LPL Financial Holdings Inc.
Form 10-K
February 25, 2016

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

x	ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the fiscal year ended December 31, 2015
or	
o	TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
	For the transition period from________to

Commission file number 001-34963

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

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

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

617-423-3644
(Registrant's telephone number, including area code)

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

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock — $.001 par value per share	NASDAQ Global Select Market

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

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

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

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

As of June 30, 2015, the aggregate market value of the voting stock held by non-affiliates of the registrant was $3.8 billion. For purposes of this information, the outstanding shares of Common Stock owned by directors and executive officers of the registrant were deemed to be shares of the voting stock held by affiliates.

The number of shares of common stock, par value $0.001 per share, outstanding as of February 22, 2016 was 88,939,376.

DOCUMENTS INCORPORATED BY REFERENCE

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

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WHERE YOU CAN FIND MORE INFORMATION

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

On our internet site, http://www.lpl.com, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our proxy statements, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. Hard copies of all such filings are available free of charge by request via email (investor.relations@lpl.com), telephone (617) 897-4574, or mail (LPL Financial Investor Relations at 75 State Street, 22nd Floor, Boston, MA 02109). The information contained or incorporated on our website is not a part of this Annual Report on Form 10-K.

When we use the terms “LPLFH”, “we”, “us”, “our”, and the “Company” we mean LPL Financial Holdings Inc., a Delaware corporation, and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in Item 7 - “Management's Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this Annual Report on Form 10-K regarding the Company's future financial and operating results, growth, business strategies, plans, liquidity, future indebtedness, future share repurchases, and future dividends, including statements regarding future resolution of regulatory matters and related costs, income projections based on changes in interest rates, and projected savings and anticipated improvements to the Company's operating model, services, and technology as a result of its initiatives and programs, as well as any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. These forward-looking statements are based on the Company's historical performance and its plans, estimates, and expectations as of February 25, 2016. The words “anticipates,” “believes,” “expects,” “may,” “plans,” “predicts,” “will” and si expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future results, plans, intentions, or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive, and other factors, which may cause actual financial or operating results, levels of activity, or the timing of events, to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in general economic and financial market conditions, including retail investor sentiment; fluctuations in the value of brokerage and advisory assets; fluctuations in levels of net new advisory assets and the related impact on fee revenue; effects of competition in the financial services industry; changes in the number of the Company's financial advisors and institutions, and their ability to market effectively financial products and services; changes in interest rates and fees payable by banks participating in the Company's cash sweep program, including the Company's success in negotiating agreements with current or additional counterparties; changes in the growth and profitability of the Company’s fee-based business; the effect of current, pending, and future legislation, regulation, and regulatory actions, including the fiduciary rule proposed by the U.S. Department of Labor and disciplinary actions imposed by federal and state securities regulators and self-regulatory organizations; the costs of settling and remediating issues related to pending or future regulatory matters; execution of the Company's capital management plans, including its compliance with the terms of its existing credit agreement; the price, the availability of shares and trading volumes of the Company's common stock, which will affect the timing and size of future share repurchases by the Company; execution of the Company's plans and its success in realizing the expense savings and service improvements and efficiencies expected to result from its initiatives and programs, particularly its expense plans and technological initiatives; the Company's success in negotiating and developing commercial arrangements with third-party service providers; the performance of third-party service providers on which the Company relies; the Company's ability to control operating risks, information technology systems risks, cybersecurity risks, and sourcing risks; and the other factors set forth in Part I, Item 1A - “Risk Factors”. Except as

required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this annual report, even if its estimates change, and you should not rely on statements contained herein as representing the Company's views as of any date subsequent to the date of this annual report.

PART I

Item 1. Business

General Corporate Overview

We are a leader in the retail financial advice market, the nation's largest independent broker-dealer (based on total revenues, Financial Planning magazine June 1996-2015), a top custodian for registered investment advisors ("RIAs"), and a leading independent consultant to retirement plans. We provide an integrated platform of brokerage and investment advisory services to more than 14,000 independent financial advisors (our "advisors"), including financial advisors at more than 700 financial institutions across the country, enabling them to provide their retail investors ("clients") with objective financial advice through a lower conflict model. We also support over 4,200 financial advisors who are affiliated and licensed with insurance companies that use our customized clearing services, advisory platforms, and technology solutions.

Through our advisors, we are one of the largest distributors of financial products and services in the United States, and are one of the top five firms based on the number of advisors in the United States.

We believe there is a fundamental need for independent financial advice in America. We believe investors achieve better outcomes when working with a financial advisor. We strive to make it easy for financial advisors to do what is best for their clients, while protecting advisors and investors and promoting independence and choice through access to a wide range of diligently evaluated non-proprietary products. This is the sole focus of our business.

Our mission is to enable our advisors to focus on what they do best—create the personal, long-term relationships that are the foundation for turning life's aspirations into financial realities. Our differentiator is the combination of our capabilities across research, technology, risk management, and practice management, which together exceed any individual competitor's offering. All of these are delivered in an environment unencumbered by conflicts from product manufacturing, underwriting, or market-making.

We began operations through LPL Financial LLC ("LPL Financial"), our broker-dealer subsidiary, in 1989. LPL Financial Holdings Inc., which is the parent company of our collective businesses, was incorporated in Delaware in 2005. LPL Financial is a clearing broker-dealer and an investment advisor that primarily transacts business as an agent for our advisors on behalf of their clients by providing access to a broad array of financial products and services. Through our subsidiary The Private Trust Company, N.A. ("PTC"), we offer trust administration, investment management oversight and Individual Retirement Account ("IRA") custodial services for estates and families. Our subsidiary, Independent Advisers Group Corporation ("IAG"), offers an investment advisory solution to insurance companies to support their financial advisors who are licensed with them. Our subsidiary, LPL Insurance Associates, Inc., ("LPLIA"), operates as a brokerage general agency that offers life, long-term care, and disability insurance sales and services.

Our Business

Our Advisor Relationships

Our business is dedicated exclusively to our advisors; we are not a market-maker nor do we offer investment banking or underwriting services. We offer no proprietary products of our own. Because we do not offer proprietary products, we enable the independent financial advisors, banks, and credit unions that we support to offer their clients lower-conflict advice.

We work alongside advisors to navigate complex market and regulatory environments and strive to empower them to create the best outcomes for investors. In addition, we make meaningful investments in technology and services to support the growth, productivity, and efficiency of advisors across a broad spectrum of business models as their practices evolve. LPL advisors are part of a community of diverse, entrepreneurial financial services professionals from whom they can learn and grow.

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

Furthermore, we believe that our technology and service platforms enable our advisors to operate their practices with a greater focus on serving investors while generating revenue opportunities and at a lower cost than

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other independent advisors. As a result, we believe that our advisors who own practices earn more pre-tax profit than practice owners affiliated with other independent brokerage firms. Finally, as business owners, our independent financial advisors, unlike captive advisors, also have the opportunity to build equity in their own businesses.

Our advisors build long-term relationships with their clients in communities across the U.S. by guiding them through the complexities of investment decisions, retirement solutions, financial planning, and wealth-management. Our advisors support approximately 4.6 million client accounts. Our services are designed to support the evolution of our advisors' businesses over time and to adapt as our advisors' needs change.

Our advisors average over 15 years of industry experience, which allows us to focus on supporting and enhancing our advisors' businesses without needing to provide basic training or subsidizing advisors who are new to the industry. Our flexible business platform allows our advisors to choose the most appropriate business model to support their clients, whether they conduct brokerage business, offer brokerage and fee-based services on our corporate RIA platforms, or provide fee-based services through their own RIA practices.

The majority of our advisors are entrepreneurial independent contractors who are primarily located in rural and suburban areas and as such are viewed as local providers of independent advice. Many of our advisors operate under their own business name, and we may assist these advisors with their own branding, marketing and promotion, and regulatory review.

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

LPL Financial also supports over 375 stand-alone RIA firms ("Hybrid RIAs") with over 3,900 advisors who conduct their advisory business through these separate entities, rather than through LPL Financial. Hybrid RIAs operate pursuant to the Investment Advisers Act of 1940, as amended (the "Advisers Act") or their respective states' investment advisory licensing rules. These Hybrid RIAs engage us for technology, clearing, and custody services, as well as access to certain of our investment platforms. Advisors associated with Hybrid RIAs retain 100% of their advisory fees. In return, we charge separate fees for custody, trading, administrative, and support services. In addition, most financial advisors associated with Hybrid RIAs carry their brokerage license with LPL Financial and access our fully-integrated brokerage platform under standard terms, although some financial advisors associated with Hybrid RIAs do not carry a brokerage license with us.

We believe we are the market leader in providing support to over 2,200 financial advisors at approximately 700 banks and credit unions nationwide. For these institutions, the core capabilities of which may not include investment and financial planning services, or that find the technology, infrastructure, and regulatory requirements of supporting such services to be cost-prohibitive, we provide their financial advisors with the infrastructure and services they need to be successful, allowing the institutions to focus more energy and capital on their core businesses.

A subset of our advisors provides advice and serves group retirement plans primarily for small and mid-size businesses. These advisors serve over 32,300 retirement plans representing $83.0 billion in retirement plan assets custodied at various custodians. LPL Financial provides these advisors with marketing tools and technology capabilities that are designed for retirement solutions.

We also provide support to approximately 4,200 additional financial advisors who are affiliated and licensed with insurance companies. These arrangements allow us to provide outsourced customized clearing, advisory platforms, and technology solutions that enable the financial advisors at these insurance companies to offer a breadth of services to their client base in an efficient manner.

Our Value Proposition

The core of our business is dedicated to meeting the evolving needs of our advisors and providing the platform and tools to grow and enhance the profitability of their businesses. We are dedicated to continuously improving the processes, systems, and resources we leverage to meet these needs.

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

Integrated Technology Solutions

We provide our technology and service to advisors through an integrated technology platform that is server-based and web-accessible. Our technology offerings are designed to permit our advisors to effectively manage all critical aspects of their businesses in an efficient manner while remaining responsive to their clients' needs. We continue to automate time-consuming processes, such as account opening and management, document imaging, transaction execution, and account rebalancing, in an effort to improve our advisors' efficiency and accuracy.

Comprehensive Clearing and Compliance Services

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

We continue to make substantial investments in our compliance function to provide our advisors with a strong framework through which to understand and operate within regulatory guidelines, as well as guidelines that we establish. Protecting the best interests of investors and our affiliated advisors is of utmost importance to us. As the financial industry and regulatory environment evolve and become more complex, we remain devoted to serving our clients ethically and exceedingly well. We have made a long-term commitment to enhancing our risk management and compliance structure. Our technology-based compliance and risk management tools further enhance the overall effectiveness and scalability of our control environment.

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

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

Practice Management Programs and Training

Our practice management programs are designed to help financial advisors in independent practices and financial institutions, as well as all levels of financial institution leadership, enhance and grow their businesses. Our experience gives us the ability to benchmark the best practices of successful advisors and develop customized recommendations to meet the specific needs of an advisor's business and market, and our scale allows us to dedicate a team of experienced professionals to this effort. Our practice management and training services include:

- personalized business consulting that helps eligible advisors and program leadership enhance the value and operational efficiency of their businesses;
- advisory and brokerage consulting and financial planning to support advisors in growing their businesses through our broad range of products and fee-based offerings, as well as wealth management services to assist advisors serving high-net-worth clients with comprehensive estate, tax, philanthropic, and financial planning processes;
- marketing strategies, including campaign templates, to enable advisors to build awareness of their services and capitalize on opportunities in their local markets;

- succession planning and an advisor loan program for advisors looking to either sell their own or buy another practice;
- transition services to help advisors establish independent practices and migrate client accounts to us; and
- in-person and virtual training and educational programs on topics including technology, use of advisory platforms, and business development.

Independent Research

We provide our advisors with integrated access to comprehensive research on a broad range of investments and market analysis on macro-economic events, capital markets assumptions, and strategic and tactical asset allocation. Our research team provides advice that is designed to empower our advisors to provide their clients with thoughtful advice in a timely manner, including the creation of discretionary portfolios for which we serve as a portfolio manager that are available through our turnkey advisory asset management platforms. Our research team actively works with our product due diligence group to effectively scrutinize the financial products offered through our platform. This includes third-party asset manager search, selection, and monitoring services for both traditional and alternative strategies across all investment access points (ETFs, mutual funds, separately managed accounts, unified managed accounts, and other products and services). Our lack of proprietary products or investment banking services enables us to provide research that remains unbiased and objective.

Our Product and Solution Access

We do not manufacture any financial products. Instead, we provide our advisors with open architecture access to a broad range of commission, fee-based, cash, and money market products and services. Our product due diligence group conducts diligence on substantially all of our product offerings. Our platform provides access to approximately 795 product providers that offer the following product lines:

- Insurance Based Products
- Structured Products
- Separately Managed Accounts
- Unit Investment Trusts
- Annuities
- Alternative Investments
- Mutual Funds
- Exchange Traded Products
- Retirement Plan Products

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

Commission-Based Products

Commission-based products are those for which we and our advisors receive an upfront commission and, for certain products, a trailing commission, or a mark-up or mark-down. Our brokerage offerings include variable and fixed annuities, mutual funds, equities, alternative investments such as non-traded real estate investment trusts and business development companies, retirement and 529 education savings plans, fixed income, and insurance. As of December 31, 2015, the total assets in our commission-based products were $288.4 billion.

Fee-Based Advisory Platforms and Support

LPL Financial has various fee-based advisory platforms that provide centrally managed or customized solutions from which advisors can choose to meet the investment needs of their mass affluent clients and high-net-worth clients. The fee structure enables our advisors to provide their clients with higher levels of service, while establishing a recurring revenue stream for the advisor and for us. Our fee-based platforms provide access to no-load/load-waived mutual funds, exchange-traded funds, stocks, bonds, conservative option strategies, unit investment trusts, and institutional money managers and no-load multi-manager variable annuities. As of December 31, 2015, the total advisory assets under custody in these platforms were $187.2 billion.

Cash Sweep Programs

We assist our advisors in managing their clients’ cash balances through two primary cash sweep programs depending on account type: a money market sweep vehicle involving money market fund providers and an insured bank deposit sweep vehicle. As of December 31, 2015, the total assets in our cash sweep programs, which are held within brokerage and advisory accounts, were approximately $29.0 billion, with $20.9 billion in a bank deposit sweep vehicle and $8.1 billion held in a money market sweep vehicle.

Retirement Services

We offer retirement solutions for commission- and fee-based services that allow advisors to provide brokerage services, consultation, and advice to plan sponsors using LPL Financial. Our advisors, whether through LPL Financial or through a Hybrid RIA, serve over 32,300 retirement plans representing at least $83.0 billion in retirement plan assets. These retirement plan assets are custodied with LPL Financial or various third-party providers of retirement plan administrative services that provide us with direct reporting feeds. There are additional retirement plan assets supported by our advisors that are custodied with third-party providers that do not provide reporting feeds to us. We estimate there are over 40,000 retirement plans served by our advisors with total retirement plan assets of approximately $118.0 billion. We earn revenue from retirement plan assets that are custodied with LPL Financial and from those that are not custodied with LPL Financial, but which are serviced by advisors through LPL Financial. Accordingly, only retirement plan assets that are custodied with LPL Financial are included in our reported advisory and brokerage assets.

Other Services

We provide a number of tools and services that enable advisors to maintain and grow their practices. Through our subsidiary PTC, we provide custodial services to trusts for estates and families. Under our unique model, an advisor may provide a trust with investment management services, while administrative services for the trust are provided by PTC.

Our Financial Model

Our overall financial performance is a function of the following dynamics of our business:

- Our revenues stem from diverse sources, including advisor-generated commission and advisory fees, as well as other asset-based fees from product manufacturers, omnibus, networking services, cash sweep balances, and transaction and other fees for other ancillary services that we provide. Revenues are not concentrated by advisor, product, or geography. For the year ended December 31, 2015, no single relationship with our independent advisor practices, banks, credit unions, or insurance companies accounted for more than 4% of our net revenues, and no single advisor accounted for more than 1% of our net revenues.
- The largest variable component of our cost base, advisor payout percentages, is directly linked to revenues generated by our advisors.
- A portion of our revenues, such as software licensing and account and client fees, are not correlated with the equity financial markets.
- Our operating model is scalable and is capable of delivering expanding profit margins over time.
- We have been able to operate with low capital expenditures and limited capital requirements, and as a result have generated substantial free cash flow, which we have committed to investing in our business as well as returning value to shareholders.
- The majority of our revenue base is recurring in nature, with approximately 72% recurring revenue in 2015.

Our Competitive Strengths

Market Leadership Position and Significant Scale

We are the established leader in the independent advisor market, which is our core business focus. We use our scale and position as an industry leader to champion the independent business model and the rights of our advisors.

Our scale enables us to benefit from the following dynamics:

- Continual Reinvestment — We actively reinvest in our comprehensive technology platform and practice management support, which further improves the productivity of our advisors.
- Economies of Scale — As one of the largest distributors of financial products in the United States, we have been able to obtain attractive economics from product manufacturers.
- Payout Ratios to Advisors — Among the five largest U.S. broker-dealers by number of advisors, we believe that we offer the highest average payout ratios to our advisors.

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

Unique Value Proposition

Our differentiator is the combination of our capabilities across research, technology, risk management, and practice management, which together exceed any individual competitor's offering. LPL makes meaningful investments to support the growth, productivity, and efficiency of advisors across a broad spectrum of models as their practices evolve. Our focus is working alongside advisors to navigate complex environments in order to create the best outcomes for investors.

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

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

Flexibility of Our Business Model

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

Ability to Serve Approximately 88% of Retail Assets

Our historic focus has been on advisors who serve the mass-affluent market and we believe there continues to be an attractive opportunity in this market. Although we have grown through our focus in this area, the flexibility of our platform allows us to expand our breadth of services to better support the high-net-worth market. As of December 31, 2015, our advisors supported accounts with more than $1 million in assets that in the aggregate represented $90.0 billion in advisory and brokerage assets,which is 18.9% of our total assets custodied. Our array of integrated technology and services is capable of supporting advisors with significant production and can compete directly with wirehouses and custodians. We are able to support our advisors to meet the needs of their mass market clients up through the high-net-worth market, which, according to Cerulli Associates, accounts for approximately 88% of retail assets.

Our Sources of Growth

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

Favorable Industry Trends

Growth in Investable Assets

According to Cerulli Associates, over the past five years, assets serviced in the market segments in the United States that we address grew 8.9% per year, while retirement assets are expected to grow 5.1% per year over the next five years (in part due to the retirement of the baby boomer generation and the resulting assets that are projected to flow out of retirement plans and into individual retirement accounts). In addition, IRA assets are projected to grow from $8.0 trillion as of 2015 to $10.7 trillion by 2019. Along with to the retirement of the baby boomer generation, there is a general need in the United States for greater and smarter retirement savings as well as increased regulatory pressures on 401(k) plan sponsors.

(1) The Cerulli Report: The State of U.S. Retail and Institutional Asset Management 2015.

(2) The Cerulli Report: U.S. Retirement Markets 2015.

Increasing Demand for Independent Financial Advice

Retail investors, particularly in the mass-affluent market, are increasingly seeking financial advice from independent sources. We are highly focused on helping independent advisors meet the needs of the mass-affluent market, which constitutes a significant and underserved portion of investable assets.

