LPL Financial Holdings Inc.
Form 10-K
February 26, 2013

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, 2012
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 29, 2012, the aggregate market value of the voting stock held by non-affiliates of the registrant was $1.8 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 15, 2013 was 106,461,061.

DOCUMENTS INCORPORATED BY REFERENCE

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

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WHERE YOU CAN FIND MORE INFORMATION

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in Item 7 - “Management's Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this Annual Report on Form 10-K regarding the Company's future financial and operating results, growth, business strategy, projected costs, plans, liquidity, ability and plans to repurchase shares and pay dividends in the future, including statements regarding projected savings, projected expenses and anticipated improvements to the Company's operating model, services, and technology as a result of the Service Value Commitment, as well as any other statements that are not 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, 2013. The words “anticipates,” “believes,” “expects,” “may,” “plans,” “predicts,” “will” and similar expressions a intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future results, plans, intentions or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive and other factors, which may cause actual financial or operating results, levels of activity, or the timing of events, to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in general economic and financial market conditions, including retail investor sentiment; fluctuations in the value of assets under custody; effects of competition in the financial services industry; changes in the number of the Company's financial advisors and institutions, and their ability to market effectively financial products and services; changes in interest rates and fees payable by banks participating in the Company's cash sweep program, including the Company's success in negotiating agreements with current or additional counterparties; the Company's success in integrating the operations of acquired businesses; execution of the Company's plans related to the Service Value Commitment, including the Company's ability to successfully transform and transition business processes to third party service providers; the Company's success in negotiating and developing commercial arrangements with third party service providers that will enable the Company to realize the service improvements and efficiencies expected to result from the Service Value Commitment; the performance of third party service providers to which business processes are transitioned from the Company; the Company's ability to control operating risks, information technology systems risks and sourcing risks; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by self-regulatory organizations; and the other factors set forth in Part I, Item 1A - “Risk Factors”. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this annual report, even if its estimates change, and you should not rely on statements contained herein as representing the Company's views as of any date subsequent to the date of this annual report.

PART I

Item 1. Business

General Corporate Overview

We are the nation's largest independent broker-dealer, a top custodian for registered investment advisors ("RIAs"), and a leading independent consultant to retirement plans. We provide an integrated platform of brokerage and investment advisory services to more than 13,300 independent financial advisors and financial advisors at approximately 700 financial institutions (our "advisors") throughout the United States, enabling them to provide their retail investors (their "clients") with objective, conflict-free financial advice. We also support more than 4,500 financial advisors who are affiliated and licensed with insurance companies through customized clearing services, advisory platforms and technology solutions.

We support a diverse client base through our subsidiary companies. LPL Financial LLC ("LPL Financial") is a clearing broker-dealer and an investment advisor that principally transacts business as an agent for our advisors on behalf of their clients through a broad array of financial products and services. Fortigent, LLC is a leading provider of solutions and consulting services to RIAs, banks and trust companies that serve high-net-worth clients. The Private Trust Company, N.A. ("PTC") manages trusts for high-net worth-clients in all 50 states. Our newest subsidiary, NestWise LLC (“NestWise”), supports the recruitment and development of new-to-the-industry financial advisors focused on serving the mass market under the fee-based, independent model.

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

For over 20 years we have served and supported the independent advisor market. We are a market leader with the largest independent advisor base and we believe we have the fourth largest overall advisor base in the United States. Through our advisors, we are also one of the largest distributors of financial products in the United States with over $62 billion in sales of mutual funds, annuities and advisory services. Our significant scale combined with our differentiated focus on the independent market has created a competitive advantage that enables ongoing growth through the attraction and retention of advisors. We are also able to continually reinvest in and improve resources to help our advisors manage the increasing complexity of the financial advisory and brokerage business, improve productivity and achieve their own goals for long-term growth. We currently have approximately 2,900 employees with primary offices in Boston, Charlotte and San Diego.

Our Business

We believe that independent, objective financial guidance is a fundamental need for everyone. To fulfill that need, we enable our advisors to focus on what they do best — build personal, long-term client relationships that serve as the foundation for turning life's aspirations into financial realities. With our support, our advisors are able to provide their clients with high quality independent financial advice and investment solutions. We help our advisors manage the complexity of their businesses by providing a comprehensive integrated technology platform, customized custody and clearing services and an open-architecture product platform that offers financial management and investments solutions from over 600 providers with no proprietary products of our own. Because we do not offer proprietary products, we enable the independent financial advisors, banks and credit unions with whom we partner to offer their clients truly objective, conflict-free advice.

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

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

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

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ongoing account management — all services for which we receive fees. In addition, we generate revenues from advisor- and technology-related fees.

Our Advisor Relationships

Serving clients in communities across the U.S., our advisors build long-term relationships with their clients by guiding them through the complexities of investment decisions, retirement solutions, financial planning and wealth-management. Our advisors support approximately 4.3 million client accounts. Our services support the evolution of our advisors' businesses over time and are designed to change as our advisors' needs change.

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

Advisors licensed with LPL Financial 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. These advisors are registered with LPL Financial and enter into a representative agreement that establishes the duties and responsibilities of each party. Pursuant to the representative agreement, each advisor makes a series of representations, including that the advisor will disclose to all clients and prospective clients that the advisor is acting as LPL Financial's registered representative or investment advisory representative, that all orders for securities will be placed through LPL Financial, that the advisor will sell only products LPL Financial has approved and that the advisor will comply with LPL Financial policies and procedures as well as securities rules and regulations. These advisors also agree not to engage in any outside business activity without prior approval from us and not to act as an agent for any of our competitors.

