatory Requirements

The Company operates in a highly regulated industry. Applicable laws and regulations restrict permissible activities and investments and require compliance with various financial and customer-related regulations. The consequences of noncompliance can include substantial monetary and non-monetary sanctions. In addition, the Company is also subject to comprehensive examinations and supervision by various governmental and self-regulatory agencies. These regulatory agencies generally have broad discretion to prescribe greater limitations on the operations of a regulated entity for the protection of investors or public interest. Furthermore, where the agencies determine that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with the laws and regulations or with the supervisory policies, greater restrictions may be imposed.

The Company's registered broker-dealer, LPL Financial, is subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1 under the Exchange Act), which requires the maintenance of minimum net capital, as defined. Net capital and the related net capital requirement may fluctuate on a daily basis. LPL Financial is a clearing broker-dealer and had net capital of $101.7 million with a minimum net capital requirement of $6.5 million as of December 31, 2014.

The Company's subsidiary, PTC, operates in a highly regulated industry and is subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have substantial monetary and non-monetary impacts to PTC's operations.

As of December 31, 2014 and 2013, LPL Financial and PTC met all capital adequacy requirements to which they were subject.

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20. Financial Instruments with Off-Balance-Sheet Credit Risk and Concentrations of Credit Risk

LPL Financial’s client securities activities are transacted on either a cash or margin basis. In margin transactions, LPL Financial extends credit to the advisor's client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client’s account. As clients write options contracts or sell securities short, LPL Financial may incur losses if the clients do not fulfill their obligations and the collateral in the clients’ accounts is not sufficient to fully cover losses that clients may incur from these strategies. To control this risk, LPL Financial monitors margin levels daily and clients are required to deposit additional collateral, or reduce positions, when necessary.

LPL Financial is obligated to settle transactions with brokers and other financial institutions even if its advisors' clients fail to meet their obligation to LPL Financial. Clients are required to complete their transactions on the settlement date, generally three business days after the trade date. If clients do not fulfill their contractual obligations, LPL Financial may incur losses. In addition, the Company occasionally enters into certain types of contracts to fulfill its sale of when, as, and if issued securities. When, as, and if issued securities have been authorized but are contingent upon the actual issuance of the security. LPL Financial has established procedures to reduce this risk by generally requiring that clients deposit cash or securities into their account prior to placing an order.

LPL Financial may at times hold equity securities on both a long and short basis that are recorded on the consolidated statements of financial condition at market value. While long inventory positions represent LPL Financial’s ownership of securities, short inventory positions represent obligations of LPL Financial to deliver specified securities at a contracted price, which may differ from market prices prevailing at the time of completion of the transaction. Accordingly, both long and short inventory positions may result in losses or gains to LPL Financial as market values of securities fluctuate. To mitigate the risk of losses, long and short positions are marked-to-market daily and are continuously monitored by LPL Financial.

21. Selected Quarterly Financial Data (Unaudited)

	2014			
	(In thousands, except per share data)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenues	$1,087,431	$1,092,729	$1,089,234	$1,104,268
Net income	$53,135	$43,091	$33,272	$48,545
Basic earnings per share	$0.52	$0.43	$0.33	$0.50
Diluted earnings per share	$0.51	$0.42	$0.33	$0.49
Dividends declared per share	$0.24	$0.24	$0.24	$0.24

	2013			
	(In thousands, except per share data)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenues	$974,796	$1,018,920	$1,053,212	$1,093,930
Net income	$54,717	$45,091	$37,631	$44,418
Basic earnings per share	$0.51	$0.42	$0.36	$0.44
Diluted earnings per share	$0.51	$0.42	$0.36	$0.43
Dividends declared per share	$0.135	$0.135	$0.190	$0.190

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22. Subsequent Event

On February 18, 2015, the Board of Directors declared a cash dividend of $0.25 per share on the Company's outstanding common stock to be paid on March 16, 2015 to all stockholders of record on March 2, 2015.

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