Advisor Migration to Independence

Independent channels continue to gain market share from captive channels. We believe that we are not just a beneficiary of this secular shift, but an active catalyst in the movement to independence. There is an increased shift towards advisors seeking complete independence by forming an RIA firm and registering directly with the SEC or state securities regulators. However, the clients of these advisors are generally interested in retaining assets in brokerage accounts. This shift has lead to significant growth in the number of advisors associated with Hybrid RIAs.

Macroeconomic Trends

While the current macroeconomic environment has exhibited short-term volatility, we anticipate an appreciation in asset prices and a rise in interest rates over the long term. We expect that our business will benefit from growth in advisory and brokerage assets as well as increasing interest rates.

Executing Our Growth Strategies

Attracting New Advisors to Our Platform

We intend to grow the number of advisors who are served by our platform — either those who are independent or who are aligned with financial institutions. We have a 4.5% market share of the approximately 309,000 financial advisors in the United States, according to Cerulli Associates, and we believe that we are uniquely positioned to attract seasoned advisors of any practice size and from any of the channels listed below.

Channel	Advisors	Market Share
Independent Broker-Dealer(1)	73,355	23.7%
Insurance Broker-Dealer	77,107	25.0%
Wirehouse	46,826	15.2%
Regional Broker-Dealer	31,953	10.3%
RIA(1)	30,789	10.0%
Bank Broker-Dealer	22,742	7.3%
Dually registered RIAs(1)	26,165	8.5%
Total	308,937	100.0%

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(1) The 26,165 advisors classified as "dually registered RIAs" are advisors who are both licensed through independent broker-dealers and registered as investment advisors.

Increasing Productivity of Existing Advisor Base

We believe that the productivity of our advisors will increase over time as we continue to develop solutions designed to enable them to add new clients, manage more of their clients' investable assets, and expand their existing practices with additional advisors. We can facilitate these productivity improvements by helping our advisors better manage their practices in an increasingly complex external environment, which we believe will result in assets per advisor growing over time.

Competition

We compete with a variety of financial firms to attract and retain experienced and productive advisors:

•Within the independent channel, the industry is highly fragmented, comprised primarily of regional firms that rely on third-party custodians and technology providers to support their operations. Competitors in this space include:

Commonwealth Financial Network;
Cetera Financial Group; and
Cambridge

•The captive wirehouse channel tends to consist of large nationwide firms with multiple lines of business that have a focus on the highly competitive high-net-worth investor market. Competitors in this channel include:

Morgan Stanley;
Bank of America Merrill Lynch;
UBS Financial Services Inc.; and
Wells Fargo Advisors, LLC.

•Competition for advisors also includes regional firms, such as Edward D. Jones & Co., L.P. and Raymond James Financial Services, Inc.

•Independent RIA firms, which are registered with the SEC or though their respective states' investment advisory regulator and not through a broker-dealer, may choose from a number of third-party firms to provide custodial services. Our significant competitors in this space include:

Charles Schwab & Co.;
Fidelity Brokerage Services LLC; and
TD Ameritrade.

Those competitors that do not offer a complete clearing solution for advisors are frequently supported by third-party clearing and custody oriented firms. Pershing LLC, a subsidiary of Bank of New York Mellon, National

Financial Services LLC, a subsidiary of Fidelity Investments, and J.P. Morgan Clearing Corp., a subsidiary of J.P. Morgan Chase & Co., offer custodial services and technology solutions to independent firms and RIAs that are not self-clearing. These clearing firms and their affiliates and other providers also offer an array of service, technology and reporting tools. Albridge Solutions, a subsidiary of Bank of New York Mellon, Advent Software, Inc., Envestnet, Inc., and Morningstar, Inc., provide an array of research, analytics and reporting solutions.

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

Employees

As of December 31, 2015, we had 3,410 full-time employees. None of our employees is subject to collective bargaining agreements governing their employment with us. We build deep expertise by attracting talented employees from a variety of fields and developing that talent into future leaders of our business and our industry. Our value proposition is delivered by a caring team that is grounded by a decades-old creed, which expresses our commitment to delivering super service to advisors. Our continued growth is dependent, in part, on our ability to be an employer of choice and an organization that recruits and retains talented employees who best fit our culture and business needs. We offer ongoing learning opportunities and programs that empower employees to grow in their professional development and careers. We provide comprehensive compensation and benefits packages, as well as financial education tools to assist our employees as they plan for their future. We give back to our local communities, encourage sustainability in our workplace, and embrace diversity and inclusion to appreciate the unique perspective and value that each of our employees brings based on their personal experiences. Through these initiatives, we work to help all employees be engaged and empowered. Our entrepreneurial heritage, the talent and commitment of our people, and the excellence of our advisors push us to innovate and meet the challenges of the future head on.

Regulation

The financial services industry is subject to extensive regulation by U.S. federal, state, and international government agencies as well as various self-regulatory organizations. We take an active leadership role in the development of the rules and regulations that govern our industry. We have been investing in our compliance functions to monitor our adherence to the numerous legal and regulatory requirements applicable to our business.

Broker-Dealer Regulation

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

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

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

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

Investment Advisor Regulation

As investment advisors registered with the SEC, our subsidiaries LPL Financial, Fortigent, LLC, and IAG are subject to the requirements of the Advisers Act, and the regulations promulgated thereunder, including examination by the SEC’s staff. Such requirements relate to, among other things, fiduciary duties to clients, performance fees, maintaining an effective compliance program, solicitation arrangements, conflicts of interest, advertising, limitations on agency cross and principal transactions between the advisor and advisory clients, recordkeeping and reporting requirements, disclosure requirements, and general anti-fraud provisions.

The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act, ranging from fines and censure to termination of an investment advisor’s registration. Investment advisors also are subject to certain state securities laws and regulations. Failure to comply with the Advisers Act or other federal and state securities laws and regulations could result in investigations, sanctions, profit disgorgement, fines or other similar consequences.

Retirement Plan Services Regulation

Certain of our subsidiaries, including LPL Financial, PTC, IAG, and LPLIA, are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and Section 4975 of the Internal Revenue Code (the "Code"), and to regulations promulgated under ERISA or the Code, insofar as they provide services with respect to plan clients, or otherwise deal with plan clients that are subject to ERISA or the Code. ERISA imposes certain duties on persons who are "fiduciaries" (as defined in Section 3(21) of ERISA) and prohibits certain transactions involving plans subject to ERISA and fiduciaries or other service providers to such plans. Non-compliance with these provisions may expose an ERISA fiduciary or other service provider to liability under ERISA, which may include monetary penalties as well as equitable remedies for the affected plan. Section 4975 of the Code prohibits certain transactions involving plans (as defined in Section 4975(e)(1), which includes individual retirement accounts and Keogh plans) and service providers, including fiduciaries, to such plans. Section 4975 imposes excise taxes for violations of these prohibitions. The U.S. Department of Labor has issued a proposed rule: "Definition of the Term "Fiduciary"; Conflict of Interest Rule -- Retirement Investment Advice," related to prohibited transaction exemptions, and amendments to certain existing exemptions, that, if adopted, could impose new requirements on our various business offerings, particularly in respect of certain products and services provided in connection with IRAs and retirement plans. As with provisions of the Dodd-Frank Act discussed above, the extent of its effect on us and the broader financial industry cannot be known until a final rule, if any, is adopted. 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 future regulations and their potential impact on our operations.

Commodities and Futures Regulation

LPL Financial is registered as an introducing broker with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association (“NFA”). LPL Financial introduces commodities and futures products to ADM Investor Services, Inc. (“ADM”), and all commodities accounts and related client positions are held by ADM. LPL Financial is regulated by the CFTC and NFA. Violations of the rules of the CFTC and the NFA could result in remedial actions including fines, registration terminations, or revocations of exchange memberships.

Trust Regulation

Through our subsidiary, PTC, we offer trust, investment management oversight and custodial services for estates and families. PTC is chartered as a non-depository national banking association. As a limited purpose national bank, PTC is regulated and regularly examined by the Office of the Comptroller of the Currency (“OCC”). PTC files reports with

the OCC within 30 days after the conclusion of each calendar quarter. Because the powers of

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

Regulatory Capital

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

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

Anti-Money Laundering and Sanctions Compliance

The USA PATRIOT Act of 2001 (the "PATRIOT Act") contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers, futures commission merchants and other financial services companies. Financial institutions subject to the PATRIOT Act generally must have anti-money laundering procedures in place, monitor for and report suspicious activity, implement specialized employee training programs, designate an anti-money laundering compliance officer, and are audited periodically by an independent party to test the effectiveness of compliance. In addition, sanctions administered by the U.S. Office of Foreign Asset Control prohibit U.S. persons from doing business with blocked persons and entities. We have established policies, procedures, and systems designed to comply with these regulations.

Security and Privacy

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

Financial Information about Geographic Areas

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

Trademarks

Access Overlay®, BranchNet®, DO IT SMARTER®, Fortigent®, LPL®, LPL Career Match®, LPL Financial (& Design)®, LPL Partners Program®, Manager Access Network®, Manager Access Select®, and OMP® are our registered trademarks. ClientWorks, SponsorWorks, and THE PRIVATE TRUST COMPANY, N.A. (& Design) are among our service marks.

Item 1A. Risk Factors

Risks Related to Our Business and Industry

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

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

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

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

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

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

- reduce new investments by both new and existing clients in financial products that are linked to the equity markets, such as variable life insurance, variable annuities, mutual funds, and managed accounts;
- reduce trading activity, thereby affecting our brokerage commissions and our transaction revenue;
- reduce the value of advisory and brokerage assets, thereby reducing advisory fee revenue and asset-based fee income and
- motivate clients to withdraw funds from their accounts, reducing advisory and brokerage assets, advisory fee revenue, and asset-based fee income.

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

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

Significant interest rate changes could affect our profitability and financial condition.

Our revenues are exposed to interest rate risk primarily from changes in fees payable to us from banks participating in our cash sweep programs, which are based on prevailing interest rates. In the prevailing relatively low interest rate environment, our revenue from our cash sweep programs has declined, and our revenue may decline further due to the expiration of contracts with favorable pricing terms, less favorable terms in future contracts with participants in our cash sweep programs, decreases in interest rates, or clients moving assets out of our cash sweep programs. We may also be limited in the amount we can keep interest rates payable to clients in our cash sweep programs low and still offer a competitive return. A sustained relatively low interest rate

environment may have a negative impact upon our ability to negotiate contracts with new banks or renegotiate existing contracts on comparable terms with banks participating in our cash sweep programs.
Lack of liquidity or access to capital could impair our business and financial condition.
Liquidity, or ready access to funds, is essential to our business. We expend significant resources investing in our business, particularly with respect to our technology and service platforms. In addition, we must maintain certain levels of required capital. As a result, reduced levels of liquidity could have a significant negative effect on us. Some potential conditions that could negatively affect our liquidity include:

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

The capital and credit markets continue to experience varying degrees of volatility and disruption. In some cases, the markets have exerted downward pressure on availability of liquidity and credit capacity for businesses similar to ours. Without sufficient liquidity, we could be required to curtail our operations, and our business would suffer.
Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from the delayed receipt of client funds associated with the settlement of client transactions in securities markets. These timing differences are funded either with internally generated cash flow or, if needed, with funds drawn under our revolving credit facility, or uncommitted lines of credit at our broker-dealer subsidiary LPL Financial.
In the event current resources are insufficient to satisfy our needs, we may need to rely on financing sources such as bank debt. The availability of additional financing will depend on a variety of factors such as:

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

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital required to operate our business. Such market conditions may limit our ability to satisfy statutory capital requirements, generate commission, fee and other market-related revenue to meet liquidity needs and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue different types of capital than we would otherwise, less effectively deploy such capital or bear an unattractive cost of capital, which could decrease our profitability and significantly reduce our financial flexibility.
If there is a default under the derivative instruments we use to hedge our foreign currency risk default, we may be exposed to risks we had sought to mitigate.
We, from time to time, use derivative instruments, primarily to hedge our foreign currency risk. In particular, our agreement with a third-party service provider provides for an annual adjustment of the currency exchange rate between the U.S. dollar and the Indian rupee. We bear the risk of currency movement at each annual reset date, and the reset rate then applies for the subsequent 12-month period. To mitigate foreign currency risk arising from such annual adjustments, we use derivative financial instruments consisting solely of non-deliverable foreign currency contracts. However, if either we or our counterparties fail to honor our respective obligations under such derivative instruments, we could be subject to the risk of loss and our hedges of the foreign currency risk will be ineffective. That failure could have an adverse effect on our financial condition, results of operations, and cash flows that could be material.

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

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

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

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

Risks Related to Our Regulatory Environment

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

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

- registered as a broker-dealer with the SEC, each of the 50 states, and the District of Columbia, Puerto Rico and the U.S. Virgin Islands;
- registered as an investment adviser with the SEC;
- a member of FINRA and various other self-regulatory organizations, and a participant in various clearing organizations including the Depository Trust Company, the National Securities Clearing Corporation, and the Options Clearing Corporation; and
- regulated by the CFTC with respect to the futures and commodities trading activities it conducts as an introducing broker.

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

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

Our ability to conduct business in the jurisdictions in which we currently operate depends on our compliance with the laws, rules and regulations promulgated by federal regulatory bodies and the regulatory authorities in each of the states and other jurisdictions in which we do business. Our ability to comply with all applicable laws, rules and regulations, and interpretations is largely dependent on our establishment and maintenance of compliance, audit

and reporting systems and procedures, as well as our ability to attract and retain qualified compliance, audit and risk management personnel. While we believe that we have adopted policies and procedures reasonably designed to comply with all applicable laws, rules and regulations, and interpretations these systems and procedures may not be fully effective, and there can be no assurance that regulators or third-parties will not raise material issues with respect to our past or future compliance with applicable regulations.

Our profitability could also be affected by rules and regulations that impact the business and financial communities generally and, in particular, our advisors' and their clients, including changes to the interpretation or enforcement of laws governing taxation (including the classification of independent contractor status of our advisors), trading, electronic commerce, privacy, and data protection. For instance, failure to comply with new rules and regulations could subject us to regulatory actions or litigation and it could have a material adverse effect on our business, results of operations, cash flows, or financial condition.

New rules and regulations could also result in limitations on the lines of business we conduct, modifications to our business practices, increased capital requirements, and additional costs. For example, last year the U.S. Department of Labor ("DOL") issued a proposed a rule: "Definition of the Term "Fiduciary"; Conflict of Interest Rule -- Retirement Investment Advice", related prohibited transaction exemptions, and amendments to certain existing exemptions ("Fiduciary Rule"), that, if adopted, could impose new requirements on our various business lines. If adopted as proposed, the Fiduciary Rule would broaden the circumstances under which we may be considered a "fiduciary" with respect to certain accounts that are subject to the Employee Retirement Income Security Act ("ERISA"), and the prohibited transaction rules under section 4975 of the Internal Revenue Code, including many employer-sponsored retirement plans and individual retirement accounts (IRAs). These changes could affect the products and services we provide to these types of accounts and the compensation that we and our advisors receive in connection with such products and services, as well as our regulatory compliance and other costs and those of our advisors. Depending on the final Fiduciary Rule and the nature of the clients that they serve, certain of our advisors may choose not to maintain their brokerage licenses or may choose not to maintain a relationship with us. The extent of the Fiduciary Rule's effect on us, our advisors, and the broader financial services industry cannot be known until after a final rule, if any, is adopted.

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

In addition to the DOL and Dodd-Frank Act rule promulgation, other proposals are currently under consideration by federal banking regulators that may have an impact upon our profitability. Global regulators are engaged in ongoing efforts to build upon the Basel capital accords, which set new capital and liquidity standards for global banking institutions ("Basel III"). Basel III is designed to strengthen bank capital requirements and introduce new regulatory requirements on bank liquidity. In October 2013, U.S. banking regulators issued a final rule implementing Basel III capital standards in the U.S. In September 2014, U.S. banking regulators issued a final rule to implement the liquidity coverage ratio standards to address Basel III liquidity standards in the U.S. These new rules and proposals could negatively impact the attractiveness of cash deposits to banks who participate in our cash sweep programs, making it more difficult for us to renew existing contracts and negotiate new arrangements.

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

The business activities that we may conduct are limited by various regulatory agencies. Our membership agreement with FINRA may be amended by application to include additional business activities. This application process is time-consuming and may not be successful. As a result, we may be prevented from entering new potentially profitable

businesses in a timely manner, or at all. In addition, as a member of FINRA, we are subject to certain regulations regarding changes in control of our ownership. Rule 1017 of the National Association of Securities Dealers generally provides, among other things, that FINRA approval must be obtained in connection with any transaction resulting in a change in our equity ownership that results in one person or entity directly or indirectly owning or controlling 25% or more of our equity capital. Similarly, the OCC imposes advance approval requirements for a change of control, and control is presumed to exist if a person acquires 10% or more of our common stock. These regulatory approval processes can result in delay, increased costs or impose additional

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transaction terms in connection with a proposed change of control, such as capital contributions to the regulated entity. As a result of these regulations, our future efforts to sell shares or raise additional capital may be delayed or prohibited.

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

Failure to comply with ERISA regulations and certain retirement plan regulations could result in penalties against us.

We are subject to ERISA and Section 4975 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code"), and to regulations promulgated thereunder, insofar as we act as a "fiduciary" under ERISA with respect to benefit plan clients or otherwise deal with benefit plan clients. ERISA and applicable provisions of the Internal Revenue Code impose duties on persons who are fiduciaries, prohibit specified transactions involving benefit plan clients (including, without limitation, certain employee benefit plans, individual retirement accounts and Keogh plans) and impose monetary penalties for violations of these prohibitions. Our failure to comply with these requirements could result in significant penalties against us that could have a material adverse effect on our business (or, in a worst case, severely limit the extent to which we could act as fiduciaries for or provide services to these plans). As described above, if adopted, the Fiduciary Rule would broaden the circumstances under which we are deemed to be a "fiduciary" with respect to these plans and could affect the products and services we provide to them and the compensation that we may receive.

Risks Related to Our Competition

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

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

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

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

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

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

Clients of our advisors control their assets under management with us. Poor service or performance of the financial products that we offer or competitive pressures on pricing of such services or products may result in the loss of accounts. In addition, we must monitor the pricing of our services and financial products in relation to

competitors and periodically may need to adjust commission and fee rates, interest rates on deposits and margin loans and other fee structures to remain competitive. Competition from other financial services firms, such as reduced commissions to attract clients or trading volume or higher deposit rates to attract client cash balances, could adversely impact our business. The decrease in revenue that could result from such an event could have a material adverse effect on our business.

We face competition in attracting and retaining key talent.

Our success and future growth depends upon our ability to attract and retain qualified employees. There is significant competition for qualified employees in the broker-dealer industry. Each of our executive officers is an employee at will and none has an employment agreement. We may not be able to retain our existing employees or fill new positions or vacancies created by expansion or turnover. The loss or unavailability of these individuals could have a material adverse effect on our business.

Moreover, our success depends upon the continued services of our key senior management personnel, including our executive officers and senior managers. The loss of one or more of our key senior management personnel, and the failure to recruit a suitable replacement or replacements, could have a material adverse effect on our business.