In return for the services we provide to advisors, including, among others, transaction processing and technology services to support their daily activities, we typically retain a range of 10 to 15 percent of the commission and advisory revenue generated by our advisors and pay out the remaining 85 to 90 percent directly to them. In addition, advisors pay certain fees directly to us relating to technology and platform access, insurance coverage and licensing fees. The registered representative agreement is terminable by us or the advisor without cause on 30 days notice and by us for cause immediately upon notice.

LPL Financial also supports over 190 stand-alone RIA practices ("Independent RIAs") with over 1,900 advisors who conduct their advisory business through separate entities by establishing their own RIAs, rather than using our corporate RIA. These Independent RIAs engage us for technology, clearing, regulatory and custody services, as well as access to certain of our investment platforms. These advisors retain 100% of their advisory fees. In return, we charge separate fees for custody, trading and support services to the Independent RIAs. In addition, Independent RIAs seeking to operate a dually-registered model carry their brokerage license exclusively with LPL Financial and access our fully-integrated brokerage platform under standard terms.

Our advisors average over 14 years of industry experience. This level of industry experience allows LPL Financial to focus on supporting and enhancing our advisors' businesses without needing to provide basic training or subsidizing advisors who are new to the industry. Our independent advisors join us from a broad range of firms including wirehouses, regional and insurance broker-dealers, banks and other independent firms. Our flexible business platform allows our advisors to choose the most appropriate business model to support their clients, whether they conduct brokerage business, offer brokerage and fee-based services on our corporate RIA platforms or provide fee-based services through their own RIAs.

The majority of our advisors are entrepreneurial independent contractors who deliver their services through over 4,000 branch offices. They are primarily located in rural and suburban areas and as such are viewed as local providers of independent advice. Approximately 78% of these advisors operate under their own business name. We assist these advisors with their own branding, marketing and promotion and regulatory review.

In addition, we believe we are the market leader in providing support to over 2,100 financial advisors at approximately 700 banks and credit unions nationwide. For these institutions, whose core capabilities may not include investment and financial planning services, or who find the technology, infrastructure and regulatory requirements to be cost prohibitive, we provide their financial advisors with the services they need to be successful, allowing the institutions to focus more energy and capital on their core businesses. In addition, we have expanded our technology and wealth management solutions to support trust departments enabling them to more efficiently manage their assets. A subset of our advisors provides advice and serves group retirement plans primarily for small and mid-size businesses. These approximately 1,400 advisors serve over 19,600 retirement plans representing $46.4 billion in retirement plan assets. LPL Financial provides these advisors with marketing tools and technology capabilities, which are geared towards retirement solutions.

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

Through our acquisition of Fortigent Holdings Company, Inc. and its subsidiaries ("Fortigent") in 2012, we provide unique solutions and consulting services aimed to assist RIAs, banks and trust companies serving high-net-worth clients by providing them with sophisticated investment advice and helping them build their wealth management practices.

Through our launch of NestWise, and in conjunction with our acquisition of Veritat Advisors, Inc. ("Veritat"), we are able to combine a robust financial planning tool with the LPL Financial advisory platform to provide a set of services to advisors who are new to the industry and who are dedicated to serving mass-market clients.

Our Value Proposition

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

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

Integrated Technology Solutions

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

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

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

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

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

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

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

Comprehensive Clearing and Compliance Services

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

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

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

All of these services are backed by our service center and operations organizations focused on providing timely, accurate and consistent support, with each employee committed to delivering best-in-class service. This shared commitment allows us to meet our advisors' needs so they can best serve their clients.

Service360, a service paradigm available to the majority of our advisors and Independent RIAs, offers a small team-based approach to assisting advisors, in which experienced support teams are dedicated to working with a defined set of advisors. This service model creates further efficiencies for advisors, with a heightened emphasis on accountability and empowerment within our service teams. Service360 currently serves over 8,600 advisors.

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

Our team of approximately 310 risk and compliance employees assist our advisors through:

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

Practice Management Programs and Training

Our practice management programs are designed to help financial advisors in independent practices and financial institutions, as well as all levels of financial institution leadership, enhance and grow their businesses. Our experience gives us the ability to benchmark the best practices of successful advisors and develop customized recommendations to meet the specific needs of an advisor's business and market. Because of our scale, we are able to dedicate an experienced group of approximately 155 practice management professionals who counsel our advisors to build and better manage their business and client relationships through one-on-one support as well as group training. In addition, we hold over 125 conferences and group training events around the country annually for the benefit of our advisors.

Our practice management and training services include:

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

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

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

Independent Research

We provide our advisors with integrated access to comprehensive research on a broad range of investments and market analysis, including on mutual funds, separate accounts, alternative investments and annuities, asset allocation strategies, financial markets and the economy. We take our research and create packaged, discretionary portfolios, for which we serve as a portfolio manager, that are available through the LPL Financial turnkey advisory asset management platforms. Our research team consists of approximately 35 professionals with an average of 10 years of industry experience providing unbiased and conflict-free advice. Our research operation is designed to empower our advisors to provide their clients with thoughtful advice in a timely manner. Our research team actively works with our product due diligence group to effectively scrutinize the financial products offered through our platform. Our lack of proprietary products or investment banking services helps ensure that our research remains unbiased and objective. A substantial portion of our research is approved by our Marketing Regulatory Review organization for use with clients, allowing our advisors to leverage these materials to help clients understand complex investment topics and make informed decisions.

Our research enables advisors to:

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

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

We also offer independent investment research through our wholly-owned subsidiary, Fortigent. Fortigent's research team consists of approximately 11 dedicated professionals who provide objective advice and guidance on macro-economic analysis, capital markets assumptions, and strategic and tactical asset allocation. Fortigent also provides robust third-party asset manager search, selection, and monitoring services for both traditional and alternative strategies across all investment access points (ETFs, mutual funds, separately managed accounts, Unified Managed Accounts, Registered Investment Companies and limited partnerships). Fortigent's targeted client base are independent advisors (RIAs), banks, and trust companies which target primarily taxable high net worth investors and families. In addition, Fortigent also provides model management services for both traditional and alternative investment portfolios.

Our Economic Value Proposition

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

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

Our Product and Solution Access

We do not manufacture any financial products. Instead, we provide our advisors open architecture access to a broad range of commission, fee-based, cash and money market products and services. Our product due diligence group conducts extensive diligence on substantially all of our product offerings, including annuities, mutual funds, exchange-traded funds, alternative investments and real estate investment trusts. Our platform provides access to over 8,900 financial products, manufactured by over 690 product sponsors. Typically, we enter into arrangements with these product sponsors pursuant to the sponsor’s standard distribution agreement.

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

The following table presents a breakdown of the assets of advisors we provide advisory and brokerage services to as of December 31, 2012 (dollars in billions):

	Total Assets	Brokerage	Advisory
Independent advisors' assets custodied by LPL Financial	$332.4	$231.7	$100.7
Independent RIAs' assets custodied by LPL Financial	40.9	19.5	21.4
Total advisors' assets custodied by LPL Financial	$373.3	$251.2	$122.1

The Independent RIA firms supported have the ability to conduct investment advisory business using our platform and tools, or carry a dual license to support brokerage accounts as well.

Of the $122.1 billion of advisory assets under custody, approximately $87.7 billion are mutual funds. In 2012, advisory sales, which are measured as gross flows into new and existing accounts, of over $35 billion were generated, of which approximately 70% of gross flows were allocated to mutual funds. Brokerage sales were over $26 billion, including over $10 billion in mutual funds and $14 billion in annuities. This sales volume is illustrative of our scale and significant distribution capabilities, as we can offer leading products and services with attractive economics to our advisors.

Commission-Based Products

Commission-based products are those for which we and our advisors receive an upfront commission and, for certain products, a trailing commission. Our brokerage offerings include variable and fixed annuities, mutual funds, general securities, alternative investments, retirement and 529 education savings plans, fixed income and insurance. Our insurance offering is provided through LPL Insurance Associates, Inc. (“LPLIA”), a brokerage general agency which provides personalized advance case design, point-of-sale service and product support for a broad range of life, disability and long-term care products. As of December 31, 2012, the total assets in our commission-based products were approximately $251.2 billion.

Fee-Based Advisory Platforms and Support

We have been an innovator in fee-based advisory solutions since the introduction of our Strategic Asset Management platform in 1991. Today, LPL Financial has five fee-based advisory platforms that provide centrally managed or customized solutions from which advisors can choose to meet the investment needs of their mass affluent and high-net-worth clients. The fee structure aligns the interests of our advisors with their clients, while establishing a valuable 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 no-load, institutional money managers and multi-manager variable annuities. As of December 31, 2012, the total assets under custody in these platforms were $122.1 billion.

Cash Sweep Programs

We assist our advisors in managing their clients’ cash balances through two primary cash sweep programs depending on account type: a money market sweep vehicle involving money market fund providers and an insured bank deposit sweep vehicle. Our insured bank deposit sweep vehicle allocates client cash balances across multiple non-affiliated banks to provide advisors with up to $1.5 million ($3.0 million joint) of insurance through the Federal Deposit Insurance Corporation (“FDIC”). As of December 31, 2012, the total assets in our cash sweep programs, which are held within brokerage and advisory accounts, were approximately $24.7 billion, with $8.4 billion held in a money market sweep vehicle and $16.3 billion in an insured bank deposit sweep vehicle.

Retirement Services

We offer a retirement solution that is fee-based and allows qualified advisors to provide consultation and advice to plan sponsors using our corporate RIA. Our retirement solution also provides for commission-based services and offers a comprehensive suite of products and services that has been instrumental in gaining new and larger retirement plan business. This year, we launched our Individual Retirement Account ("IRA") rollover desk, furnishing our advisors with the ability to service IRA rollovers in an efficient and compliant manner. Our advisors, whether through our corporate RIA or through their own independent RIA, serve over 19,600 retirement plans representing $46.4 billion in retirement plan assets. These retirement plan assets are custodied with 26 third-party providers of retirement plan administrative services who provide us with reporting feeds. There are additional retirement plan assets supported by our advisors, custodied with third party providers who do not provide reporting feeds to us, and we estimate the total assets in retirement plans (including such additional assets) served by our advisors to be between $70.0 billion and $85.0 billion.

Other Services

We provide a number of tools and services that enable advisors to maintain and grow their practices. Through our subsidiary, The Private Trust Company N.A. ("PTC"), we provide administrative and custodial services to trusts for estates and families. Under our unique model, an advisor may provide the trust with investment management services. We are also an industry leader in providing open architecture investment management solutions to trust departments of financial institutions through Concord Capital Partners, Inc. and its subsidiaries ("Concord" or "CCP"). At December 31, 2012, Concord supported $12.0 billion in trust assets for 64 institutions.

In addition, we are a leading provider of solutions and consulting services to registered investment advisors, banks and trust companies that serve high-net-worth clients through Fortigent. At December 31, 2012, $59.1 billion of assets were supported by Fortigent. The assets supported by Concord and Fortigent are not custodied by LPL Financial and are therefore not included in our reported brokerage and advisory assets.

Our Financial Model

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

- Our revenues stem from diverse sources, including advisor-generated commission and advisory fees as well as fees from product manufacturers, recordkeeping, cash sweep balances and other ancillary services. They are not concentrated by advisor, product or geography. For the year ended December 31, 2012, no single relationship with our independent advisor practices, banks, credit unions, or insurance companies accounted for more than 3% of our net revenues, and no single advisor accounted for more than 1% of our net revenues.