Risks Related to Our Debt

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

At December 31, 2015, we had total indebtedness of $2.2 billion. Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions. It could also require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, and other general corporate purposes. In addition, our level of indebtedness may limit our flexibility in planning for changes in our business and the industry in which we operate, and limit our ability to borrow additional funds.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to sell assets, seek additional capital or seek to restructure or refinance our indebtedness. These alternative measures may not be successful or feasible. Our senior secured credit agreement restricts our ability to sell assets. Even if we could consummate those sales, the proceeds that we realize from them may not be adequate to meet any debt service obligations then due. Furthermore, if an event of default were to occur with respect to our senior secured credit agreement or other future indebtedness, our creditors could, among other things, accelerate the maturity of our indebtedness.

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

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

Restrictions under our senior secured credit agreement may prevent us from taking actions that we believe would be in the best interest of our business.

Our senior secured credit agreement contains customary restrictions on our activities, including covenants that may restrict us from:

- incurring additional indebtedness or issuing disqualified stock or preferred stock;
- paying dividends on, redeeming or repurchasing our capital stock;
- making investments or acquisitions;
- creating liens;
- selling assets;
- guaranteeing indebtedness;

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- engaging in transactions with affiliates; and
- consolidating, merging, or transferring all or substantially all of our assets.

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

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

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

Risks Related to Our Technology

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

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

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

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

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

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

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

Our networks may be vulnerable to security risks.

The secure transmission of confidential information over public networks is a critical element of our operations. As part of our normal operations, we maintain and transmit confidential information about clients of our advisors as well as proprietary information relating to our business operations. The risks related to transmitting data and using service providers outside of and storing or processing data within our network are increasing based on escalating and malicious cyber activity, including activity that originates outside of the United States. Cyber attacks can be designed to collect information, manipulate or corrupt data, applications or accounts, and to disable the functioning or use of applications or technology assets.

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

Our networks may be vulnerable to unauthorized access, computer viruses, and other security problems in the future. We rely on our advisors and employees to comply with our policies and procedures to safeguard confidential data. The failure of our advisors and employees to comply with such policies and procedures could result in the loss or wrongful use of their clients' confidential information or other sensitive information. In addition, even if we and our advisors comply with our policies and procedures, persons who circumvent security measures could wrongfully use our confidential information or clients' confidential information or cause interruptions or malfunctions in our operations. Cyber attacks can be designed to collect information, manipulate or corrupt data, applications or accounts, and to disable the functioning or use of applications or technology assets. Such activity could, among other things:

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

As malicious cyber activity escalates, including activity that originates outside of the United States, the risks we face relating to transmission of data and our use of service providers outside of our network, as well as the storing or processing of data within our network, intensify. While we maintain cyber liability insurance, this insurance may not be sufficient to protect us against all losses.

Failure to maintain technological capabilities, flaws in existing technology, difficulties in upgrading our technology platform, or the introduction of a competitive platform could have a material adverse effect on our business.
We depend on highly specialized and, in many cases, proprietary technology to support our business functions, including among others:

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

In addition, our continued success depends on our ability to effectively adopt new or adapt existing technologies to meet client, industry and regulatory demands. We might be required to make significant capital expenditures to maintain competitive technology. For example, we believe that our technology platform is one of our competitive strengths, and our future success will depend in part on our ability to anticipate and adapt to technological advancements required to meet the changing demands of our advisors. The emergence of new industry standards and practices could render our existing systems obsolete or uncompetitive. Any upgrades or expansions may require significant expenditures of funds and may also cause us to suffer system degradations, outages and failures. There cannot be any assurance that we will have sufficient funds to adequately update and expand our networks, nor can there be any assurance that any upgrade or expansion attempts will be successful and accepted by our current and prospective advisors. If our technology systems were to fail and we were unable to recover in a timely way, we would be unable to fulfill critical business functions, which could lead to a loss of advisors and could harm our reputation. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to disciplinary action and to liability to our advisors and their clients. There cannot be any assurance that another company will not design a similar platform that affects our competitive advantage.
Inadequacy or disruption of our business continuity and disaster recovery plans and procedures in the event of a catastrophe could adversely affect our business.
We have made a significant investment in our infrastructure, and our operations are dependent on our ability to protect the continuity of our infrastructure against damage from catastrophe or natural disaster, breach of security, loss of power, telecommunications failure, or other natural or man-made events. A catastrophic event could have a direct negative impact on us by adversely affecting our advisors, employees or facilities, or an indirect impact on us by adversely affecting the financial markets or the overall economy. While we have implemented business continuity and disaster recovery plans and maintain business interruption insurance, it is impossible to fully anticipate and protect against all potential catastrophes. If our business continuity and disaster recovery plans and procedures were disrupted or unsuccessful in the event of a catastrophe, we could experience a material adverse interruption of our operations.
We rely on outsourced service providers to perform technology, processing, and support functions.
We rely on outsourced service providers to perform certain technology, processing and support functions. For example, we have an agreement with Thomson Reuters BETA Systems, a division of Thomson Reuters ("BETA Systems"), under which they provide us key operational support, including data processing services for securities transactions and back office processing support. Our use of third-party service providers may decrease our ability to control operating risks and information technology systems risks. Any significant failures by BETA Systems or our other service providers could cause us to sustain serious operational disruptions and incur losses and could harm our reputation. If we had to change these service providers unexpectedly, we would also experience a disruption to our business, and we cannot predict the costs or time that would be required to find alternative service providers. We cannot provide any assurance that the disruption caused by a significant failure by, or change in, our service providers would not have a material adverse effect on our business. We have transitioned additional business processes to third-party service providers, which increases our reliance on outsourced providers, including off-shore providers, and the related risks described above. For example, we rely on several off-shore service providers for functions related to cash management, account transfers, information technology infrastructure and support, and document imaging, among others. To the extent third-party service providers are located in foreign jurisdictions, we are exposed to risks inherent in conducting business outside of the United States, including international economic and political

conditions, and the additional costs associated with complying with foreign laws and fluctuations in currency values.

Risks Related to Our Business Generally

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

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

- litigation or regulatory actions;
- failing to deliver minimum standards of service and quality;
- compliance failures; and
- unethical behavior and the misconduct of employees, advisors or counterparties.

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

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

We are subject to legal proceedings arising out of our business operations, including lawsuits, arbitration claims, regulatory, governmental or SRO subpoenas, investigations, and actions and other claims. Many of our legal claims are initiated by clients of our advisors and involve the purchase or sale of investment securities, but other claims may be asserted by regulatory authorities.

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

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

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

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

Misconduct and errors by our employees and our advisors could result in violations of law by us, regulatory sanctions or serious reputational or financial harm. We cannot always prevent misconduct and errors by our employees and our advisors, and the precautions we take to prevent and detect these activities may not be effective in all cases. Prevention and detection among our advisors, who are not our direct employees and some of

whom tend to be located in small, decentralized offices, present additional challenges. There cannot be any assurance that misconduct and errors by our employees and advisors will not lead to a material adverse effect on our business.

Our insurance coverage may be inadequate or expensive.

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

We maintain voluntary and required insurance coverage, including, among others, general liability, property, director and officer, excess-SIPC, business interruption, cyber and data breach, errors and omissions, and fidelity bond insurance. We have self-insurance for certain potential liabilities through a wholly-owned captive insurance subsidiary. While we endeavor to self-insure and purchase coverage that is appropriate to our assessment of our risk, we are unable to predict with certainty the frequency, nature or magnitude of claims for direct or consequential damages. In addition, certain types of potential claims for damages cannot be insured. Our business may be negatively affected if in the future some or all of our insurance proves to be inadequate or unavailable. In addition, insurance claims may harm our reputation or divert management resources away from operating our business.

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

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

Our planned real estate development project in Fort Mill, South Carolina subjects us to financial risks, including risks related to construction and development costs

We are currently developing office space on two undeveloped parcels of land in Fort Mill, South Carolina. We plan for this new office space, once completed, to serve as a consolidated regional campus to which employees will be relocated from several facilities that we currently lease in Charlotte, North Carolina. The initial phase of the project includes the construction of two buildings that will be owned by a third party and leased to LPL for a 20-year term, with multiple renewal options following such term. In contrast to a conventional build-to-suit lease, under which a developer constructs a building on a turnkey basis for a tenant, with the developer being the primary bearer of construction and development risk, the initial phase of our project has been structured as a credit tenant lease. Under this structure, the third party landlord will not actually develop the buildings or have any related maintenance obligations. Rather, the construction of the buildings has been delegated by the landlord to LPL, and the landlord has provided a capped allowance, expected to be approximately $112 million, to fund a portion of the construction costs. Construction is currently expected to be completed in the fourth quarter of 2016. Following completion of construction, LPL will have sole responsibility for the maintenance and operation of the buildings, including taxes and insurance.

Although we believe that this structure will result in reduced financing costs for the project, LPL will be responsible for the development of the campus and will bear the risk of cost overruns, zoning issues, opposition to the project and construction delays, any of which could have a material adverse effect on our financial results and liquidity. LPL does not have prior experience with real estate developments under a credit tenant structure and will be highly dependent on a third party development consultant to manage the project successfully, including timely achievement of certain construction milestones. Failure to achieve those milestones will constitute a default under our agreements, which would provide the landlord with rights to require LPL to pay for all of the costs of the project, including acquisition and all development costs incurred to date, or the purchase of the property from the landlord. In addition to these risks, the accounting treatment of a credit tenant lease is complicated and may change in the future.

Risks Related to Ownership of Our Common Stock

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

As of December 31, 2015, certain of our stockholders owned significant amounts of the outstanding shares of our common stock. So long as such stockholders continue to own a significant amount of the outstanding shares of our common stock, they may be able to influence our decisions, regardless of whether or not other stockholders believe that such decisions are in their own best interests. Such concentration of voting power could also have the effect of delaying, deterring, or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders.

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

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

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

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

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

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

We have no direct operations and derive all of our cash flow from our subsidiaries. Because we conduct our operations through our subsidiaries, we depend on those entities for dividends and other payments or distributions to meet any existing or future debt service and other obligations. The deterioration of the earnings from, or other available assets of, our subsidiaries for any reason could limit or impair their ability to pay dividends or other distributions to us. In addition, FINRA regulations restrict dividends in excess of 10% of a member firm’s excess net capital without FINRA’s prior approval. Compliance with this regulation may impede our ability to receive dividends from our broker-dealer subsidiary.

Our future abilities to pay regular dividends to holders of our common stock or repurchase shares are subject to the discretion of our board of directors and will be limited by our ability to generate sufficient earnings and cash flows.
On February 23, 2016, our board of directors declared a regular quarterly cash dividend of $0.25 per share on our outstanding common stock, payable on March 14, 2016. In addition, our board of directors from time to time authorizes us to repurchase shares of the Company's issued and outstanding shares of common stock. The declaration and payment of any future quarterly cash dividend or any additional repurchase authorizations will be subject to the board of directors' continuing determination that the declaration of future dividends or repurchase of our shares are in the best interests of our stockholders and are in compliance with applicable law. Such determinations will depend upon a number of factors that the board of directors deems relevant, including future earnings, the success of our business activities, capital requirements, the general financial condition and future prospects of our business and general business conditions.
The future payment of dividends or repurchases of shares will also depend on our ability to generate earnings and cash flows. If we are unable to generate sufficient earnings and cash flows from our business, we may not be able to pay dividends on our common stock or repurchase additional shares. In addition, our ability to pay cash dividends on our common stock is dependent on the ability of our subsidiaries to pay dividends, including compliance with limitations under our senior secured credit agreement. Our broker-dealer subsidiary is subject to requirements of the SEC, FINRA, the CFTC, and other regulators relating to liquidity, capital standards, and the use of client funds and securities, which may limit funds available for the payment of dividends to us.
Anti-takeover provisions in our certificate of incorporation and bylaws could prevent or delay a change in control of our company.
Our certificate of incorporation and our bylaws contain certain provisions that may discourage, delay, or prevent a change in our management or control over us that stockholders may consider favorable, including the following:

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate offices are located in Boston, Massachusetts where we lease approximately 69,000 square feet of space under a lease agreement that expires on June 30, 2023, with two five-year extensions at our option; in San Diego, California where we lease approximately 420,000 square feet of office space under a lease agreement that expires on April 30, 2029; in Charlotte, North Carolina where we lease a total of approximately 325,000 square feet of space in four facilities under lease agreements, of which one expires on October 31, 2016 and the three remaining lease agreements expire on February 28, 2017.

We also have a lease agreement for office space in Fort Mill, South Carolina for which we are involved in the construction of a building for office space and plan to move our Charlotte offices into this location starting in late 2016.

We also lease smaller administrative and operational offices in various locations throughout the U.S. We believe that our existing properties are adequate for the current operating requirements of our business and that additional space will be available as needed.

Item 3. Legal Proceedings

We are involved from time to time in routine legal proceedings occurring in the ordinary course of business. In the opinion of management, there are no matters outstanding that would have a material adverse impact on our operations, financial condition, or cash flows. For a discussion of legal proceedings, see Note 13. Commitments and Contingencies, within the notes to consolidated financial statements in this Annual Report on Form 10-K.

Item 4. Mine Safety Disclosures
Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters, and Issuer Purchases of Equity Securities

Market Information

Our common stock is traded on the NASDAQ under the symbol “LPLA.” The closing sale price as of December 31, 2015 was $42.65 per share. As of that date there were 658 common stockholders of record based on information provided by our transfer agent. The number of stockholders of record does not reflect the number of individual or institutional stockholders that beneficially own the Company's stock because most stock is held in the name of nominees.

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

	High	Low
2015		
Fourth Quarter	$48.00	$36.41
Third Quarter	$48.18	$37.72
Second Quarter	$48.00	$39.41
First Quarter	$47.38	$39.83
2014		
Fourth Quarter	$46.06	$38.34
Third Quarter	$53.97	$45.95
Second Quarter	$54.07	$45.34
First Quarter	$56.45	$46.23

Performance Graph

The following graph compares the cumulative total stockholder return (rounded to the nearest whole dollar) of the Company's common stock, the Standard & Poor’s 500 Financial Sector Index (the "S&P 500 Financial") and the Dow Jones U.S. Financial Services Index (the "Dow Jones Financial") for the last five years. The graph assumes a $100 investment at the closing price on December 31, 2010 and reinvestment of the dividends on the respective dividend payment dates without commissions. This graph does not forecast future performance of the Company's stock.

Dividends

Cash dividends declared per share of common stock and total cash dividends paid during each quarter for the years ended December 31, 2015 and 2014 were as follows (in millions, except per share data):

	Dividend per Share Declared	Total Cash Dividend Paid
2015		
Fourth quarter	$0.250	$23.8
Third quarter	$0.250	$23.8
Second quarter	$0.250	$24.1
First quarter	$0.250	$24.2
2014		
Fourth quarter	$0.240	$23.5
Third quarter	$0.240	$24.0
Second quarter	$0.240	$24.0
First quarter	$0.240	$24.1

On February 23, 2016, the Board of Directors declared a cash dividend of $0.25 per share on our outstanding common stock to be paid on March 14, 2016 to all stockholders of record on March 4, 2016.

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

Securities Authorized for Issuance Under Equity Compensation Plans

The table below sets forth information on compensation plans under which our equity securities are authorized for issuance as of December 31, 2015:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))(1)
	(a)	(b)	(c)
Equity compensation plans approved by security holders	5,687,885	$34.36	12,993,267
Equity compensation plans not approved by security holders	28,603	$22.50	—
Total	5,716,488	$34.31	12,993,267

(1) Includes shares available for future issuance under our amended and restated 2010 Omnibus Equity Incentive Plan.

As of December 31, 2015, we had 28,603 warrants outstanding to purchase common stock under our 2008 LPL Investment Holdings Inc. Financial Institution Incentive Plan (the “Financial Institution Incentive Plan”). Eligible participants under this plan include certain financial institutions. The plan is administered by the Board of Directors or

such other committee as may be appointed by the Board of Directors to administer the plan. The exercise price of warrants is equal to the fair market value on the grant date. Warrant awards vest in equal increments of 20.0% over a five-year period and expire on the 10th anniversary following the date of grant. The Financial Institution

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Incentive Plan has not been approved by security holders. Following our IPO, grants were no longer to be made under our Financial Institution Incentive Plan.

Purchases of Equity Securities by the Issuer

The table below sets forth information regarding repurchases on a monthly basis during the fourth quarter of 2015:

Period	Total Number of Shares Purchased	Weighted-Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs(1)	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs
October 1, 2015 through October 31, 2015	—	$ —	—	$500,000,000
November 1, 2015 through November 30, 2015	—	$ —	—	$500,000,000
December 1, 2015 through December 31, 2015	5,622,628	$ 44.46	5,622,628	$250,000,000
Total	5,622,628	$ 44.46	5,622,628	$250,000,000

(1) See Note 14. Stockholders' Equity, within the notes to consolidated financial statements for additional information.

Item 6. Selected Financial Data

The following table sets forth selected historical financial information for the past five fiscal years. The selected historical financial information presented below should be read in conjunction with the information included under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. We have derived the consolidated statements of income data for the years ended December 31, 2015, 2014, and 2013 and the consolidated statements of financial condition data as of December 31, 2015 and 2014 from our audited financial statements included in this Annual Report on Form 10-K. We have derived the consolidated statements of income data for the years ended December 31, 2012 and 2011 and consolidated statements of financial condition data as of December 31, 2013, 2012, and 2011 from our audited financial statements not included in this Annual Report on Form 10-K. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period.

	Years Ended December 31,				
	2015	2014	2013	2012	2011
	(In thousands, except per share data)				
Consolidated statements of income data:					
Net revenues	$4,275,054	$4,373,662	$4,140,858	$3,661,088	$3,479,375
Total expenses	$3,992,499	$4,078,965	$3,849,555	$3,410,497	$3,196,690
Income before provision for income taxes	$282,555	$294,697	$291,303	$250,591	$282,685
Provision for income taxes	$113,771	$116,654	$109,446	$98,673	$112,303
Net income	$168,784	$178,043	$181,857	$151,918	$170,382
Per share data:					
Earnings per basic share	$1.77	$1.78	$1.74	$1.39	$1.55
Earnings per diluted share	$1.74	$1.75	$1.72	$1.37	$1.50
Cash dividends paid per share	$1.00	$0.96	$0.65	$2.24	$—

	December 31,				
	2015	2014	2013	2012	2011
	(In thousands)				
Consolidated statements of financial condition data:					
Cash and cash equivalents	$724,529	$412,332	$516,584	$466,261	$720,772
Total assets (1)	$4,521,061	$4,041,930	$4,027,114	$3,968,007	$3,798,749
Total debt (1)	$2,188,240	$1,625,195	$1,519,379	$1,297,308	$1,315,091

(1) The Company early adopted Accounting Standards Update ("ASU") 2015-03, Interest—Imputation of Interest, which simplifies the presentation of debt issuance costs on the balance sheet by presenting debt issuance costs as a direct deduction from the carrying amount of the related debt liability. These debt issuance costs had previously been included as an asset in the consolidated statements of financial condition. The effect of the reclassification from assets to debt is shown for all years presented.

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

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

Overview

We are a leader in the retail financial advice market, the nation's largest independent broker-dealer (based on total revenues, Financial Planning magazine June 1996-2015), a top custodian for registered investment advisors ("RIAs"), and a leading independent consultant to retirement plans. We provide an integrated platform of brokerage and investment advisory services to more than 14,000 independent financial advisors (our "advisors"), including financial advisors at more than 700 financial institutions across the country, enabling them to provide their retail investors (their "clients") with objective financial advice through a lower conflict model. We also support over 4,200 financial advisors who are affiliated and licensed with insurance companies with customized clearing, advisory platforms and technology solutions.