- Furthermore, a majority of our revenue base is recurring in nature, with over 65% recurring revenue in 2012.

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

- The largest variable component of our cost base is directly linked to revenues generated by our advisors. Furthermore, the payout percentages are tied to advisor productivity levels.
- We actively manage our expense base in order to achieve efficient, scalable and sustainable growth.
- A proportion of our revenues, such as software licensing and account and client fees, are not correlated with the equity financial markets.
- Our operating model is scalable and can deliver expanding profit margins over time.
- We are able to operate with low capital expenditures and limited capital requirements, and as a result generate substantial free cash flow, which we have committed to investing in our business as well as returning value to shareholders. During 2012, we used cash flows to fund $199.2 million of share repurchases and to pay a $222.6 million special dividend and $26.2 million in quarterly dividends.
- We continue to invest in our business during difficult market conditions to position us for long-term growth.

Our Competitive Strengths

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

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

- Unique Value Proposition for:

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

- Institutions. We provide solutions to financial institutions, such as regional banks, credit unions and insurers, who seek to provide a broad array of services for their clients. We believe many institutions find the technology, infrastructure and regulatory requirements associated with delivering financial advice to be cost-prohibitive. We provide comprehensive solutions that enable financial advisors at these institutions to offer financial advice.
- Flexibility of Our Business Model. Our business model allows our advisors the freedom to choose how they conduct their business, which helps us attract and retain advisors from multiple channels, including wirehouses, regional broker-dealers and other independent broker-dealers. Our accommodating platform serves a variety of independent advisor models, including independent financial advisors, RIAs and Independent RIAs. The flexibility of our business model makes it easy for our advisors to transition among independent advisor models and product mix as their business evolves and preferences change within the market. Our business model provides advisors with a multitude of customizable service and technology offerings, which allows them to increase their efficiency, focus on their clients and grow their practice.

- Ability to Serve over 90% of Retail Assets. Our historic focus has been on advisors who serve the mass-affluent market (investors with $100,000 or greater in investable assets). We have designed and integrated all aspects of our platforms and services to profitably meet the needs of these advisors. We believe there continues to be an attractive opportunity in the mass-affluent market, in part because wirehouses have not typically focused on this space. Although we have grown through our focus in this area, the flexibility of our platform, along with our acquisition of Fortigent, allowed us to expand our breadth of services to better support the high-net-worth market. As of December 31, 2012, our advisors supported accounts with more than $1 million in assets that in the aggregate represented $63.5 billion in advisory and brokerage assets, 17.0% of our total assets custodied. Although our advisors average production is typically below that of some of the wirehouse channel firms, our array of integrated technology and services can support advisors with significant production and can compete directly with wirehouses and custodians. In addition to these markets, with the launch of NestWise, we now serve a broad based set of financial needs for mass market families and investors through independent fee-based financial advisors. Based on Cerulli Associates' wealth tiers, our growth and expansion now allows us to serve each tier between the mass market and high-net-worth market, accounting for approximately 92% of retail assets.

- Experienced and Committed Senior Management Team. We have an experienced and committed senior management team that provides stable leadership and strategic vision for our business. On average, our senior management has 23 years of industry experience. The team has a proven track record of success as demonstrated in the company's financial performance through the recent market downturn. Having played a significant role in the building out of the business, senior management also has a fundamental and thorough understanding of the operations. The management team is aligned with stockholders and holds significant equity ownership in the company.

Our Sources of Growth

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

Favorable Industry Trends

- Growth in Investable Assets. According to Cerulli Associates, over the next four years, assets under management for the market segments in the United States that we address are anticipated to grow at 8.9% per year and retirement assets are expected to grow 7.7% per year (in part due to the retirement of the baby boomer generation and the resulting assets which are projected to flow out of retirement plans and into individual retirement accounts). In addition, individual retirement account ("IRA") assets are projected to grow from $5.6 trillion as of 2012 to $7.9 trillion by 2016. In addition to the retirement of the baby boomer generation, there is a general need in the United States for greater and smarter retirement savings as well as increased regulatory pressures on 401(k) plan sponsors.

(1) Cerulli Quantitative Update - The State of U.S. Retail and Institutional Asset Management, 2011 and Cerulli Quantitative Update - Retail Investor Product Usage 2012.

(2) Cerulli Quantitative Update - Retirement Markets, 2012.

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

Executing Our Growth Strategies

- Attracting New Advisors to Our Platform. We intend to grow the number of advisors — either those who are independent or who are aligned with financial institutions — who are served by our platform. We have only 4.1% market share of the approximately 320,000 financial advisors in the United States, according to Cerulli Associates, and we have the ability to attract seasoned advisors of any practice size and from any channel, including wirehouses, regional broker-dealers and other independent broker-dealers.

Channel	Advisors	Market Share
Independent Broker-Dealer(1)	79,802	25.2%
Insurance Broker-Dealer	88,524	28.0%
Wirehouse	51,450	16.3%
Regional Broker-Dealer	33,368	10.6%
RIA(2)	28,714	9.1%
Bank Broker-Dealer	15,793	5.0%
Dually registered RIAs	18,457	5.8%
Total	316,108	100%

(1) The Independent Broker-Dealer ("IBD") Channel, including dually-registered IBDs, totals 98,259 advisors and accounts for a market share of 31.1%.
(2) The RIA Channel, including dually-registered RIAs, totals 47,171 advisors and accounts for a market share of 14.9%.

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

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

eSignature	Advisor Essentials	Social Media	Retirement U
Our advisors and their clients are now able to provide electronic signatures securely—at no cost—on the most commonly used operational forms allowing for increased efficiency, a reduction in paper and an enhanced execution experience for all.	A strategic educational curriculum designed to help advisors create and run a profitable and productive practice. This program is tailored for advisors new to the business, staff on a career path to become a financial advisor, or producers who have not yet reached a club level at LPL Financial.	A new platform to help our advisors harness the power of social networking on three levels: begin learning how to use social media to augment their marketing efforts, connect with their clients and prospects by sharing valuable content to grow their network, and enhance their efforts by tracking activity and improving results. The Content Library includes articles on a variety of topics that advisors can post directly to their social media site.	A strategic educational curriculum that provides advisors and staff members with the training they need to access and effectively utilize Retirement resources of LPL Financial. The program is designed to enhance knowledge in the following four areas: Client Service, Office Management, Technology, Sales & Marketing.

- Opportunities for Strategic, Value-Creating Acquisitions. We have a proven history of expanding our business through opportunistic acquisitions. Over the past two years, we have successfully completed four transactions providing scale and entry to adjacent markets. While we remain opportunistic in approaching any future acquisitions, our need to acquire scale or additional capabilities has largely been met. We will continue to evaluate acquisition opportunities based on strategic merit and the ability to create value for our shareholders. Our scalable business model and operating platform make us an attractive acquirer in a fragmented and consolidating market.

Competition

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

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

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

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

Employees
As of December 31, 2012, we had 2,917 full-time employees. None of our employees are subject to collective bargaining agreements governing their employment with us. Our continued growth is dependent, in part, on our ability to recruit and retain talented employees. That is why we strive to provide an environment conducive to learning, growth, satisfaction and achievement. We offer ongoing learning opportunities and programs that empower employees to drive their development and careers. Our work environment provides employees with opportunities to collaborate and share their knowledge and insights with peers, managers and stakeholders. Through these initiatives, we work to help all employees to be engaged and empowered.
Our Corporate Structure
LPL Financial Holdings Inc. is the parent company of our collective businesses. Our broker-dealer subsidiary, LPL Financial, was formed in 1989. In 2005, investment funds affiliated with TPG Capital and Hellman & Friedman LLC (collectively, the “Sponsors”) acquired a majority ownership stake in LPL Financial Holdings Inc., with the remaining interest owned primarily by our founders, senior management and advisors. Currently, investment funds affiliated with our Sponsors collectively own 43.1% of our common stock.
In recent years we have grown our business through a number of opportunistic acquisitions. We strengthened our position as a leading independent broker-dealer through our 2007 acquisition of Pacific Select Group, LLC (renamed LPL Independent Advisor Services Group, LLC) and its wholly owned subsidiaries: Mutual Service Corporation (“MSC”), Associated Financial Group, Inc. (“AFG”), Associated Securities Corp. (“Associated”), Associated Planners Investment Advisory, Inc. (“APIA”) and Waterstone Financial Group, Inc. (“WFG,” and together with MSC, AFG, Associated, and APIA, the “Affiliated Entities”). In 2009, we consolidated the operations of the Affiliated Entities with those of LPL Financial. The consolidation involved the transfer of securities licenses of certain registered representatives associated with the Affiliated Entities and their client accounts. Following the completion of these transfer activities, the registered representatives and client accounts that transferred are associated with LPL Financial. Our acquisitions of UVEST Financial Services Group, Inc. (“UVEST”), and IFMG Securities, Inc., Independent Financial Marketing Group, Inc. and LSC Insurance Agency of Arizona, Inc. (collectively “IFMG”) further expanded our reach in offering financial services through banks, savings and loan institutions and credit unions nationwide. In March 2011, we committed to a corporate restructuring plan to enhance our service offering, while generating efficiencies by consolidating the operations of UVEST with those of LPL Financial (See Item 7 — “Management’s Discussion and Analysis” for further discussion).
Our acquisition of certain assets of National Retirement Partners, Inc. (“NRP”) in February 2011 enhanced our capabilities in the group retirement space. Our NRP advisors expanded our base of advisors who offer retirement products, consulting and investment services to retirement plan sponsors and plan participants as well as comprehensive financial services to plan participants. In June 2011, we acquired Concord, which is an industry leader in providing technology and open architecture investment management solutions for trust departments of financial institutions. Through this acquisition, we will have the ability to support both the brokerage and trust business lines of current and prospective financial institutions. The acquisition will also create new expansion opportunities such as giving us the ability to custody personal trust assets within banks across the country. In April 2012, we acquired all of the outstanding common stock of Fortigent. Fortigent is a leading provider of high-net-worth solutions and consulting services to registered investment advisors, banks, and trust companies. This strategic acquisition further enhances our capabilities and offers an extension of our existing services for wealth management advisors. (See Item 7 — “Management’s Discussion and Analysis” for further discussion of our acquisitions of NRP, Concord and Fortigent.)
Our subsidiary, Independent Advisers Group Corporation (“IAG”), offers an investment advisory solution to insurance companies to support their financial advisors who are licensed with them. Our subsidiary, LPLIA, operates as a brokerage general agency which offers life, long-term care and disability insurance sales and services. Through our subsidiary PTC we offer trust, investment management oversight and custodial services for estates and families.
Our recently formed subsidiary, NestWise, intends to provide mass market clients with access to high-quality and affordable personal financial advice. In July 2012, in connection with our launch of NestWise, we acquired all of the outstanding stock of Veritat. Veritat was a registered investment advisory firm that developed and utilized a

proprietary online financial planning platform designed to support advisors who serve the mass market. This strategic acquisition enhances our technological capabilities and increases the flexibility of our service offering to

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the mass market. In December 2012, we completed our consolidation of the operations of Veritat with those of NestWise.