Through our advisors, we are one of the largest distributors of financial products and services in the United States, and we believe that we are one of the top five firms in terms of largest overall advisor base in the United States.

We believe that objective financial guidance is a fundamental need for everyone. We enable our advisors to focus on what they do best—create the personal, long-term relationships that are the foundation for turning life’s aspirations into financial realities. We do that through a singular focus on providing our advisors with the front-, middle-, and back-office support they need to serve the large and growing market for independent investment advice. We believe that LPL Financial is the only company that offers advisors the unique combination of an integrated technology platform, comprehensive self-clearing services, and open architecture access to leading financial products, all delivered in an environment unencumbered by conflicts from product manufacturing, underwriting, and market-making.

We believe investors achieve better outcomes when working with a financial advisor. LPL makes it easy for advisors to do what is best for their clients, protecting advisors and investors while promoting independence and choice through access to a wide range of diligently evaluated non-proprietary products. This is the sole focus of our business.

Executive Summary

Asset Growth Trends

Net new advisory assets were $16.7 billion for the year ended December 31, 2015, compared to $17.5 billion in the same period in 2014. Headwinds in market-sensitive asset valuations offset most of these asset flows, leaving brokerage and advisory assets at $475.6 billion as of December 31, 2015, which was roughly flat with the prior year end balance of $475.1 billion.

As of December 31, 2015, our advisory assets had grown to $187.2 billion from the prior year end balance of $175.8 billion and represented 39.4% of advisory and brokerage assets served. In addition to our corporate RIA platform, we offer a platform that serves independent RIA firms that conduct their advisory business through separate entities (“Hybrid RIAs”) operating pursuant to the Investment Advisers Act of 1940, as amended ("Advisers Act") or through their respective states' investment advisory laws and regulations, rather than through LPL Financial. As of December 31, 2015, assets custodied on our Hybrid RIA platform had grown to $118.7 billion as of December 31, 2015, compared to $94.5 billion as of the prior year end, and represented 25.0% of our total advisory and brokerage assets served.

Gross Profit Trends

Gross profit of $1,357.7 million for the year ended December 31, 2015 increased 2.4% in comparison to $1,325.9 million for the year ended December 31, 2014. The increase in year-over-year gross profit was primarily due to increases in advisory fees due to higher average balances, increases in asset-based revenues from sponsorship fees and omnibus record keeping, increases in transaction fees due to elevated transaction volumes, and an increase in fee revenue, primarily due to new fees; partially offset by decreases in our brokerage sales.

Debt Transaction

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On November 20, 2015 we and our wholly-owned subsidiary, LPL Holdings, Inc. ("LPLH"), amended our senior secured credit agreement to, among other things, extend the maturity of a portion of the then-outstanding term B loan, borrow an additional $700 million in aggregate principal amount of term B loans, and increase the maximum leverage ratio permitted under the financial covenants. A portion of the proceeds were used to pay down $150 million in revolving credit borrowings outstanding under the senior secured credit agreement and to fund repurchases of shares of our common stock pursuant to an Accelerated Share Repurchase program. See Note 11. Debt, within the notes to consolidated financial statements for additional information regarding our debt.

Capital Management Activity

We returned $273.8 million of capital to shareholders in the fourth quarter, including $250.0 million through share buy backs and $23.8 million in dividends. We purchased approximately 5.6 million shares of the Company's common stock during the period at a weighted average price of $44.46 per share. During the period January 1, 2016 through February 25, 2016, we also purchased 634,651 shares of our common stock at a weighted-average price of $39.41.

On February 23, 2016 the Company's Board of Directors ("Board") declared a cash dividend of $0.25 per share on our outstanding common stock to be paid on March 14, 2016 to stockholders of record on March 4, 2016.

Our Sources of Revenue

Our revenues are derived primarily from fees and commissions from products and advisory services offered by our advisors to their clients, a substantial portion of which we pay out to our advisors, as well as fees we receive from our advisors for the use of our technology, custody, clearing, trust, and reporting platforms. We also generate asset-based revenues through our platform that provides access to approximately 795 product providers that offer the following product lines:

• Insurance Based Products
• Structured Products
• Separately Managed Accounts
• Unit Investment Trusts
• Annuities
• Alternative Investments
• Mutual Funds
• Exchange Traded Products
• Retirement Plan Products

Under our self-clearing platform, we custody the majority of client assets invested in these financial products, for which we provide statements, transaction processing, and ongoing account management. In return for these services, mutual funds, insurance companies, banks, and other financial product manufacturers pay us fees based on asset levels or number of accounts managed. We also earn interest from margin loans made to our advisors' clients.

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

The table below summarizes the sources and drivers of our recurring revenue:

			For the Year Ended December 31, 2015		
	Sources of Revenue	Primary Drivers	Total (millions)	% of Total Net Revenue	% Recurring
Advisor-driven revenue with ~85%-90% payout ratio	Commission	- Sales - Transactions - Brokerage asset levels	$1,977	46%	48%
	Advisory	- Advisory asset levels	$1,352	32%	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	$494	12%	98%
	Transaction and Fee - Trades - Client (Investor) Accounts - Advisor Seat and Technology	- Client activity - Number of clients - Number of advisors - Number of accounts - Premium technology subscribers	$402	9%	62%
	Other	- Margin accounts - Alternative investment transactions	$50	1%	35%
	Total Net Revenue		$4,275	100%	
	Total Recurring Revenue		$3,058	72%	

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,		
	2015	2014	2013
Business Metrics			
Advisory and brokerage assets (in billions)(1)	$475.6	$475.1	$438.4
Advisory assets under custody (in billions)(1)(2)	$187.2	$175.8	$151.6
Net new advisory assets (in billions)(3)	$16.7	$17.5	$14.6
Insured cash account balances (in billions)(1)	$20.9	$18.6	$17.4
Money market account balances (in billions)(1)	$8.1	$7.4	$7.5
Advisors(4)	14,054	14,036	13,673

	Years Ended December 31,		
	2015	2014	2013
Financial Metrics			
Revenue growth from prior year	(2.3)%	5.6%	13.1%
Recurring revenue as a % of net revenue	71.5%	68.3%	64.7%
Pre-Tax income (in thousands)	$282,555	$294,697	$291,303
Pre-Tax earnings per share (diluted)	$2.92	$2.90	$2.75
Net income (in thousands)	$168,784	$178,043	$181,857
Earnings per share (diluted)	$1.74	$1.75	$1.72
Non-GAAP Measures:			
Gross profit (in thousands)(5)	$1,357,725	$1,325,945	$1,248,014
Gross profit as a % of net revenue	31.8%	30.3%	30.1%
Adjusted EBITDA (in thousands)	$489,116	$516,507	$511,438
Adjusted EBITDA as a % of net revenue	11.4%	11.8%	12.4%
Adjusted EBITDA as a % of gross profit	36.0%	39.0%	41.0%
Adjusted Earnings (in thousands)	$214,854	$247,621	$258,805
Adjusted Earnings per share (diluted)	$2.22	$2.44	$2.44

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(1) Advisory and brokerage assets are comprised of assets that are custodied, networked, and non-networked and reflect market movement in addition to new assets. Insured cash account and money market account balances are also included in advisory and brokerage assets. Set forth below are other client assets at December 31 of 2015, 2014, and 2013, from which we generate commissions but that are custodied with third-party providers and therefore excluded from advisory and brokerage assets (in billions):

	December 31,		
	2015	2014	2013
Retirement plan assets(a)	$83.0	$80.3	$60.6
Trust assets	$1.0	$3.0	$10.6
High-net-worth assets	$88.9	$87.3	$73.9

(a) Retirement plan assets are held in retirement plans that are supported by advisors licensed with LPL Financial. At December 31, 2015, 2014 and 2013, our retirement plan assets represent those assets that are custodied with third-party providers of retirement plan administrative services who provide reporting feeds. We estimate the total assets in retirement plans supported to be approximately $118.0 billion at December 31, 2015. If we receive reporting feeds in the future from providers for whom we do not currently receive feeds, we intend to include and identify such additional assets in this metric. Such additional feeds since December 31, 2014, accounted for $3.8 billion of the total retirement plan assets.

(2) Advisory assets under custody are comprised of advisory assets under management in our corporate RIA platform, and Hybrid RIA assets in advisory accounts custodied by us. See “Results of Operations” for a tabular presentation of advisory assets under custody.

(3) 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.

(4) Advisors are defined as those independent financial advisors and financial advisors at financial institutions who are licensed to do business with the Company's broker-dealer subsidiary.

(5) Gross profit is calculated as net revenues less production expenses. Production expenses consist of the following expense categories from our consolidated statements of income: (i) commission and advisory and (ii) brokerage, clearing, and exchange. All other expense categories, including depreciation and amortization, are considered general and administrative in nature. Because our gross 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, which can be a useful financial metric in assessing our historical operating performance from period to period by excluding certain items that we believe are not representative of our core business, such as certain material non-cash items and other adjustments.

We believe that Adjusted EBITDA, viewed in addition to, and not in lieu of, our reported GAAP results, can provide useful information to investors regarding our historical 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, 2015, 2014, and 2013 (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Net income	$168,784	$178,043	$181,857
Non-operating interest expense	59,136	51,538	51,446
Provision for income taxes	113,771	116,654	109,446
Amortization of intangible assets	38,239	38,868	39,006
Depreciation and amortization	73,383	57,977	44,497
EBITDA	453,313	443,080	426,252
EBITDA Adjustments:			
Employee share-based compensation expense(1)	23,296	21,246	15,434
Acquisition and integration related expenses(2)	50	1,414	19,890
Restructuring and conversion costs(3)	11,976	34,783	30,812
Debt amendment and extinguishment costs(4)	—	4,361	7,968
Other(5)	481	11,623	11,082
Total EBITDA Adjustments	35,803	73,427	85,186
Adjusted EBITDA	$489,116	$516,507	$511,438

(1) Represents share-based compensation expenses 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 primarily resulting from the expansion of our Service Value Commitment initiative. Results for 2015 also include charges related to the restructuring of the business of our subsidiary, Fortigent Holdings Company, Inc. (together with its subsidiaries, "Fortigent")

(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) 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 closure of our former subsidiary, NestWise, LLC (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.

Adjusted Earnings and Adjusted Earnings per share

We present Adjusted Earnings and Adjusted Earnings per share, which can be useful financial metrics for assessing our historical operating performance by excluding the effects of certain items that we believe are not representative of our core business.

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. Adjusted Earnings and Adjusted Earnings per share, viewed in addition to, and not in lieu of, our reported GAAP results can 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 believe Adjusted Earnings and Adjusted Earnings per share can also be useful to investors in evaluating our historical operating performance because securities analysts have used them and may continue to 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, 2015, 2014, and 2013 (in thousands, except per share data):

	Years Ended December 31,		
	2015	2014	2013
Net income	$168,784	$178,043	$181,857
After-Tax:			
EBITDA Adjustments			
Employee share-based compensation expense(1)	14,912	14,175	11,109
Acquisition and integration related expenses(2)	31	366	10,919
Restructuring and conversion costs	7,353	21,357	19,011
Debt amendment and extinguishment costs	—	2,678	4,916
Other(3)	295	7,137	6,926
Total EBITDA Adjustments	22,591	45,713	52,881
Amortization of intangible assets	23,479	23,865	24,067
Adjusted Earnings	$214,854	$247,621	$258,805
Adjusted Earnings per share(4)	$2.22	$2.44	$2.44
Weighted-average shares outstanding — diluted	96,786	101,651	106,003

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%, 3.6% and 3.3%, net of the federal tax benefit, for the years ended December 31, 2015, 2014, and 2013, respectively. Items for which we did not receive a tax deduction are included 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 year ended December 31, 2013 include reductions of expense of $3.8 million relating to the estimated fair value of contingent consideration for the stock acquisition of Concord Capital Partners, Inc., that are not deductible for tax purposes.

(3) The results for the year ended December 31, 2013 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.

(4) 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,		
	2015	2014	2013
Earnings per share — diluted	$1.74	$1.75	$1.72
After-Tax:			
EBITDA Adjustments per share	0.24	0.45	0.49
Amortization of intangible assets per share	0.24	0.24	0.23
Adjusted Earnings per share	$2.22	$2.44	$2.44

Legal & Regulatory Matters

As a regulated entity, we are subject to regulatory oversight and inquiries related to, among other items, our compliance and supervisory systems and procedures and other controls, as well as our disclosures, supervision and reporting. The ongoing environment of additional regulation, increased regulatory compliance obligations, and enhanced regulatory enforcement has resulted in additional operational and compliance costs, as well as increased costs in the form of fines, restitution, and remediation related to regulatory matters. In the ordinary course of business, we periodically identify or become aware of purported inadequacies, deficiencies, and other issues. It is our policy to evaluate these matters for potential securities law or regulatory violations, and other potential compliance issues. It is

also our policy to self-report known violations and issues as required by applicable law and

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regulation. When deemed probable that matters may result in financial losses, we accrue for those losses based on an estimate of possible fines, customer restitution, and losses related to the repurchase of sold securities and other losses, as applicable. Certain regulatory and other legal claims and losses may be covered through our wholly-owned captive insurance subsidiary, which is chartered with the insurance commissioner in the state of Tennessee. Our ability to estimate such costs may vary based on the current stage of evaluation and status of discussion with regulators, as applicable.

Our accruals, including those established through the captive insurance company, at December 31, 2015 include estimated costs for significant regulatory matters, generally relating to the adequacy of our compliance and supervisory systems and procedures and other controls, for which we believe losses are both probable and reasonably estimable. One of the matters relates to sales of certain securities over several years, and our accrual at December 31, 2015 includes an estimate for the loss we expect to incur in resolving this matter including if we were to repurchase certain affected securities at their original sales prices.

The outcome of regulatory matters could result in legal liability, regulatory fines, or monetary penalties in excess of our accruals and insurance, which could have a material adverse effect on our business, results of operations, cash flows, or financial condition. For more information on management's loss contingency policies, see Note 13. Commitments and Contingencies, within the notes to the consolidated financial statements.

Our Service Value Commitment Initiative

Our Service Value Commitment initiative was 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 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, 2015, we have incurred $64.9 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 was completed in 2015. See Note 3. Restructuring, within the notes to the consolidated financial statements for further detail.

Derivative Financial Instruments

In May 2013, 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.

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.

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In August 2013, we ceased the operations of our former subsidiary, NestWise, LLC ("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 Advisors, Inc. ("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.

Economic Overview and Impact of Financial Market Events

Our business is directly and indirectly sensitive to several macroeconomic factors and the state of financial markets, particularly in the United States. While macroeconomic data in the U.S. continued to point to low odds of a recession, concerns about the impact of low commodity prices and slowing global growth have increased. Financial market indicators have signaled rising levels of financial stress in December 2015 and in the early part of 2016 as uncertainty impacts investor behavior. In the U.S., economic growth has remained fairly steady despite headwinds from slowing growth in manufacturing, largely attributable to decreasing capital expenditures on energy projects; a strong dollar, which has weighed on exports; and concern about some international markets, especially heavy commodity exporters and China. On the positive side, the job market has continued to heal, which has supported consumer spending; services sector growth remained strong; and residential investment has been accelerating, although the pace of new home construction still remains low by historical standards. According to the most recent estimate by the Bureau of Economic Analysis, real gross domestic product ("GDP") growth slowed to a 0.7% annual rate in the fourth quarter of 2015, putting the overall growth rate for 2015 at 1.8%.

Continued U.S. growth, improvements in international economic data, and market participants' acclimating to the possible start of a rate tightening cycle in the U.S. helped the S&P 500 rebound in the fourth quarter of 2015 from third quarter losses, but gains were largely confined to October as the impact of falling oil prices and a strong dollar on earnings kept investor confidence tempered. Rising concerns in early 2016 have seen domestic equity markets break down below 2015 lows. Further declines in oil prices have continued to put added pressure on credit sensitive bonds and credit spreads have continued to widen. In Treasury markets, the Federal Reserve's December 2015 rate hike pushed short-term Treasury yields modestly higher, but long-term rates have fallen as concerns about global growth increase. Widening credit spreads, a flattening yield curve, and elevated stock market volatility all indicate that investors became considerably more risk averse as 2016 began.

Our business is also sensitive to current and expected short-term interest rates, which are largely driven by Federal Reserve policy. In particular, low short-term rates can weigh on the profitability of our cash sweep program, due to the fee compression needed to keep our rates competitive. Low interest rates and the prospect of rising rates over the long term can also have an impact on demand for fixed and variable annuity products. On December 16, 2015, the Federal Reserve's policy arm, the Federal Open Market Committee ("FOMC"), announced that it was raising the federal funds rate for the first time in almost ten years, moving the target range from 0.0-0.25% to 0.25-0.50%. The decision was based on the Committee's belief that labor markets had exhibited "considerable improvement" and that factors weighing on inflation were likely transitory, together with expectations that labor markets would continue to improve and that inflation would progress toward the policy target of 2% over the medium term. The statement emphasized that the FOMC expected the path of future rate increases to be gradual and that decisions would continue to be data dependent. Comments by Federal Reserve Chair Janet Yellen since that meeting have indicated rising concern about international conditions, while market-implied expectations of the path of the federal funds rate have fallen and are pricing in a low probability of any additional increases in 2016.

Results of Operations

The following discussion presents an analysis of our results of operations for the years ended December 31, 2015, 2014, and 2013. 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	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
	(In thousands)				
Revenues					
Commission	$1,976,845	$2,118,494	$2,077,566	(6.7)%	2.0%
Advisory	1,352,454	1,337,959	1,187,352	1.1%	12.7%
Asset-based	493,687	476,595	430,990	3.6%	10.6%
Transaction and fee	401,948	369,821	361,252	8.7%	2.4%
Other	50,120	70,793	83,698	(29.2)%	(15.4)%
Net revenues	4,275,054	4,373,662	4,140,858	(2.3)%	5.6%
Expenses					
Production	2,917,329	3,047,717	2,892,844	(4.3)%	5.4%
Compensation and benefits	440,049	421,829	400,967	4.3%	5.2%
General and administrative	452,396	422,441	382,647	7.1%	10.4%
Depreciation and amortization	73,383	57,977	44,497	26.6%	30.3%
Amortization of intangible assets	38,239	38,868	39,006	(1.6)%	(0.4)%
Restructuring charges	11,967	34,652	30,186	(65.5)%	14.8%
Total operating expenses	3,933,363	4,023,484	3,790,147	(2.2)%	6.2%
Non-operating interest expense	59,136	51,538	51,446	14.7%	0.2%
Loss on extinguishment of debt	—	3,943	7,962	(100.0)%	(50.5)%
Total expenses	3,992,499	4,078,965	3,849,555	(2.1)%	6.0%
Income before provision for income taxes	282,555	294,697	291,303	(4.1)%	1.2%
Provision for income taxes	113,771	116,654	109,446	(2.5)%	6.6%
Net income	$168,784	$178,043	$181,857	(5.2)%	(2.1)%

Revenues

Commission Revenues

We generate two types of commission revenues: sales-based commissions and trailing commissions. Sales-based commission revenues, which occur whenever clients trade securities or purchase various types of investment products, primarily represent gross commissions generated by our advisors. The levels of sales-based commission revenues 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. Trailing commission revenues are recurring in nature and are earned based on the market value of investment holdings in trail-eligible assets. We earn trailing commission revenues (a commission that is paid over time, such as 12(b)-1 fees) primarily on mutual funds and variable annuities held by clients of our advisors.