Regulation

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

Broker-Dealer Regulation

LPL Financial is a registered broker-dealer 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. Regulators make periodic examinations and review annual, monthly and other reports on our operations, track record and financial condition. Violations of rules and regulations governing a broker dealer's actions could result in censure, penalties and fines, the issuance of cease-and-desist orders, the suspension or expulsion from the securities industry of such broker dealer 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 are likely to arise as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was enacted in July 2010. Provisions of the Dodd-Frank Act that may impact our business include, but are not limited to, the potential implementation of a more stringent fiduciary standard for broker-dealers and the potential establishment of a new self-regulatory organization for investment advisors. Compliance with these provisions is likely to result in increased costs. Moreover, to the extent the Dodd-Frank Act impacts the operations, financial condition, liquidity and capital requirements of financial institutions with whom we do business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us. The ultimate impact that the Dodd-Frank Act will have on us, the financial industry and the economy cannot be known until all such applicable regulations called for under the Dodd-Frank Act have been finalized and implemented.

Investment Adviser Regulation

As investment advisers registered with the SEC, our subsidiaries LPL Financial, IAG, Fortigent, LLC, and NestWise are subject to the requirements of the Investment Advisers Act of 1940, as amended (the "Advisers Act"), and the regulations promulgated thereunder, including examination by the SEC's staff. Such requirements relate to, among other things, fiduciary duties to clients, performance fees, maintaining an effective compliance program, solicitation arrangements, conflicts of interest, advertising, limitations on agency cross and principal transactions between the advisor and advisory clients, recordkeeping and reporting requirements, disclosure requirements and general anti-fraud provisions.

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

Retirement Plan Services Regulation

Certain of our subsidiaries are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA") and/or Section 4975 of the Internal Revenue Code (the "Code"), and to regulations promulgated under ERISA or the Code, insofar as they provide services with respect to plan clients, or otherwise deal with plan clients that are subject to ERISA and/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 ERISA plans (including, without limitation, employee benefit plans (as defined in Section 3(3) of ERISA) and fiduciaries or other service providers to such plans. Non-compliance with these provisions may expose an ERISA fiduciary to liability under ERISA, which may include monetary penalty as well as equitable remedies for the affected plan. Section 4975 of the Code prohibits certain transactions involving plans (as defined in Section 4975(e)(1), which includes, individual retirement accounts and Keogh plans) and service providers, including fiduciaries, to such plans. Section 4975 imposes monetary penalties for violations of these prohibitions. In July 2012, the Employee Benefits Security Administration's service provider fee disclosure rule (29 CFR §2550.408b-2) became effective. As a service provider to retirement plans, we anticipated this rule change and invested in our retirement service offerings in order to comply with the new rule.

Commodities and Futures Regulation

LPL Financial is licensed as a futures commission merchant (“FCM”) and commodity pool operator ("CPO") with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association (“NFA”). Although licensed as a FCM and a CPO, LPL Financial’s futures activities are limited to conducting business as a guaranteed introducing broker. 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. As a guaranteed introducing broker, LPL Financial clears commodities and futures products through ADM Investor Services International Limited (“ADM”), and all commodities accounts and related client positions are held by ADM.

Trust Regulation

Through our subsidiary, PTC, we offer trust, investment management oversight and custodial services for estates and families. PTC is chartered as a non-depository national banking association. As a limited purpose national bank, PTC is regulated and regularly examined by the Office of the Comptroller of the Currency (“OCC”). PTC files reports with the OCC within 30 days after the conclusion of each calendar quarter. Because the powers of PTC are limited to providing fiduciary services and investment advice, it does not have the power or authority to accept deposits or make loans. For this reason, trust assets under PTC’s management are generally 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 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 trust company or the holding company of a trust company such as LPL Financial Holdings Inc. In general, an acquisition of 10% or more of our common stock, or an acquisition of “control” as defined in OCC regulations, would require OCC approval. These laws and regulations are designed to serve specific bank regulatory and supervisory purposes and are not meant for the protection of PTC, LPL Financial or its stockholders.

Regulatory Capital

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

The SEC, FINRA and CFTC impose rules that require notification when net capital falls below certain predefined criteria. These rules also dictate the ratio of debt to equity in the regulatory capital composition of a broker-dealer, 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

The USA PATRIOT Act of 2001 (the "PATRIOT Act") contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers, FCMs and other financial services companies. Financial institutions subject to the PATRIOT Act generally must have anti-money laundering procedures in place, 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. We have established policies, procedures and systems designed to comply with these regulations.

Privacy

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

Financial Information about Geographic Areas

Our revenues for fiscal years ended December 31, 2012, 2011 and 2010 were derived from our operations in the United States.

Trademarks

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

Item 1A. Risk Factors

Risks Related to Our Business and Industry

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

We derive a large portion of our revenues from commissions and fees generated by our advisors. Our ability to attract and retain experienced and productive advisors has contributed significantly to our growth and success, and our strategic plan is premised upon continued growth in the number of our advisors. If we fail to attract new advisors or to retain and motivate our current advisors, our business may suffer.

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

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

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

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

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

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

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

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

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

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

- illiquid or volatile markets;
- diminished access to debt or capital markets,
- unforeseen cash or capital requirements or
-

regulatory penalties or fines, or adverse legal settlements or judgments (including, among others, risks associated with auction rate securities).

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

Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from the delayed receipt of client funds associated with the settlement of client transactions in securities markets. These timing differences are funded either with internally generated cash flow or, if needed, with funds drawn under our revolving credit facility, and/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 the counterparties to the derivative instruments we may use to hedge our interest rate risk default, we may be exposed to risks we had sought to mitigate.