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,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
Variable annuities	$774,610	$807,634	$794,898	$(33,024)	(4.1)%	$12,736	1.6%
Mutual funds	591,049	610,310	565,951	(19,261)	(3.2)%	44,359	7.8%
Alternative investments	133,092	211,638	251,113	(78,546)	(37.1)%	(39,475)	(15.7)%
Fixed annuities	157,975	160,287	123,882	(2,312)	(1.4)%	36,405	29.4%
Equities	97,505	112,091	119,569	(14,586)	(13.0)%	(7,478)	(6.3)%
Fixed income	90,940	85,882	87,243	5,058	5.9%	(1,361)	(1.6)%
Insurance	81,108	78,659	81,687	2,449	3.1%	(3,028)	(3.7)%
Group annuities	49,890	51,250	52,275	(1,360)	(2.7)%	(1,025)	(2.0)%
Other	676	743	948	(67)	(9.0)%	(205)	(21.6)%
Total commission revenue	$1,976,845	$2,118,494	$2,077,566	$(141,649)	(6.7)%	$40,928	2.0%

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

	Years Ended December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
Sales-based	$1,019,602	$1,181,189	$1,254,683	$(161,587)	(13.7)%	$(73,494)	(5.9)%
Trailing	957,243	937,305	822,883	19,938	2.1%	114,422	13.9%
Total commission revenue	$1,976,845	$2,118,494	$2,077,566	$(141,649)	(6.7)%	$40,928	2.0%

The decrease in commission revenue in 2015 compared to 2014 was primarily due to a decrease in sales-based activity for alternative investments, fixed and variable annuities, mutual funds, and equities. Alternative investment sales commissions were challenged throughout the year, in particular non-traded real estate investment trusts (REITs), due to a maturing real estate cycle and uncertainties regarding upcoming regulatory changes. Significant market volatility and investor uncertainty in the low interest rate environment continued the decline in demand for fixed and variable annuities, mutual funds, and equities.

Trailing revenues are recurring in nature and the slight increase in revenue reflects an increase in the market value of the underlying assets.

The increase in commission revenues in 2014 compared to 2013 was due primarily to an increase in trailing revenue for mutual funds and variable annuities and activity in fixed annuities.

Fixed annuity sales-based commissions rose in 2014 compared to 2013, despite historically low interest rates, as investors have sought income streams with minimal risk to principal. Such benefits 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 primarily due 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.

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 their advisory assets. Advisory fees are billed to clients on either a calendar quarter or non-calendar quarter basis of their choice, at the beginning of that period, and are recognized as revenue ratably over the quarter in which they are earned. The value of the assets in an advisory account on the billing date determines the amount billed, and accordingly, the revenues earned in the following three month period. Advisory revenues collected on our corporate RIA platform generally average 1.1% of the underlying assets, and can range anywhere from 0.5% to 3.0%.

We also support Hybrid RIAs, through our Hybrid RIA platform, which allows advisors to engage us for technology, clearing, and custody services, as well as access to the capabilities of our investment platforms. Most financial advisors associated with Hybrid RIAs carry their brokerage license with LPL Financial and access our fully-integrated brokerage platform under standard terms, although some financial advisors associated with Hybrid RIAs do not carry a brokerage license with us. The assets held under a Hybrid RIA's 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. However, the advisory revenue generated by a Hybrid RIA is earned by the Hybrid RIA, and accordingly is not included in our advisory revenue. We charge separate fees to Hybrid RIAs for technology, clearing, administrative, and custody services. The administrative fees collected on our Hybrid 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.

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

	Years Ended December 31,		
	2015	2014	2013
Beginning balance at January 1	$175.8	$151.6	$122.1
Net new advisory assets	16.7	17.5	14.6
Market impact	(5.3)	6.7	14.9
Ending balance at December 31	$187.2	$175.8	$151.6

Net new advisory assets for the years ended December 31, 2015, 2014, and 2013 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 recruiting of new advisors and the continued shift by our existing advisors from brokerage towards more advisory business. With advisory fees for the period calculated based on the ending market value of the immediately preceding period, revenues for any particular quarter are primarily driven by each of the prior quarter's month-end advisory assets under management. The growth in advisory revenue from 2013 to 2014 and in 2015 is due to net new advisory assets resulting from our recruiting efforts and strong advisor productivity, as well as market gains as represented by higher levels of the S&P 500 index.

Assets on our Hybrid RIA platform have been growing rapidly through the recruiting of new advisors and the transition of existing advisors onto that platform. This continued shift of advisors to our Hybrid RIA platform has caused the growth in advisory revenue to appear lagging behind the rate of growth of advisory assets under custody as we earn administrative and other fees discussed above as opposed to advisory fees.

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

	December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
Advisory assets under management	$121.4	$125.1	$117.6	$(3.7)	(3.0)%	$7.5	6.4%
Hybrid RIA assets in advisory accounts custodied by LPL	65.8	50.7	34	15.1	29.8%	16.7	49.1%

Financial									
Total advisory assets under custody	$187.2	$175.8	$151.6	$11.4	6.5	%	$24.2	16.0	%

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Asset-Based Revenues

Asset-based revenues are comprised of our sponsorship programs with financial product manufacturers, omnibus processing and networking services, and fees from cash sweep programs. We receive fees from certain financial product manufacturers in connection with sponsorship programs that support our marketing and sales education and training efforts. Omnibus processing revenues are paid to us by mutual fund product sponsors and are based on 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. Pursuant to contractual arrangements, uninvested cash balances in our advisors' client accounts are swept into either insured cash accounts at various banks or third-party money market funds, for which we receive fees, including administrative and recordkeeping fees based on account type and the invested balances.

Asset-based revenues for the year ended December 31, 2015 increased to $493.7 million, or 3.6% from $476.6 million for the year ended December 31, 2014. The increase is due to increased fees from omnibus processing services resulting from higher average market indices on the value of those underlying assets and increased revenues from product sponsors related to favorable terms on renegotiated contracts, partially offset by decreased revenues from our cash sweep programs. Cash sweep revenue decreased to $95.3 million in 2015 from $99.7 million in 2014 due to fee compression that resulted from a repricing of certain contracts that underlie our cash sweep programs, partially offset by an increase in average assets in our cash sweep programs as investors increased the balances of their assets held in cash in response to the volatility in the financial markets. As of December 31, 2015, our cash sweep assets had grown to $29.0 billion from $26.0 billion as of December 31, 2014, with average cash sweep assets of $25.8 billion and $23.9 billion during the years ended December 31, 2015 and 2014, respectively. The increases in average asset balances were offset by a slight decrease in our average cash sweep yield from 42 basis points to 37 basis points for the years ended December 31, 2015 and 2014, respectively.

Asset-based revenues for the year ended December 31, 2014 increased to $476.6 million, or 10.6% from $431.0 million for the year ended December 31, 2013. The increase is due to increased fees from omnibus processing services and product sponsors resulting from higher average market indices on the value of those underlying assets and net new sales of eligible assets, partially offset by decreased revenues from our cash sweep programs. The decrease in cash sweep revenue is due to fee compression that resulted from a re-pricing of certain contracts that underlie our cash sweep programs, a year-over-year 2 basis points decline in the average federal funds effective rate to 0.09%, and a decrease in average assets in our cash sweep programs for the year ended December 31, 2014.

Transaction and Fee Revenues

Transaction revenues primarily include fees we charge to our advisors and their clients for executing certain transactions in brokerage and fee-based advisory accounts. Fee revenues primarily include Individual Retirement Account ("IRA") custodian fees, contract and licensing fees, and other client account fees. In addition, we host certain advisor conferences that serve as training, education, sales, and marketing events, for which we charge a fee for attendance.

Transaction and fee revenues increased in 2015 compared to 2014 primarily due to higher transaction volumes on eligible trades and fees generated from the introduction of our home office supervisory program.

The primary contributing factor for the increase in transaction and fee revenues in 2014 compared to 2013 was a 2.7% increase in the average number of advisors during the year.

Other Revenues and Interest Income, net of Interest Expense

Other revenues primarily include marketing allowances received from certain financial product manufacturers, primarily those who offer alternative investments, such as non-traded REITs and business development companies, mark-to-market gains or losses on assets held by us for the advisor non-qualified deferred compensation plan and our model research portfolios, interest income from client margin accounts and cash equivalents, net of operating interest expense, and other miscellaneous revenues.

Other revenues decreased in 2015 compared to 2014 primarily due to decreases in alternative investment marketing allowances of $14.8 million associated with a 37% decline in related sales. The remainder of the decrease was primarily the result of a change to a $3.0 million loss in 2015 from a $2.1 million gain in 2014 in realized and

unrealized gains/losses on approximately $100.7 million of assets held in our advisor non-qualified deferred compensation plan. The primary driver of the loss was due to market performance on the underlying investment allocations chosen by advisors in the plan.

Other revenues decreased in 2014 compared to 2013 primarily due to decreases in alternative investment marketing allowances associated with a 16% decline in related sales. The remainder of the decrease was primarily the result of a change in realized and unrealized gains/losses on assets held in our advisor non-qualified deferred compensation plan due to market performance on the underlying investment allocations chosen by advisors in the plan.

Expenses

Production Expenses

Production expenses are comprised of the following: base payout amounts that are earned by and paid out to advisors and institutions based on commission and advisory revenues earned on each client's account (collectively, commission and advisory revenues earned by LPL Financial are referred to as gross dealer concessions, or "GDC"); production bonuses earned by advisors and institutions 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; the deferred commissions and advisory fee expenses associated with mark-to-market gains or losses on the non-qualified deferred compensation plan offered to our advisors; and brokerage, clearing, and exchange fees.

The decrease in production expenses for 2015 compared with 2014 correlates with the changes in our commission and advisory revenues during the same period.

The increase in production expenses for 2014 compared with 2013 correlates with the changes in our commission and advisory revenues during the same period.

Our production payout ratio is calculated as production expenses, excluding brokerage, clearing, and exchange fees, divided by GDC. The following table shows the components of our production payout and total payout ratios, which are non-GAAP measures:

	Years Ended December 31,						Change	
	2015		2014		2013		2015 vs. 2014	2014 vs. 2013
Base payout rate	83.22	%	83.71	%	84.04	%	(49) bps	(33) bps
Production based bonuses	2.72	%	2.79	%	2.69	%	(7) bps	10 bps
GDC sensitive payout	85.94	%	86.50	%	86.73	%	(56) bps	(23) bps
Non-GDC sensitive payout	0.11	%	0.26	%	0.51	%	(15) bps	(25) bps
Total Payout Ratio	86.05	%	86.76	%	87.24	%	(71) bps	(48) bps

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.

	Years Ended December 31,			Change	
	2015	2014	2013	2015 vs. 2014	2014 vs. 2013
Average Number of Employees	3,382	3,337	3,047	1.3%	9.5%

The increase in compensation and benefits for 2015 compared with 2014 was primarily driven by increases in salary that reflects our annual merit pay increase cycle and group health insurance costs combined with the increase in the average number of employees.

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. 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.

General and Administrative Expenses

General and administrative expenses include promotional, occupancy and equipment, professional services, communications and data processing, and other expenses. Promotional expenses include costs related to our hosting of certain advisor conferences that serve as training, sales, and marketing events, as well as business development costs related to recruiting, such as transition assistance and amortization related to forgivable loans

issued to advisors. Included in other expenses are the estimated costs of the investigation, settlement, and resolution of regulatory matters, licensing fees, insurance, broker-dealer regulator fees, and other miscellaneous expenses.
The following table details our General and Administrative expenses included in our consolidated statements of income for the periods indicated (dollars in thousands):

	December 31,			2015 vs. 2014		2014 vs. 2013	
	2015	2014	2013	$ Change	% Change	$ Change	% Change
Promotional	$139,198	$124,677	$111,539	$14,521	11.6 %	$13,138	11.8 %
Occupancy and equipment	84,112	82,430	67,551	1,682	2.0 %	14,879	22.0 %
Professional services	64,522	62,184	46,559	2,338	3.8 %	15,625	33.6 %
Communications and data processing	46,871	43,823	43,075	3,048	7.0 %	748	1.7 %
Other	117,693	109,327	113,923	8,366	7.7 %	(4,596)	(4.0)%
Total General and Administrative Expenses	$452,396	$422,441	$382,647	$29,955	7.1 %	$39,794	10.4 %

The increase in general and administrative expenses for 2015 compared to 2014 was primarily driven by increases in business development and promotional expenses associated with advisor transition assistance and broker training and education. The increase in other expenses was primarily driven by increases in insurance expense.
The increase in general and administrative expenses for 2014 compared with 2013 included $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. Additionally, 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.
Depreciation and Amortization Expense
Depreciation and amortization expense represents the benefits received for using long-lived assets. Those assets consist of fixed assets, which include internally developed software, hardware, leasehold improvements, and other equipment.
The increase in depreciation and amortization in 2015 compared to 2014 and in 2014 compared to 2013 was due to the capital expenditures in 2014 related to the relocation to our San Diego office building and the increased levels of continuing development of capitalized software.
Amortization of Intangible assets
Amortization of intangible assets is consistent over prior periods and represents the benefits received for using long-lived assets, which consist of intangible assets established through our acquisitions.
Restructuring Charges
Restructuring charges primarily represent expenses incurred as a result of our completion of our Service Value Commitment initiative. 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. Also, included in the restructuring charges are expenses incurred as part of our Fortigent restructuring. Refer to Note 3. Restructuring, within the notes to the consolidated financial statements for additional details.
Non-Operating Interest Expense
Non-operating interest expense represents expense for our senior secured credit facilities. Period over period variances correspond to changes in the level of outstanding indebtedness relating to these facilities.
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. The amendment was accounted for as a partial modification and debt extinguishment, which required that we accelerate the recognition of $3.9 million of

related unamortized debt issuance costs that had no future economic benefit, and recognize that amount as a loss on extinguishment of debt.

In May 2013, we refinanced and amended our previous credit agreement and effectively increased our borrowing by $236.1 million, with net proceeds used primarily to pay down $150 million in revolving credit borrowings and for share repurchases. The amendment was accounted for as a partial modification and debt extinguishment, which required that we accelerate the recognition of $8.0 million of related unamortized debt issuance costs that had no future economic benefit, and recognize that amount as a loss on extinguishment of debt.

Provision for Income Taxes

Our effective income tax rate was 40.3%, 39.6%, and 37.6% for 2015, 2014, and 2013, respectively. The increase in our effective tax rate and income tax expense in 2015 compared to 2014 is primarily due to change in estimates in unrecognized tax positions.

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.

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,		
	2015	2014	2013
Net cash flows provided by (used in):			
Operating activities	$279,451	$232,242	$160,117
Investing activities	(74,948)	(93,132)	(74,809)
Financing activities	107,694	(243,362)	(34,985)
Net increase (decrease) in cash and cash equivalents	312,197	(104,252)	50,323
Cash and cash equivalents — beginning of year	412,332	516,584	466,261
Cash and cash equivalents — end of year	$724,529	$412,332	$516,584

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 changes in operating assets and liabilities, including 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 provided by operating activities increased in 2015 when compared to 2014 primarily due to increases in accounts payable and accrued liabilities relating to advisor deferred compensation, self-insurance, and deferred commissions, partially offset by uses of cash associated with advisor loans.

Cash flows provided by 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 our San Diego office building and capitalized software, contributed to the

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increase in operating activities, which were offset by increases in other assets, including prepaid expenses and deferred compensation related to advisors.

Cash flows used in investing activities for 2015 as compared to 2014 were due primarily to the deposits of restricted cash relating to our captive insurance subsidiary, which was established in the first quarter of 2015, offset by a decrease in capital expenditures.

Cash flows 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.

Cash flows provided by financing activities for 2015 compared to the same period in 2014 were due to proceeds from our senior secured term loan, partially offset by repurchases of common stock.

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.

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 senior secured 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 senior secured 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, 2015, we had received collateral primarily in connection with client margin loans with a fair value of approximately $334.5 million, which we can repledge, loan, or sell. Of these securities, approximately $31.9 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, 2015 there were no restrictions that materially limited our ability to repledge, loan, or sell the remaining $302.6 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.

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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, 2015, LPL Financial's excess net capital was $97.4 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 November 20, 2015, we and LPLH entered into the Third Amendment, Extension and Incremental Assumption Agreement (the “Third Amendment”), together with the other parties thereto, which amends our Credit Agreement, originally dated as of March 29, 2012, as amended by the First Amendment and Incremental Assumption Agreement, dated as of May 13, 2013, the Second Amendment, Extension and Incremental Assumption Agreement, dated as of October 1, 2014 and Consent to Amendment Agreement, dated as of November 21, 2014 (as amended by the Third Amendment, the "Credit Agreement"). 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 covenants consist of 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 Credit Agreement) to our consolidated EBITDA (as defined in the Credit Agreement) to exceed certain maximum levels set forth in the Credit Agreement. Under our interest coverage ratio test, we covenant not to allow the ratio of our consolidated 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, 2015 we were in compliance with both of our financial covenants. The maximum permitted ratios under our financial covenants and actual ratios were as follows:

	December 31, 2015	
Financial Ratio	Covenant Requirement	Actual Ratio
Leverage Test (Maximum)	5.0	3.8
Interest Coverage (Minimum)	3.0	9.0

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, 2015:

	Payments Due by Period				
	Total	< 1 Year	1-3 Years	4-5 Years	> 5 Years
			(In thousands)		
Leases and other obligations(1)(2)	$634,800	$111,347	$115,519	$72,142	$335,792
Senior secured credit facilities(3)	2,215,037	17,677	78,420	854,503	1,264,437
Variable interest payments(4)	575,011	87,225	186,453	214,396	86,937
Commitment fee on revolving line of credit(5)	7,164	1,910	3,821	1,433	—
Total contractual cash obligations	$3,432,012	$218,159	$384,213	$1,142,474	$1,687,166

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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 a real estate development project in Fort Mill, 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 development 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 $4.0 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, 2015 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, 2015, we have a liability for unrecognized tax benefits of $24.7 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. See Note 4. Fair Value Measurements, within the notes to consolidated financial statements for a detail discussion regarding our fair value measurements.

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
- Commitments and Contingencies
- Valuation of Goodwill and Other Intangible Assets
- Income Taxes
- Share-Based Compensation

See Note 2. Summary of Significant Accounting Policies, within the notes to consolidated financial statements for discussion of each of these accounting policies.