We may, from time to time, use derivative instruments to hedge our interest rate risk. If our counterparties fail to honor their obligations under such derivative instruments, we could be subject to the risk of loss and our hedges of the interest rate risk will be ineffective. That failure could have an adverse effect on our financial condition, results of operations and cash flows that could be material.

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

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

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

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

Risks Related to Our Regulatory Environment

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

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

- registered as a broker-dealer with the SEC, each of the 50 states, and the District of Columbia, Puerto Rico and the U.S. Virgin Islands;

- registered as an investment advisor with the SEC;

- a member of FINRA;

- regulated by the CFTC with respect to the futures and commodities trading activities it conducts as an introducing broker and

- a member of the NASDAQ Global Select Market (“NASDAQ”) and the Chicago Stock Exchange.

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

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

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

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

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

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

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

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

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

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

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

Risks Related to Our Competition

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

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

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

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

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

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

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

We face competition in attracting and retaining key talent.

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

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

Risks Related to Our Debt

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

At December 31, 2012, we had total indebtedness of $1.3 billion. Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions. It could also require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes. In addition, our level of indebtedness may limit our flexibility in planning for changes in our business and the industry in which we operate, and limit our ability to borrow additional funds.

Our senior secured credit agreement entered into on March 29, 2012 requires quarterly repayments of our term loans. These payments equal approximately $10.7 million per quarter through March 31, 2014, $19.9 million per quarter through December 31, 2016 and $1.5 million per quarter thereafter through December 31, 2018. In addition, we have a revolving credit facility under our senior secured credit agreement with an available balance of $250.0 million. This facility matures on March 29, 2017, and we will be obligated to repay any outstanding balance under this facility at that time. Our ability to make scheduled payments on or to refinance indebtedness obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control.

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

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

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

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

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

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

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

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

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

Risks Related to Our Technology

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

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

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

- our ability to address the needs of our advisors and their clients by using technology to provide products and services that satisfy their demands;

- our ability to use technology effectively to support our regulatory compliance and reporting functions and

- our ability to retain skilled information technology employees.

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

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

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

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

Our networks may be vulnerable to security risks.

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

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

- seriously damage our reputation;

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

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

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

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

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

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

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

We rely on outsourced service providers to perform key functions.

We rely on outsourced service providers to perform certain key technology, processing and support functions. For example, we have an agreement with Thomson Reuters BETA Systems, a division of Thomson Reuters, under which they provide us operational support, including data processing services for securities transactions and back office processing support. Our use of third party service providers may decrease our ability to control operating risks and information technology systems risks. Any significant failures by our service providers could cause us to incur losses and could harm our reputation. If we had to change these service providers, we would experience a disruption to our business. Although we believe we have the resources to make such transitions with minimal disruption, we cannot predict the costs and time for such conversions. We cannot provide any assurance that the disruption caused by a change in our service providers would not have a material adverse affect on our business. We expect to transition additional business processes to third party service providers in connection with the Service Value Commitment, which will increase our reliance on outsourced providers and the related risks described above.

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 client initiated and involve the purchase or sale of investment securities, but other claims may be asserted by regulatory authorities. For example, we have been engaged in discussions with one of our regulators regarding a supervisory matter. As a result of these discussions, we have recorded an estimate of a probable loss in the results of operations for the year ended December 31, 2012.

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, auction rate securities, alternative investments or exchange traded funds). In addition, we, along with other industry participants, are subject to risks related to litigation and settlements arising from market events such as the failures in the auction rate securities market. 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 small, decentralized offices, additional risk management challenges may exist. If our policies and procedures are not fully effective or we are not always successful in capturing all risks to which we are or may be exposed, we may suffer harm to our reputation or be subject to litigation or regulatory actions that could have a material adverse effect on our business and financial condition.

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

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

Our insurance coverage may be inadequate or expensive.

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

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

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

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

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

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

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

Risks Related to Ownership of Our Common Stock

The Sponsors have the ability to significantly 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, 2012, investment funds affiliated with the Sponsors owned approximately 43.1% of the outstanding shares of our common stock. So long as investment funds associated with or designated by the Sponsors continue to own a significant amount of the outstanding shares of our common stock, the Sponsors will continue to be able to strongly influence our decisions, regardless of whether or not other stockholders believe that the transaction is 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, the Sponsors and their affiliates are in the business of making investments in companies and may, from time to time in the future, acquire interests in businesses that directly or indirectly compete with certain portions of our business. To the extent the Sponsors invest in such other businesses, the Sponsors may have differing interests than our other stockholders. The Sponsors 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;
- variance in our financial performance from the expectations of equity research analysts;
- conditions and trends in the markets we serve;
- announcements of significant new services or products by us or our competitors;

- additions or changes to key personnel;
- the commencement or outcome of litigation or regulatory procedures;
- changes in market valuation or earnings of our competitors;
- the trading volume of our common stock;
- future sale of our equity securities;
- changes in the estimation of the future size and growth rate of our markets;
- legislation or regulatory policies, practices or actions and
- general economic conditions.

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

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

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

Our future ability to pay regular dividends to holders of our common stock is 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 5, 2013, our board of directors declared a regular quarterly cash dividend of $0.135 per share on our outstanding common stock, payable on March 4, 2013. The declaration and payment of any future quarterly cash dividend will be subject to the board of directors' continuing determination that the declaration of future dividends are in the best interests of our stockholders and are in compliance with applicable law. This determination 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 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. 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, some of which may only become effective when the Sponsors collectively own less than 40% of our outstanding shares of common stock:

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

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

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

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

We also entered into a new lease agreement on December 16, 2011, for approximately 415,000 square feet of space in San Diego, California and plan to move our San Diego offices to this location during 2014. We own approximately 4.4 acres of land in San Diego.