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 Service, Trading, and Operations 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 Service, Trading, and Operations ("STO") department. Our research department develops model portfolios that are used by advisors in developing client portfolios. We currently maintain approximately 199 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 $5,000 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, 2015, the fair value of our trading securities owned were $12.0 million. Securities sold, but not yet purchased were $268 thousand at December 31, 2015. The fair value of securities included within other assets were $103.3 million at December 31, 2015. 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, 2015, all of the outstanding debt under our Amended Credit Agreement, $2.2 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 given assets owned, which are subject to the same, but off-setting interest rate risk

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, 2015 (in thousands):

	Outstanding at	Annual Impact of an Interest Rate Increase of			
	Variable Interest	10 Basis	25 Basis	50 Basis	100 Basis
Senior Secured Term Loans	Rates	Points	Points	Points	Points
Term Loan A	459,375	459	1,148	2,297	4,594
Term Loan B	1,755,662	314	2,297	6,661	15,389
Variable Rate Debt Outstanding	$2,215,037	$773	$3,445	$8,958	$19,983

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. 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 Rate Setting Committee (the "RSC"), which governs and approves any changes to our fees. By meeting promptly around the time of Federal Open Market Committee meetings, or for other market or non-market reasons, the RSC considers financial risk of the insured cash programs relative to other products into which clients may move cash assets.

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 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 did not exceed $0.2 million during any of the years ended December 31, 2015, 2014, and 2013. 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

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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.

We operate a three lines of defense model whereby the primary ownership and responsibility for risk and control processes is the responsibility of business and control owners who are the "first line" of defense in effectively managing risks. The first line is responsible for risk process ownership and is comprised of the business units, whose primary responsibility is for day-to-day compliance and risk management, including execution of desktop and supervisory procedures. These business owners and certain control owners implement and execute controls to manage risk, execute risk assessments, identify emerging risks, and comply with risk management policies. The second line of defense is comprised of departments within Governance, Risk and Compliance ("GRC), STO, BTS, Finance, and Human Capital and this second line of defense provides risk and control assessment and oversight. The third line of defense is independent verification of the effectiveness of internal controls and is conducted by Internal Audit or in third-party reviews.

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 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 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 all other Managing Directors 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 and tips 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. Another key control group is the Service Trading and Operations Risk Management team. This team identifies, defines, and remediates risk-related items within STO and acts as the liaison between STO and GRC. 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 Service, Trading, and Operations 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.

Policy Committee and Advisor Policies

In addition to the ERM framework, the Management Committee of LPL Financial has established a Policy Committee to provide a centralized decision-making process for material policy issues that may arise on an ad hoc basis. The membership of the Policy Committee consists of a subset of the Management Committee and currently includes: the President, who serves as chair of the Policy Committee; the Managing Director, Chief Risk Officer; and the Managing

Director, Investment and Planning Solutions. The Managing Director, Legal & Government Relations, serves as a non-voting member. Among other issues, the Policy Committee addresses policy conflicts

and potential conflicts that may arise from time to time from legal and regulatory requirements, business proposals, and practices throughout the Company as they relate to advisor-facing or public-facing issues. The Policy Committee is responsible for analyzing such issues, and either facilitating the policy decision or conflict resolution, or making the policy decision. The Policy Committee reports the results of its decisions or other resolutions to the Management Committee on an ad hoc basis

We also 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 conduct and 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, 2015, 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, 2015, 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, 2015 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, 2015.

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, 2015, 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, 2015, 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, 2015 of the Company and our report dated February 25, 2016 expressed an unqualified opinion on those consolidated financial statements.

/s/ DELOITTE & TOUCHE LLP
San Diego, California
February 25, 2016

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Item 9B. Other Information

None.

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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 2016 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	55	Chief Executive Officer and Chair, Board of Directors
Matthew J. Audette	41	Chief Financial Officer
Dan H. Arnold	51	President
David P. Bergers	48	Managing Director, Legal and Government Relations, General Counsel
Tracy Calder	56	Managing Director, Deputy Chief Risk Officer
Victor P. Fetter	47	Managing Director, Chief Information Officer
Thomas Gooley	51	Managing Director, Service, Trading, and Operations
J. Andrew Kalbaugh	52	Managing Director, Divisional President, Relationship Management and Business Consulting
Sallie R. Larsen	62	Managing Director, Chief Human Capital Officer
William P. Morrissey, Jr.	51	Managing Director, Divisional President, Business Development
Michelle Oroschakoff	54	Managing Director, Chief Risk Officer
Ryan Parker	41	Managing Director, Investment and Planning Solutions
George B. White	46	Managing Director, Research and Chief Investment Officer

Executive Officers

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

Mr. Casady is chair 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 our subsidiary 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. Mr. Casady is a member of the board of the Financial Services Roundtable, EZE Software Group, and Citizens Financial Group. He is a former member of FINRA's board of governors and former chair of the Insured Retirement Institute. He has also previously served on the executive committee of the Investment Company Institute board of governors. Mr. Casady received his B.S. from Indiana University and his M.B.A. from DePaul University.

Matthew J. Audette — Chief Financial Officer

Mr. Audette is our chief financial officer. He is responsible for the Company’s core financial functions including: financial planning and analysis, controllership, tax, internal audit, treasury, corporate development, and investor relations. Prior to joining LPL in September 2015, he served as executive vice president and chief financial officer of E*TRADE Financial Corporation ("E*Trade") from January 2011 until June 2015. During his 16 years with E*TRADE, he led the formation of the firm’s Finance department and was a key contributor to its growth, leading a variety of corporate transactions and capital activities. Mr. Audette began his career in the financial services practice at KPMG. Mr. Audette earned a B.S. in accounting from Virginia Polytechnic Institute and State University, popularly known as Virginia Tech.

Dan H. Arnold — President
Mr. Arnold has served as our president since March 2015, with oversight of the our primary client-facing functions. He leads the Advisor and Institution Solutions business unit, which focuses on business development, existing advisor and institution growth, enhancing the client experience, research and corporate strategy, and sponsor partnerships. Previously, Mr. Arnold served as our chief financial officer from November 2012 to March 2015 and was responsible for formulating financial policy, leading the company's capital management efforts, and ensuring the effectiveness of the organization's financial functions. Prior to 2012, he was managing director, head of strategy, with responsibility for long-term strategic planning for the firm, product and platform development, and strategic investments, including acquisitions. 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 earned a B.S. in electrical engineering from 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 experience as a practicing attorney, corporate counsel and government regulator. He joined us in August 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.
Tracy Calder - Managing Director, Deputy Chief Risk Officer
Ms. Calder is managing director, deputy chief risk officer, with oversight of the compliance and operational market and credit risk management functions. She joined us in January 2016 and is responsible for furthering our efforts to foster an environment that identifies and mitigates risk for LPL and our clients. Ms. Calder worked most recently at J.P. Morgan Securities LLC, where she served as managing director, chief compliance officer from May 2015 until December 2015. At J.P. Morgan, she led a compliance program that spanned the firm's institutional and private client broker/dealer and registered investment advisor (RIA) businesses. She joined J.P. Morgan as managing director and head of brokerage and fiduciary compliance in August 2013. Prior to J.P. Morgan, she served as senior vice president at Wells Fargo Advisors from March 2012 to July 2013, where she led the retail compliance program for the firm's broker/dealer. Previously, Ms. Calder spent 18 years with UBS Wealth Management Americas in a variety of legal and compliance roles, including as head of legal for the Wealth Management Advisor Group and as chief compliance officer and senior deputy general counsel for UBS Financial Services Inc. Ms. Calder earned a Bachelor of Arts from Fordham University and a J.D. from the University of North Carolina School of Law.
Victor P. Fetter — Managing Director, Chief Information Officer
Managing director and chief information officer since 2012, Mr. Fetter has oversight of our Business Technology Services business unit. He is responsible for bringing to life our commitment to invest in the people and processes necessary to deliver the best technologies in the industry for our advisors and employees. Mr. Fetter has responsibility for product development, digital transformation and technology support, security, and innovation. He also serves on the Management Committee and the Risk Oversight Committee for LPL and chairs the Technology Investment and Strategy Committee. Combined, these efforts ensure alignment of technology initiatives with strategic business priorities. Prior to joining us in December 2012, Mr. Fetter was vice president and chief information officer for Dell Online from March 2007 to December 2012, 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.

Thomas Gooley — Managing Director, Service, Trading, and Operations
Mr. Gooley is the managing director of Service, Trading, and Operations at LPL Financial. In this role, he is responsible for leading our service, trading, and client-facing operations organizations, while mitigating risk, increasing efficiency, and improving the client experience. He also is responsible for driving the strategy, governance, and execution of the firm’s business process outsourcing activities in India. Prior to joining us in June 2015, he was senior managing director and chief risk officer for the Retirement and Individual Financial Services division at TIAA-CREF from August 2014 to June 2015. Previously, he worked as managing director and head of Operations for the Global Wealth and Asset Management divisions of Morgan Stanley. Earlier in his career, Mr. Gooley led equities and futures operations for Bank of America Securities after spending 12 years with Goldman Sachs in a variety of leadership roles in equities operations. Mr. Gooley holds a B.A. in political economies of industrial societies from the University of California at Berkeley and a M.B.A. from The Wharton School at the University of Pennsylvania. Mr. Gooley is also a graduate and instructor of the Securities Industry and Financial Markets Association (SIFMA) Wharton Program.
J. Andrew Kalbaugh — Managing Director, Divisional President, Relationship Management and Business Consulting
Mr. Kalbaugh has served as managing director and divisional president of Relationship Management and Business Consulting for the Advisor and Institution Solutions business unit since January 2016. He is responsible for the long-term growth, satisfaction, and retention of financial advisors and institutions and also oversees the teams supporting high net worth and registered investment advisor solutions. Previously, Mr. Kalbaugh served as managing director and divisional president of Institution Services and led business development and business consulting for all financial institutions from November 2011 to January 2016. Prior to being named managing director in 2011, Mr. Kalbaugh served as executive vice president, business consulting, for Independent Advisor Services, responsible for providing support to advisors and their practices. He joined the Company in July 2007 following the acquisition of Mutual Service Corporation (MSC) and served as chief executive officer for MSC as well as for Associated Securities Corporation. Prior to that, he held senior positions at serveral financial services firms. 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 is our managing director, chief human capital officer. She is responsible for overseeing compensation and benefits, corporate communication, corporate real estate, human resources operations, human resources client consulting, and advisor and employee learning and development. Ms. Larsen joined us in May 2012 from the Federal Home Loan Bank/Office of Finance, where she served as the chief human resources officer from November 2009 to April 2012. 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.
William P. Morrissey, Jr. — Managing Director, Divisional President, Business Development
Mr. Morrissey has served as managing director and divisional president of Business Development for the Advisor and Institution Solutions business unit since January 2016. In this role, he has responsibility for attracting and recruiting new financial advisors and institutions to the firm and for driving the exploration of new markets and capabilities for growth across client groups. He also oversees the process for integrating new advisors into the firm. Prior to assuming this role, Mr. Morrissey served as managing director and divisional president of Independent Advisor Services and led business development and business consulting for all independent advisors and registered investment advisors from April 2014 to January 2016. Prior to being named managing director, Mr. Morrissey served as executive vice president of business development, Independent Advisor Services, responsible for recruiting new advisors and their practices from March 2004 to April 2014. He joined the Company in March 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. Before joining LPL Financial, Mr. Morrissey worked at Fidelity Investments for 17 years, most recently as senior vice president of institutional services. 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 serves as chair of our Risk Oversight Committee. She is responsible for company-wide risk management processes and controls, manages compliance and governance, and has a leading role in the Company's ongoing focus on enhancing its corporate risk profile. Ms. Oroschakoff has more than 20 years of financial services industry experience deeply rooted in legal, compliance, and risk management. She joined LPL Financial in September 2013 from Morgan Stanley, where she most recently served as managing director and Global Chief Risk Officer of the firm's Global Wealth Management Group from 2011 to 2013. Previously, while with Morgan Stanley, she served as chief administrative officer from 2010 to 2011, as well as Chief Compliance Officer from 2006 to 2010. Earlier in her career, Ms. Oroschakoff spent 11 years in a variety of legal and compliance roles at Morgan Stanley, 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. She also serves on a variety of industry committees. Ms. Oroschakoff earned a J.D. cum laude, Order of the Coif, 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 Advisor and Institution Solutions business unit. He leads distribution strategy for the advisory, brokerage, insurance, retirement, and financial planning businesses, helping advisors and institutions navigate an increasingly complex landscape of platforms, products, marketing programs, services, and tools. Prior to his promotion to managing director in June 2014, Mr. Parker served as executive vice president, Investment and Planning Solutions, which consisted of the teams providing advisory and brokerage product and platform expertise and financial planning. Prior to joining LPL Financial in April 2013, he was managing director, National Accounts and Business Development at Russell Investments, a 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. He joined Russell Investments in December 2007. Earlier in his career, he worked for Franklin Templeton and Putnam Investments. Mr. Parker 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 and in 2015 he also became responsible for corporate strategy. 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 November 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 2016 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	Form of Indemnification Agreement. (1)
10.4	2005 LPL Investment Holdings Inc. Stock Option Plan for Incentive Stock Options. (12)
10.5	2005 LPL Investment Holdings Inc. Stock Option Plan for Non-Qualified Stock Options. (12)
10.6	LPL Investment Holdings Inc. 2008 Stock Option Plan. (13)
10.7	Form of LPL Investment Holdings Inc. Stock Option Agreement granted under the LPL Investment Holdings Inc. 2008 Stock Option Plan. (14)
10.8	LPL Investment Holdings Inc. Advisor Incentive Plan. (15)
10.9	LPL Investment Holdings Inc. Financial Institution Incentive Plan. (13)
10.10	LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan. (16)

Exhibit No.	Description of Exhibit
10.11	Form of Senior Executive Stock Option Award granted under the LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan. (17)
10.12	Form of Senior Management Stock Option Award granted under the LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan. (17)
10.13	Form of Senior Executive Restricted Stock Unit Award granted under the LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan. (17)
10.14	Form of Senior Management Restricted Stock Unit Award granted under the LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan. (17)
10.15	Form of Employee Non-Qualified Stock Option Award granted under the LPL Financial Holdings Inc., 2010 Omnibus Equity Incentive Plan. (18)
10.16	Form of Employee Restricted Stock Unit Award granted under the LPL Financial Holdings Inc., 2010 Omnibus Equity Incentive Plan. (18)
10.17	Form of Advisor Restricted Stock Unit Award granted under the LPL Financial Holdings Inc., 2010 Omnibus Equity Incentive Plan. (18)
10.18	Form of Financial Institution Restricted Stock Unit Award granted under the LPL Financial Holdings Inc., 2010 Omnibus Equity Incentive Plan. (18)
10.19	Amended and Restated LPL Financial Holdings Inc. 2010 Omnibus Equity Incentive Plan. (19)
10.20	Amended and Restated LPL Financial Holdings Inc. Corporate Executive Bonus Plan. (19)
10.21	LPL Financial LLC Executive Severance Plan, amended and restated as of February 24, 2014. (18)
10.22	Form of Supplemental Restricted Stock Unit Award granted under the 2010 LPL Financial Holdings Inc. 2010 Omnibus Equity Incentive Plan. (18)
10.23	LPL Financial Holdings Inc. Non-Employee Director Compensation Policy. (20)
10.24	LPL Financial Holdings Inc. Non-Employee Director Deferred Compensation Plan.*
10.25	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. (21)

Exhibit No.	Description of Exhibit
10.26	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. (22)
10.27	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)
10.28	Third Amendment, Extension, and Incremental Assumption Agreement, dated as of November 20, 2015 by and among LPL Financial Holdings, Inc., LPL Holdings, Inc., certain subsidiaries, the several lenders from time to time party thereto, and JPMorgan Chase Bank, N.A. as Administrative Agent.*
10.29	Thomson Transaction Services Master Subscription Agreement dated as of January 5, 2009 between LPL Financial Corporation and Thomson Financial LLC. (23)†
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(20)†
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 Registration Statement on Form 10 filed on April 30, 2007.
(13) Incorporated by reference to the Form 8-K filed on February 21, 2008.
(14) Incorporated by reference to the Registration Statement on Form S-1 filed on June 4, 2010.
(15) Incorporated by reference to the Form S-8 filed on June 5, 2008.
(16) Incorporated by reference to Amendment No. 4 to the Registration Statement on Form S-1 filed on November 3, 2010.
(17) Incorporated by reference to the Form 10-K filed on February 26, 2013.
(18) Incorporated by reference to the Form 10-K filed on February 25, 2014.
(19) Incorporated by reference to the Form 8-K filed on May 15, 2015.
(20) Incorporated by reference to the Form 10-Q filed on July 30, 2014.
(21) Incorporated by reference to the Form 8-K filed on April 2, 2012.
(22) Incorporated by reference to the Form 8-K filed on May 13, 2013.
(23) 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 25, 2016

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 25, 2016
/s/ Matthew J. Audette Matthew J. Audette	Chief Financial Officer	February 25, 2016
/s/ Jeffrey R. Buchheister Jeffrey R. Buchheister	Chief Accounting Officer	February 25, 2016
/s/ Richard W. Boyce Richard W. Boyce	Director	February 25, 2016
/s/ John J. Brennan John J. Brennan	Director	February 25, 2016
/s/ Viet D. Dinh Viet D. Dinh	Director	February 25, 2016
/s/ Paulett Eberhart Paulett Eberhart	Director	February 25, 2016
/s/ Anne M. Mulcahy Anne M. Mulcahy	Director	February 25, 2016
/s/ James S. Putnam James S. Putnam	Director	February 25, 2016
/s/ James S. Riepe James S. Riepe	Director	February 25, 2016
/s/ Richard P. Schifter Richard P. Schifter	Director	February 25, 2016

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:

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Consolidated Financial Statements	
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Consolidated Statements of Income for the years ended December 31, 2015, 2014, and 2013	F-3
Consolidated Statements of Comprehensive Income for the years ended December 31, 2015, 2014, and 2013	F-4
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Consolidated Statements of Stockholders' Equity for the years ended December 31, 2015, 2014, and 2013	F-6
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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, 2015 and 2014 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, 2015. 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, 2015 and 2014, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2015, 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, 2015, 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 25, 2016 expressed an unqualified opinion on the Company’s internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

San Diego, California
February 25, 2016

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

	Years Ended December 31,		
	2015	2014	2013
REVENUES:			
Commission	$1,976,845	$2,118,494	$2,077,566
Advisory	1,352,454	1,337,959	1,187,352
Asset-based	493,687	476,595	430,990
Transaction and fee	401,948	369,821	361,252
Interest income, net of interest expense	19,192	18,982	17,887
Other	30,928	51,811	65,811
Total net revenues	4,275,054	4,373,662	4,140,858
EXPENSES:			
Commission and advisory	2,864,813	2,998,702	2,847,785
Compensation and benefits	440,049	421,829	400,967
Promotional	139,198	124,677	111,539
Depreciation and amortization	73,383	57,977	44,497
Amortization of intangible assets	38,239	38,868	39,006
Professional services	64,522	62,184	46,559
Occupancy and equipment	84,112	82,430	67,551
Brokerage, clearing, and exchange	52,516	49,015	45,059
Communications and data processing	46,871	43,823	43,075
Restructuring charges	11,967	34,652	30,186
Other	117,693	109,327	113,923
Total operating expenses	3,933,363	4,023,484	3,790,147
Non-operating interest expense	59,136	51,538	51,446
Loss on extinguishment of debt	—	3,943	7,962
INCOME BEFORE PROVISION FOR INCOME TAXES	282,555	294,697	291,303
PROVISION FOR INCOME TAXES	113,771	116,654	109,446
NET INCOME	$168,784	$178,043	$181,857
EARNINGS PER SHARE (NOTE 16)			
Earnings per share, basic	$1.77	$1.78	$1.74
Earnings per share, diluted	$1.74	$1.75	$1.72
Weighted-average shares outstanding, basic	95,273	99,847	104,698
Weighted-average shares outstanding, diluted	96,786	101,651	106,003

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
NET INCOME	$168,784	$178,043	$181,857
Other comprehensive income, net of tax:			
Unrealized gain on cash flow hedges, net of tax expense of $132, $722, and $72 for the years ended December 31, 2015, 2014, and 2013, respectively	179	1,137	115
Reclassification adjustment for realized (gain) loss on cash flow hedges included in professional services in the consolidated statements of income, net of tax expense (benefit) of $353, $198, and $0 for the years ended December 31, 2015, 2014, and 2013, respectively	(563)	(315)	—
Total other comprehensive income, net of tax	(384)	822	115
TOTAL COMPREHENSIVE INCOME	$168,400	$178,865	$181,972

See notes to consolidated financial statements.

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

	December 31,	
	2015	2014
ASSETS		
Cash and cash equivalents	$724,529	$412,332
Cash and securities segregated under federal and other regulations	671,339	568,930
Restricted cash	27,839	1,109
Receivables from:		
Clients, net	339,089	365,390
Product sponsors, broker-dealers, and clearing organizations	161,224	177,470
Advisor loans, net	148,978	120,325
Others, net	180,161	171,124
Securities owned:		
Trading — at fair value	11,995	13,466
Held-to-maturity	9,847	8,594
Securities borrowed	6,001	5,035
Income taxes receivable	—	84
Fixed assets, net	275,419	214,154
Goodwill	1,365,838	1,365,838
Intangible assets, net	392,031	430,704
Other assets	206,771	187,375
Total assets	$4,521,061	$4,041,930
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	$189,083	$180,099
Payables to clients	747,421	652,714
Payables to broker-dealers and clearing organizations	48,032	45,427
Accrued commission and advisory expenses payable	129,512	146,504
Accounts payable and accrued liabilities	332,492	289,426
Income taxes payable	8,680	—
Unearned revenue	65,480	64,482
Securities sold, but not yet purchased — at fair value	268	302
Senior secured credit facilities, net	2,188,240	1,625,195
Leasehold financing obligation	59,940	—
Deferred income taxes, net	36,303	66,181
Total liabilities	3,805,451	3,070,330
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 600,000,000 shares authorized; 119,572,352 shares and 118,234,552 shares issued at December 31, 2015 and 2014, respectively	119	118
Additional paid-in capital	1,418,298	1,355,085
Treasury stock, at cost — 30,048,027 shares and 21,089,882 shares at December 31, 2015 and 2014, respectively	(1,172,490)	(780,661)
Accumulated other comprehensive income	553	937
Retained earnings	469,130	396,121
Total stockholders' equity	715,610	971,600

Total liabilities and stockholders' equity	$4,521,061	$4,041,930

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, 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
						(384)	168,784	168,400

Net income and other comprehensive income, net of tax expense								
Issuance of common stock to settle restricted stock units	184	1		68	(3,019)			(3,018)
Treasury stock purchases				8,947	(390,835)			(390,835)
Cash dividends on common stock							(95,814)	(95,814)
Stock option exercises and other	1,153		30,966	(57)	2,025		39	33,030
Excess tax benefits from share-based compensation			3,034					3,034
Share-based compensation			29,213					29,213
BALANCE — December 31, 2015	119,572	$119	$1,418,298	30,048	$(1,172,490)	$553	$469,130	$715,610

See notes to consolidated financial statements.

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

	Years Ended December 31,		
	2015	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$168,784	$178,043	$181,857
Adjustments to reconcile net income to net cash provided by operating activities:			
Noncash items:			
Depreciation and amortization	73,383	57,977	44,497
Amortization of intangible assets	38,239	38,868	39,006
Amortization of debt issuance costs	3,405	3,973	4,365
Share-based compensation	29,213	27,579	24,672
Excess tax benefits related to share-based compensation	(3,810)	(8,685)	(7,172)
Provision for bad debts	2,542	2,432	2,021
Deferred income taxes	(30,153)	(24,100)	(28,943)
Loss on extinguishment of debt	—	3,943	7,962
Net changes in estimated fair value of contingent consideration obligations	—	—	12,676
Closure of NestWise	—	—	9,279
Loan forgiveness	37,658	28,409	21,006
Other	11,695	3,007	1,598
Changes in operating assets and liabilities:			
Cash and securities segregated under federal and other regulations	(102,409)	(56,579)	65,082
Deposit of restricted cash related to captive	(25,589)	—	—
Receivables from clients	26,081	7,628	(3,862)
Receivables from product sponsors, broker-dealers and clearing organizations	16,247	(3,400)	(21,120)
Advisor Loans	(28,653)	(21,434)	(9,677)
Receivables from others	(48,173)	(28,181)	(44,043)
Securities owned	144	(4,638)	(1,148)
Securities borrowed	(966)	2,067	2,346
Other assets	(30,714)	(45,523)	(19,458)
Drafts payable	8,984	(14,872)	(8,161)
Payables to clients	94,707	87,510	(184,301)
Payables to broker-dealers and clearing organizations	2,605	2,270	(9,874)
Accrued commission and advisory expenses payable	(16,992)	11,355	6,690
Accounts payable and accrued liabilities	39,686	(10,522)	48,127
Income taxes receivable/payable	12,574	4,281	14,916
Unearned revenue	998	(9,257)	11,931
Securities sold, but not yet purchased	(35)	91	(155)
Net cash provided by operating activities	279,451	232,242	160,117

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

	Years Ended December 31,		
	2015	2014	2013
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(72,565)	(89,648)	(78,239)
Purchase of goodwill and other intangible assets	—	(9,000)	—
Proceeds from disposal of fixed assets	10	7,123	—
Purchase of securities classified as held-to-maturity	(4,602)	(7,498)	(2,595)
Proceeds from maturity of securities classified as held-to-maturity	3,350	5,750	5,900
Deposits of restricted cash	(1,750)	(4,679)	(1,500)
Release of restricted cash	609	4,820	815
Proceeds from sale of equity investment	—	—	3,310
Purchases of minority interest investments	—	—	(2,500)
Net cash used in investing activities	(74,948)	(93,132)	(74,809)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from revolving credit facility	75,000	110,000	—
Repayments of revolving credit facility	(185,000)	—	—
Repayment of senior secured term loans	(9,221)	(10,838)	(866,579)
Proceeds from senior secured term loans	693,000	—	1,078,957
Payment of debt issuance costs	(13,258)	(4,876)	(2,461)
Payment of contingent consideration	—	(3,300)	—
Tax payments related to settlement of restricted stock units	(3,018)	(868)	—
Repurchase of common stock	(390,835)	(275,079)	(219,091)
Dividends on common stock	(95,814)	(95,616)	(68,008)
Excess tax benefits related to share-based compensation	3,810	8,685	7,172
Proceeds from stock option exercises and other	33,030	28,530	35,025
Net cash provided by (used in) financing activities	107,694	(243,362)	(34,985)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	312,197	(104,252)	50,323
CASH AND CASH EQUIVALENTS — Beginning of year	412,332	516,584	466,261
CASH AND CASH EQUIVALENTS — End of year	$724,529	$412,332	$516,584
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$51,114	$51,588	$51,712
Income taxes paid	$131,833	$139,315	$123,583
NONCASH DISCLOSURES:			
Capital expenditures included in accounts payable and accrued liabilities	$11,462	$8,184	$16,075
Fixed assets acquired under build-to-suit lease	$—	$8,114	$22,979
Finance Obligation related to real estate projects	$59,940	$—	$—
Discount on proceeds from senior secured credit facilities recorded as debt issuance costs	$7,000	$—	$4,893

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. The Company has established a wholly-owned series captive insurance entity that underwrites insurance for various legal and regulatory risks.

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.

Reclassifications

In the consolidated statements of income, the Company reclassified amortization of intangible assets out of depreciation and amortization. The amounts reclassified are presented in the consolidated statements of income for each of the three years ended December 31, 2015. The Company also reclassified receivables from advisor loans out of receivables from other receivables in the consolidated statements of financial condition. The amounts reclassified are presented in the consolidated statements of financial condition for the two years ended December 31, 2015. Also in the consolidated statements of financial condition the Company reclassified debt issuance costs as a direct

deduction from the carrying amount of the related debt liability

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
Management has determined that our company operates in one segment, given the similarities in economic characteristics between our operations and the common nature of our products and services, production and distribution process, 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 accrued commission and advisory expenes payable 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 firm pursuant to the Advisers Act or through their respective states' investment advisory licensing rules, rather than using the Company's corporate RIA platform. These stand-alone entities, or Hybrid RIAs, 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 Hybrid RIAs is earned by the advisors, and accordingly not included in the Company's advisory revenues.

The Company charges separate fees to Hybrid RIAs for technology, custody, administrative, and clearing services, primarily 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.

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, 2015, 2014, and 2013 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

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

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. Held within this account is approximately $100,000 for the proprietary accounts of introducing brokers.

Restricted Cash

Restricted cash primarily represents cash held by and for use by the Company's captive insurance subsidiary.

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, 2015 and 2014, $747.4 million and $646.4 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,	
	2015	2014
Beginning balance — January 1	$1,245	$588
Provision for doubtful accounts	219	657
Ending balance — December 31	$1,464	$1,245

Advisor Loans

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 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 eight years provided that the advisor remains licensed through LPL Financial. At

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

December 31, 2015, $94.5 million of the advisor loan balance 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. 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 for advisor loans (in thousands):

	December 31,	
	2015	2014
Beginning balance — January 1	$697	$—
Provision for doubtful accounts	—	697
Ending balance — December 31	$697	$697

Receivables From Others
Receivables from others primarily consist of accrued fees from product sponsors and amounts due from advisors. Management maintains an allowance for uncollectible amounts using an aging analysis that takes into account the specific type of receivable. 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,	
	2015	2014
Beginning balance — January 1	$8,379	$7,091
Provision for doubtful accounts	2,322	1,775
Charge-offs, net of recoveries	(845)	(487)
Ending balance — December 31	$9,856	$8,379

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, 2015, 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, 2015, the contract and collateral market values of borrowed securities were $6.0 million and $5.8 million, respectively. As of December 31, 2014, the contract and collateral market values of borrowed securities were $5.0 million and $4.9 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 year ended December 31, 2015, in conjunction with the Fortigent restructuring (see Note 3. Restructuring), the Company recorded an asset impairment charge of $0.4 million for certain fixed assets related to Fortigent leasehold improvements that were determined to no longer have future economic benefit. The $0.4 million asset impairment charge for the year ended December 31, 2015 is included in restructuring charges within the consolidated statements of income. During the year ended December 31, 2013, in conjunction with the SVC restructuring (see Note 3. Restructuring), the Company recorded an asset impairment charge of $0.8 million 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.

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, 2015, 2014, or 2013.

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. There was $0.4 million, $0, and $0 of impairment of definite-lived intangible assets recognized during the years ended December 31, 2015, 2014, and 2013, respectively.

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. In accordance with Accounting Standards Update ("ASU") 2015-03, Interest—Imputation of Interest, debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability. In accordance with ASU 2015-15, Interest—Imputation of Interest costs incurred while obtaining the revolving credit facility are included in other assets and subsequently amortized ratably over the term of the revolving credit facility, regardless of whether there are any outstanding borrowings on the revolving credit facility.

Derivative Financial Instruments

The Company uses derivative financial instruments, primarily 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 Financial Instruments

The Company’s financial assets and liabilities are carried at fair value or at amounts that, because of their short-term nature, approximate current fair value, with the exception of its held-to-maturity securities and indebtedness. 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, 2015, the carrying amount and fair value of the Company’s indebtedness was approximately $2,215.0 million and $2,200.0 million, respectively. As of December 31, 2014, the carrying amount and fair value was approximately $1,634.3 million and $1,620.8 million, respectively.

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.

Leasehold Financing Obligation

The Company is involved with the construction of a building for use as office space in Fort Mill, South Carolina and has determined that it has substantially all of the risks of ownership during construction of the leased

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property. Accordingly, from an accounting perspective, the Company is deemed to be the owner of the construction project. As such, the Company records an asset for the amount of the total project costs and an amount related to the value attributed to the building under construction in fixed assets and the related financing obligation in leasehold financing obligations on the consolidated statements of financial condition. Once construction is complete, the Company will determine if the asset qualifies for sale-leaseback accounting treatment.

Recently Issued Accounting Pronouncements

In December 2015, the Company early adopted ASU 2015-03, Interest—Imputation of Interest, which simplifies the presentation of debt issuance costs on the balance sheet by presenting debt issuance costs as a direct deduction from the carrying amount of the related debt liability as discussed in our significant accounting policy above. The presentation affects all years presented. The adoption of ASU 2015-03 did not have a material impact on its consolidated financial statements.

In August 2015, the Financial Accounting Standards Board ("FASB") issued ASU 2015-14, Revenue From Contracts with Customers (Topic 606), Deferral of the Effective Date, which defers the effective date of ASU 2014-09, Revenue from Contracts with Customers (Topic 606) to January 1, 2018 for the Company, with early adoption permitted as of January 1, 2017. The new guidance requires either a retrospective or a modified retrospective approach to adoption. The Company is currently evaluating the available transition methods and the potential impact on its consolidated financial statements and related disclosures.

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 was completed in 2015.

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, 2015 (in thousands):

	Accrued Balance at December 31, 2014	Costs Incurred	Payments	Accrued Balance at December 31, 2015	Cumulative Costs Incurred to Date
Outsourcing and other related costs	$—	$1,083	$(1,204)	$(121)	$22,571
Technology transformation costs	4,458	402	(4,778)	82	30,320
Employee severance obligations and other related costs	1,999	2,241	(3,659)	581	11,127
Asset impairments	—	—	—	—	842
Total	$6,457	$3,726	$(9,641)	$542	$64,860

In February 2015, the Company committed to a course of action to restructure the business of its subsidiary, Fortigent Holdings Company, Inc. (together with its subsidiaries, “Fortigent”). The Company acquired Fortigent, which provides outsourced wealth management solutions, in April 2012. The intention of the restructuring plan was to migrate Fortigent’s operations from Rockville, Maryland to the Company’s office in Charlotte, North Carolina, simplify and improve the efficiency of Fortigent’s existing service offerings, and position Fortigent to capitalize on the Company's future technology investments and service offerings for financial institutions and advisors focused on high-net-worth clients. This restructuring was completed in December 2015.

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The following table summarizes the balance of accrued expenses and the changes in the accrued amounts for the Fortigent restructuring as of and for the year ended December 31, 2015 (in thousands):

	Costs Incurred	Payments	Non-cash	Accrued Balance at December 31, 2015	Cumulative Costs Incurred to Date
Employee severance obligations and other related costs	$2,978	$(2,658)	$—	$320	$2,978
Relocation and related costs	2,650	(2,354)	—	296	2,650
Lease restructuring charges	793	(170)	(16)	607	793
Asset impairments	821	—	(821)	—	821
Total	$7,242	$(5,182)	$(837)	$1,223	$7,242

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, 2015 and 2014.

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, 2015, 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.

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, 2015, the Company did not adjust prices received from the independent third-party pricing services.

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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.
The following table summarizes the Company’s financial assets and financial liabilities measured at fair value on a recurring basis at December 31, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$252,393	$—	$—	$252,393
Securities owned — trading:				
Money market funds	261	—	—	261
Mutual funds	7,267	—	—	7,267
Equity securities	56	—	—	56
Debt securities	—	103	—	103
U.S. treasury obligations	4,308	—	—	4,308
Total securities owned — trading	11,892	103	—	11,995
Other assets	99,962	3,350	—	103,312
Total assets at fair value	$364,247	$3,453	$—	$367,700
Liabilities				
Securities sold, but not yet purchased:				
Mutual funds	$1	$—	$—	$1
Equity securities	267	—	—	267
Debt securities	—	—	—	—
Total securities sold, but not yet purchased	268	—	—	268
Accounts payable and accrued liabilities	—	—	527	527
Total liabilities at fair value	$268	$—	$527	$795

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The following table summarizes the Company’s financial assets and 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
Certificates of deposit	—	—	—	—
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 Company determines the fair value for its contingent consideration obligation using an income approach whereby the Company assesses the expected future performance of the acquired assets. The contingent payment is estimated using a discounted cash flow of the expected payment amount to calculate the fair value as of the valuation date. The Company's management evaluates the underlying projections and other related factors used in determining fair value each period and makes updates when there have been significant changes in management's expectations.

5. Held-to-Maturity Securities

The Company holds certain investments in securities, primarily U.S. government notes, which are recorded at amortized cost because the Company has both the intent and the ability to hold these investments to maturity. 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 amortized cost, gross unrealized loss, and fair value of securities held-to-maturity were as follows (in thousands):

	December 31,	
	2015	2014
Amortized cost	$9,847	$8,594
Gross unrealized loss	(26)	(14)
Fair value	$9,821	$8,580

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At December 31, 2015, 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	$4,999	$4,348	$500	$9,847
U.S. government notes — at fair value	$4,997	$4,327	$497	$9,821

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, 2015	2014
Receivables:		
Commissions receivable from product sponsors and others	$115,413	$122,207
Receivable from clearing organizations	35,991	38,873
Receivable from broker-dealers	4,719	10,814
Securities failed-to-deliver	5,101	5,576
Total receivables	$161,224	$177,470
Payables:		
Payable to clearing organizations	$17,046	$19,580
Payable to broker-dealers	27,455	20,208
Securities failed-to-receive	3,531	5,639
Total payables	$48,032	$45,427

7. Fixed Assets

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

	December 31, 2015	2014
Internally developed software	$273,900	$259,335
Leasehold improvements	101,333	95,846
Computers and software	116,696	95,406
Real estate development	59,940	—
Furniture and equipment	47,699	47,658
Land	4,731	4,743
Total fixed assets	604,299	502,988
Accumulated depreciation and amortization	(328,880)	(288,834)
Fixed assets, net	$275,419	$214,154

Depreciation and amortization expense was $73.4 million, $58.0 million, and $44.5 million for the years ended December 31, 2015, 2014, and 2013, respectively.

The $59.9 million of real estate development assets in the table above relate to the development project in Fort Mill, South Carolina, where the off-setting balance is presented in leasehold financing obligations on the consolidated statements of financial condition.

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8. Goodwill and Other Intangible Assets

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

Balance at December 31, 2013	$1,361,361
Goodwill acquired	4,477
Balance at December 31, 2014	$1,365,838
Goodwill acquired	—
Balance at December 31, 2015	$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.

The components of intangible assets were as follows at December 31, 2015 (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	10.0	$440,533	$(220,214)	$220,319
Product sponsor relationships	10.1	234,086	(113,530)	120,556
Client relationships	8.6	19,133	(8,556)	10,577
Trade names	6.3	1,200	(440)	760
Total definite-lived intangible assets		$694,952	$(342,740)	$352,212
Indefinite-lived intangible assets:				
Trademark and trade name				39,819
Total intangible assets				$392,031

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

Total amortization expense of intangible assets was $38.2 million, $38.9 million, and $39.0 million for the years ended December 31, 2015, 2014, and 2013, respectively. Future amortization expense is estimated as follows (in thousands):

2016	$38,035
2017	37,218
2018	34,786
2019	34,750
2020	34,358
Thereafter	173,065
Total	$352,212

9. Derivative Financial Instruments

In May 2013, 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 was reclassified out of accumulated other comprehensive income and recognized in net income ratably over a 12-month period ended May 31, 2015 to match the timing of the underlying hedged item. The second cash flow hedge, with a notional amount of 560.4 million INR, or $8.1 million, settled in June 2015. The Company received a settlement of $0.7 million, which will be reclassified out of accumulated other comprehensive income and recognized in net income ratably over a 12-month period ending May 31, 2016 to match the timing of the underlying hedged item.

The details related to the non-deliverable foreign currency contracts at December 31, 2015 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 #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				$15.3

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,	
	2015	2014
Cash flow hedges	$741	$1,179

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10. Accounts Payable and Accrued Liabilities

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

	December 31,	
	2015	2014
Advisor deferred compensation plan liability	$98,828	$73,447
Accrued compensation	61,468	66,816
Deferred rent	45,003	48,629
Accounts payable	19,883	4,699
Other accrued liabilities	107,310	95,835
Total accounts payable and accrued liabilities	$332,492	$289,426

11. Debt

Senior Secured Credit Facilities — On November 20, 2015, LPLFH and LPLH entered into a third amendment, extension, and incremental assumption agreement (the "Third Amendment") for purposes of raising capital, increasing the leverage allowable under the credit agreement and extending the maturity of a portion of the existing Term Loan B.

The Third Amendment amends the Company's credit agreement, originally dated as of March 29, 2012, as amended by the first amendment and incremental assumption agreement dated as of May 13, 2013, the second amendment, extension, and incremental assumption agreement dated as of October 1, 2014, and the consent to amendment dated as of November 21, 2014 (as amended by the Third Amendment, the "Credit Agreement"). Pursuant to the Third Amendment, certain lenders issued a new class of incremental term loans (the "New Term Loan B") in aggregate principal amount of $700.0 million, with a maturity date of November 20, 2022 and certain lenders extended the maturity date of a portion of the outstanding term loan B (the "Extended Term Loan B") from March 29, 2019 to March 29, 2021. In connection with the execution of the Third Amendment, the Company incurred $20.3 million in debt issuance costs, which will be amortized over the life of the New and Extended Term Loan B and is presented in the consolidated statement of financial condition as net against the total debt.

The Borrower’s outstanding borrowings were as follows (dollars in thousands):

		December 31,					
		2015			2014		
Senior Secured Credit Facilities	Maturity	Principal	Interest Rate		Principal	Interest Rate	
Revolving Credit Facility	9/30/2019	$—	—		$110,000	4.75	%
Senior secured term loans:							
Term Loan A	9/30/2019	459,375	2.74	%(1)	459,375	2.67	%
Existing Term Loan B	3/29/2019	424,676	3.25	%(2)	1,064,883	3.25	%
Extended Term Loan B	3/29/2021	630,986	4.25	%(3)	—	—	
New Term Loan B	11/20/2022	700,000	4.75	%(4)	—	—	
Total borrowings		2,215,037			1,634,258		
Less: Unamortized Debt Issuance Cost		26,797			9,063		
Long-term borrowings — net of unamortized debt issuance cost		$2,188,240			$1,625,195		

(1) The variable interest rate per annum is either (a) 150 bps over the base rate or (b) 250 bps over the LIBOR rate (subject to a leverage based grid)

(2) The variable interest rate per annum is either (a) 150 bps over the base rate or (b) 250 bps over the LIBOR rate (subject to a LIBOR floor of 75 bps)

(3)

The variable interest rate per annum is either (a) 250 bps over the base rate or (b) 350 bps over the LIBOR rate (subject to a LIBOR floor of 75 bps)

(4) The variable interest rate per annum is either (a) 300 bps over the base rate or (b) 400 bps over the LIBOR rate (subject to a LIBOR floor of 75 bps)

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As of December 31, 2015, the Borrower had $18.0 million of irrevocable letters of credit, with an applicable interest rate margin of 2.50%, which were supported by the credit facility.

The Credit Agreement subjects the Company, the Borrower, and its restricted subsidiaries to certain financial and non-financial covenants. As of December 31, 2015, the Company, the Borrower, and its restricted subsidiaries were 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. During the year ended December 31, 2015, the Company drew $55.0 million on one of the lines of credit, which was outstanding for one day at an interest rate of 1.50%. The lines were not otherwise utilized in 2015 and were not utilized in 2014. There were no balances outstanding at December 31, 2015 or 2014.

The minimum calendar year payments and maturities of the senior secured borrowings as of December 31, 2015 are as follows (in thousands):

2016	$17,677
2017	26,290
2018	52,130
2019	841,193
2020	13,310
Thereafter	1,264,437
Total	$2,215,037

12. Income Taxes

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

	December 31,		
	2015	2014	2013
Current provision:			
Federal	$123,633	$120,995	$119,327
State	20,291	19,759	19,062
Total current provision	143,924	140,754	138,389
Deferred benefit:			
Federal	(24,972)	(20,800)	(25,586)
State	(5,181)	(3,300)	(3,357)
Total deferred benefit	(30,153)	(24,100)	(28,943)
Provision for income taxes	$113,771	$116,654	$109,446

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,		
	2015	2014	2013
Federal statutory income tax rates	35.0 %	35.0 %	35.0 %
State income taxes, net of federal benefit	3.6	3.6	3.5
Non-deductible expenses	0.7	0.7	0.4
Share-based compensation	—	(0.1)	(0.1)
Business energy tax credit	—	—	(0.5)
Goodwill derecognition	—	—	1.2
Contingent consideration obligations	—	(0.1)	(1.5)
Other	1.0	0.5	(0.4)
Effective income tax rates	40.3 %	39.6 %	37.6 %

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The increase in the Company's effective tax rate and income tax expense in 2015 compared to 2014 was primarily due to change in estimates in unrecognized tax positions.

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

	December 31,	
	2015	2014
Deferred tax assets:		
Accrued liabilities	$66,750	$55,731
Share-based compensation	26,774	24,537
State taxes	8,387	8,500
Deferred rent	4,755	4,768
Provision for bad debts	5,316	4,192
Net operating losses	404	999
Captive Insurance	1,590	—
Other	11,867	4,339
Total deferred tax assets	125,843	103,066
Deferred tax liabilities:		
Amortization of intangible assets	(128,646)	(136,140)
Depreciation of fixed assets	(33,125)	(32,509)
Other	(375)	(598)
Total deferred tax liabilities	(162,146)	(169,247)
Deferred income taxes, net	$(36,303)	$(66,181)

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,		
	2015	2014	2013
Balance — Beginning of year	$20,987	$19,522	$19,867
Increases for tax positions related to the current year	4,404	4,656	3,972
Reductions as a result of a lapse of the applicable statute of limitations	(644)	(3,191)	(4,317)
Balance — End of year	$24,747	$20,987	$19,522

At December 31, 2015 and 2014, the gross unrecognized tax benefits included $17.6 million and $15.0 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, 2015 and 2014, the liability for unrecognized tax benefits included accrued interest of $3.0 million and $2.3 million, respectively, and penalties of $4.3 million and $3.7 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 2011 and all state income tax matters for years through 2006.

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The tax years of 2012 to 2015 remain open to examination in the federal jurisdiction. The tax years of 2007 to 2015 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 $2.1 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 $25.6 million, $30.1 million, and $19.4 million for the years ended December 31, 2015, 2014, and 2013, 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 a real estate project in Fort Mill, 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 $74.7 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.

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, 2015 (in thousands):

2016	$111,347
2017	58,387
2018	57,132
2019	38,649
2020	33,493
Thereafter	335,792
Total(1)	$634,800

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(1) Future minimum payments have not been reduced by minimum sublease rental income of $4.0 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.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
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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, 2015.
Legal & Regulatory Matters
The Company is 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. 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, except as otherwise covered by third-party insurance or self-insurance through the Captive Insurance subsidiary, as discussed below.
Third-Party Insurance
The Company maintains insurance coverage for certain potential 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.
Self-Insurance
The Company has self-insurance for certain potential liabilities through a wholly-owned captive insurance subsidiary that began operating in 2015. Liabilities associated with the risks that are retained by the Company are not discounted and are estimated by considering, in part, historical claims experience, severity factors, and other actuarial assumptions. The estimated accruals for these potential liabilities could be significantly affected if future occurrences and claims differ from such assumptions and historical trends. As of December 31, 2015, these self-insurance liabilities are included in accounts payable and accrued liabilities in the consolidated statements of financial condition. Self-insurance related charges are included in other expenses in the consolidated statements of income for the year ended December 31, 2015.
Other Commitments
As of December 31, 2015, the Company had received collateral, primarily in connection with client margin loans, with a market value of approximately $334.5 million, which it can repledge, loan, or sell. Of these securities, approximately $31.9 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, 2015 there were no restrictions that materially limited the Company's ability to repledge, loan, or sell the remaining $302.6 million of client collateral. Trading securities on the consolidated statements of financial condition includes $4.3 million and $4.0 million pledged to clearing organizations at December 31, 2015 and 2014, respectively.

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The Company is involved in a build-to-suit lease arrangement in Fort Mill, South Carolina, under which it serves as the construction agent on behalf of the landlord. Under such arrangement, the Company has obligations to fund cost over-runs in its capacity as the construction agent, and accordingly has determined that under lease accounting standards it bears substantially all of the risks and rewards of ownership as measured under GAAP. The Company is therefore required to report the landlord's costs of construction on its consolidated statements of financial condition as a fixed asset during the construction period as if the Company owned such asset. As of December 31, 2015, the Company has recorded $59.9 million in fixed assets in connection with this arrangement and an equal and off-setting leasehold financing obligation on the consolidated statements of financial condition.

14. Stockholders' Equity

Dividends

The payment, timing and amount of any dividends are subject to approval by the Board of Directors as well as certain limits under the Company's credit facilities. Cash dividends per share of common stock and total cash dividends paid on a quarterly basis were as follows (in millions, except per share data):

	2015		2014	
	Dividend per Share	Total Cash Dividend	Dividend per Share	Total Cash Dividend
First quarter	$0.25	$24.2	$0.24	$24.1
Second quarter	$0.25	$24.1	$0.24	$24.0
Third quarter	$0.25	$23.8	$0.24	$24.0
Fourth quarter	$0.25	$23.8	$0.24	$23.5

Share Repurchases

The Board of Directors approves 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 within the constraints of the Credit Agreement and general liquidity needs.

On October 25, 2015 the Board of Directors authorized an increase to the share repurchase program of up to $500.0 million shares of common stock. On November 24, 2015, the Company entered into an accelerated share repurchase agreement (ASR Agreement) with Goldman, Sachs and Co. to acquire $250.0 million of shares of common stock. On December 10, 2015, the Company entered into an early settlement agreement with Goldman Sachs and Co to settle and terminate the transaction. On December 15, 2015, Goldman delivered 5,622,628 shares of common stock. Of the delivered shares, 4,319,537 shares were from TPG Partners IV, L.P. ("TPG"), a related party, pursuant to a stock purchase agreement directly negotiated between Goldman and TPG. During the year ended December 31, 2015 the Company purchased a total of 8,947,680 shares of its common stock at a weighted-average price of $43.68. As of December 31, 2015 there is $250.0 million remaining in the share repurchase program.

15. Share-Based Compensation

Certain employees, advisors, institutions, officers, and directors of the Company participate in various long-term incentive plans, which 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.

In November 2010, the Company adopted a 2010 Omnibus Equity Incentive Plan (as amended and restated in May 2015, 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 20,055,945 shares authorized for grant under the 2010 Plan after amendment and restatement of the plan in May 2015. There were 5,003,283 shares reserved for issuance upon exercise or conversion of outstanding awards granted, and 12,993,267 shares remaining available for future issuance, under the 2010 plan as of December 31, 2015.

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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 and officers stock options that have been granted during the year ended December 31, 2015:

	Years Ended December 31,		
	2015	2014	2013
Expected life (in years)	5.30	6.02	6.25
Expected stock price volatility	25.78%	44.25%	45.03%
Expected dividend yield	2.30%	1.77%	1.72%
Risk-free interest rate	1.58%	2.17%	1.39%
Fair value of options	$8.81	$20.51	$12.05

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 used during the year ended December 31, 2015:

	Years Ended December 31,		
	2015	2014	2013
Expected life (in years)	5.25	6.82	6.24
Expected stock price volatility	25.91%	25.87%	40.99%
Expected dividend yield	2.35%	2.24%	1.89%
Risk-free interest rate	1.84%	1.96%	2.04%
Fair value of options	$12.12	$15.12	$25.92

The following table summarizes the Company's stock option and warrant activity at December 31, 2015:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding — December 31, 2014	6,287,410	$31.59		
Granted	1,168,508	$45.44		
Exercised	(1,119,137)	$27.67		
Forfeited	(620,293)	$39.78		
Outstanding — December 31, 2015	5,716,488	$34.31	6.13	$47,704
Exercisable — December 31, 2015	3,459,118	$29.78	4.90	$44,507
Exercisable and expected to vest — December 31, 2015	5,615,265	$34.14	6.09	$47,799

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The following table summarizes information about outstanding stock options and warrants as of December 31, 2015:

	Outstanding			Exercisable	
Range of Exercise Prices	Total Number of Shares	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$18.04 - \$23.02	941,445	3.47	\$21.36	941,445	\$21.36
\$23.41 - \$30.00	1,246,423	4.94	\$28.25	980,611	\$28.16
\$31.60 - \$32.33	1,056,895	6.68	\$31.88	555,362	\$31.91
\$34.01 - \$39.60	904,970	5.20	\$34.60	792,094	\$34.54
\$42.60 - \$54.81	1,566,755	8.88	\$48.36	189,606	\$53.92
	5,716,488	6.13	\$34.31	3,459,118	\$29.78

The Company recognized share-based compensation for stock options awarded to employees, and directors based on the grant date fair value over the requisite service period of the award, which generally equals the vesting period. The Company recognized share-based compensation related to the vesting of these awards of \$14.5 million, \$14.7 million, and \$12.7 million during the years ended December 31, 2015, 2014, and 2013, respectively. As of December 31, 2015, total unrecognized compensation cost related to non-vested stock options granted to employees, officers, and directors was \$10.5 million, which is expected to be recognized over a weighted-average period of 1.61 years.
The Company recognizes share-based compensation for stock options and warrants awarded to its advisors and to financial institutions based on the fair value of the awards at each reporting period. The Company recognized share based compensation of \$3.4 million, \$5.3 million, and \$9.2 million during the years ended December 31, 2015, 2014, and 2013, respectively, related to the vesting of stock options and warrants awarded to its advisors and financial institutions, which is classified within commission and advisory expense on the condensed consolidated statement of income. As of December 31, 2015, total unrecognized compensation cost related to non-vested stock options and warrants granted to advisors and financial institutions was \$3.5 million, which is expected to be recognized over a weighted-average period of 1.60 years.
Restricted Stock
The following summarizes the Company’s activity in its restricted stock awards and restricted stock units for the year ended December 31, 2015:

	Restricted Stock Awards		Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested — December 31, 2014	33,634	\$ 42.78	546,725	\$ 43.34
Granted	34,734	\$ 41.25	382,866	\$ 41.74
Vested	(26,892)	\$ 38.93	(183,929)	\$ 39.63
Forfeited	—	\$ —	(108,961)	\$ 44.12
Nonvested — December 31, 2015	41,476	\$ 43.99	636,701	\$ 43.32
Expected to vest — December 31, 2015	41,046	\$ 44.02	585,248	\$ 43.43

The Company recognizes share-based compensation for restricted stock awards and restricted stock units granted to its employees, officers, and directors based on the grant date fair value over the requisite service period of the award, which generally equals the vesting period. The Company recognized \$8.3 million, \$6.1 million, and \$2.5 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, 2015, 2014, and 2013, respectively, which is included in compensation and benefits expense on the condensed consolidated statements of income. As of

December 31, 2015, total unrecognized compensation cost for the restricted stock units granted to

employees, officers, and directors was $11.3 million, which is expected to be recognized over a weighted-average remaining period of 1.90 years.

The Company began granting restricted stock units to its advisors and to financial institutions in the second quarter of 2014. The Company recognizes share-based compensation for restricted stock units granted to its advisors and to financial institutions based on the fair value of the awards at each reporting period. The Company recognized share-based compensation of $2.5 million and $1.0 million related to the vesting of these awards during the years ended December 31, 2015 and December 31, 2014, respectively, which is classified within commission and advisory expense on the condensed consolidated statement of income. As of December 31, 2015, total unrecognized compensation cost for restricted stock units granted to advisors and financial institutions was $5.9 million, which is expected to be recognized over a weighted-average remaining period of 2.01 years.

16. Earnings per Share

Basic earnings per share is computed by dividing net income available to common stockholders by the 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. The calculation of basic and diluted earnings per share for the years noted was as follows (in thousands):

	Years Ended December 31,		
	2015	2014	2013
Net income	$168,784	$178,043	$181,857
Basic weighted-average number of shares outstanding	95,273	99,847	104,698
Dilutive common share equivalents	1,513	1,804	1,305
Diluted weighted-average number of shares outstanding	96,786	101,651	106,003
Basic earnings per share	$1.77	$1.78	$1.74
Diluted earnings per share	$1.74	$1.75	$1.72

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, 2015, 2014, and 2013, stock options, warrants, and restricted stock units representing common share equivalents of 2,223,886 shares, 864,488 shares, and 3,440,171 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 2015, 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 2014 and 2013, contributions were made in an amount equal to 65% and 50%, of the first 8% and 10% of an employee's designated deferral of their eligible compensation respectively. The Company’s total cost related to the 401(k) plan was $9.9 million, $8.7 million, and $6.3 million for the years ended December 31, 2015, 2014, and 2013, 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).

In January 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 $98.8 million at December 31, 2015, 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 $98.5 million at December 31, 2015, 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, 2015, the Company has recorded assets of $2.1 million and liabilities of $0.9 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 certain portfolio companies of TPG Capital, a 9.8% shareholder of the Company's common stock, and LPL Financial Foundation. During the years ended December 31, 2015, 2014, and 2013 the Company recognized revenue for services provided to these TPG Capital portfolio companies of $0.6 million, $1.0 million, and $0.5 million, respectively. The Company incurred expenses for the services provided by certain of the TPG portfolio companies and LPL Foundation of $6.8 million, $4.2 million, and $0.6 million, during the years ended December 31, 2015, 2014 and 2013 respectively. As of December 31, 2015 and 2014, payables to related parties were less than $0.2 million and less than $0.5 million, respectively, and receivables from related parties were $0.0 and less than $0.2 million, respectively.

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, as of December 31, 2015, had net capital of $104.0 million with a minimum net capital requirement of $6.6 million.

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, 2015 and 2014, 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)

	2015			
	(In thousands, except per share data)			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Net revenues	$1,109,302	$1,090,661	$1,054,745	$1,020,346
Net income	$50,678	$50,242	$41,052	$26,812
Basic earnings per share	$0.52	$0.52	$0.43	$0.29
Diluted earnings per share	$0.52	$0.52	$0.43	$0.28
Dividends declared per share	$0.24	$0.24	$0.24	$0.24

	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

22. Subsequent Event

On February 23, 2016, 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 14, 2016 to all stockholders of record on March 4, 2016.

During the period January 1, 2016 through February 25, 2016, the Company has purchased 634,651 shares of its common stock at a weighted-average price of $39.41.

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