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

Item 3. Legal Proceedings

For a discussion of legal proceedings, see The Consolidated Financial Statements and Supplementary Data - Notes to Consolidated Financial Statements - 14. Commitments and Contingencies, which are included as an annex to 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

The Company’s common stock commenced trading on the NASDAQ under the symbol “LPLA” on November 18, 2010. Prior to that time, there was no public market for our common stock. 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
2012		
Fourth Quarter	$29.87	$23.17
Third Quarter	$34.49	$24.12
Second Quarter	$38.94	$30.20
First Quarter	$38.47	$29.94
2011		
Fourth Quarter	$30.54	$25.10
Third Quarter	$34.65	$24.47
Second Quarter	$36.95	$33.15
First Quarter	$35.99	$32.15
2010		
Fourth Quarter (beginning November 18, 2010)	$37.22	$31.50

The closing sale price of the Company's common stock as reported on the NASDAQ on December 31, 2012 was $28.16 per share. As of that date there were 481 holders of record of the Company's common stock 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.

Performance Graph

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

Dividends

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

	Dividend per Share	Total Cash Dividend
Second quarter	$2.00	$222.6
Third quarter	$0.12	$13.2
Fourth quarter	$0.12	$13.0

On February 05, 2013, the Board of Directors declared a cash dividend of $0.135 per share on our outstanding common stock to be paid on March 4, 2013 to all stockholders of record on February 18, 2013.

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 — Indebtedness". 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.

Equity Compensation Plan Information

The table below sets forth as of December 31, 2012 information on compensation plans under which our equity securities are authorized for issuance:

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	
Equity compensation plans approved by security holders	8,166,807	$27.43	7,698,253	(1)
Equity compensation plans not approved by security holders	33,067	$22.50	—	(2)
Total	8,199,874	$27.41	7,698,253	

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

Issuance Under 2008 LPL Investment Holdings Inc. Financial Institution Incentive Plan

As of December 31, 2012, we had outstanding 33,067 warrants to purchase common stock under our 2008 LPL Financial Holdings Inc. Financial Institution Incentive Plan (the "Financial Institution Incentive Plan"). Eligible participants under this plan include financial institutions in a position to make a significant contribution to the success of our firm. The plan is administered by the Board or such other committee as may be appointed by the Board to administer the plan. The exercise price of warrants is equal to the fair market value on the grant date. Warrant awards vest in equal increments of 20.0% over a five-year period and expire on the 10th anniversary following the date of grant. The Financial Institution Incentive Plan has not been approved by security holders. Following our IPO, grants were no longer to be made under our Financial Institution Incentive Plan.

Purchases of Equity Securities by the Issuer

The table below sets forth information regarding repurchases on a monthly basis during the fourth quarter of 2012:

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, 2012 through October 31, 2012	735,770	$28.57	735,770	$4,518,281
November 1, 2012 through November 30, 2012	1,385,997	$27.02	1,385,997	$117,092,158
December 1, 2012 through December 31, 2012	1,079,074	$28.00	1,079,074	$86,901,384

Total	3,200,841	$27.71	3,200,841	$86,901,384

(1) The repurchase of shares was executed under the share repurchase programs approved by the Board of Directors on August 16, 2011, May 25, 2012 and September 27, 2012, through which the Company may repurchase $70.0 million, $75.0 million and $150.0 million, respectively, of its outstanding shares of common stock. See Note 15 - Stockholders' Equity, within our notes to consolidated financial statements for additional information.

Item 6. Selected Financial Data

The following table sets forth our selected historical financial information for the past five fiscal years. The selected historical financial information presented below should be read in conjunction with the information included under the heading “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. We have derived the consolidated statements of operations data for the years ended December 31, 2012, 2011 and 2010 and the consolidated statements of financial condition data as of December 31, 2012 and 2011 from our audited financial statements included in this Annual Report on Form 10-K. We have derived the consolidated statements of operations data for the years ended December 31, 2009 and 2008 and consolidated statements of financial condition data as of December 31, 2010, 2009 and 2008 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.

	For the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(In thousands, except per share data)				
Consolidated statements of operations data:					
Net revenues	$3,661,088	$3,479,375	$3,113,486	$2,749,505	$3,116,349
Total expenses	3,410,497	3,196,690	3,202,335	2,676,938	3,023,584
Income (loss) from operations before provision for (benefit from) income taxes	250,591	282,685	(88,849)	72,567	92,765
Provision for (benefit from) income taxes	98,673	112,303	(31,987)	25,047	47,269
Net income (loss)	151,918	170,382	(56,862)	47,520	45,496
Per share data:					
Earnings (loss) per basic share	$1.39	$1.55	$(0.64)	$0.54	$0.53
Earnings (loss) per diluted share	$1.37	$1.50	$(0.64)	$0.47	$0.45
Cash dividends paid per share	$2.24	$—	$—	$—	$—

	As of December 31,				
	2012	2011	2010	2009	2008
	(In thousands)				
Consolidated statements of financial condition data:					
Cash and cash equivalents	$466,261	$720,772	$419,208	$378,594	$219,239
Total assets	3,988,524	3,816,326	3,646,167	3,336,936	3,381,779
Total debt(1)	1,317,825	1,332,668	1,386,639	1,369,223	1,467,647

Continued on following page

	As of and for the Year Ended December 31,				
	2012	2011	2010	2009	2008
Other financial and operating data:					
Adjusted EBITDA (in thousands)(2)	$454,482	$459,720	$413,113	$356,068	$350,171
Adjusted Earnings (in thousands)(2)	$225,029	$218,585	$172,720	$129,556	$108,863
Adjusted Earnings per share(2)	$2.03	$1.95	$1.71	$1.32	$1.09
Gross Margin (in thousands)(3)	$1,112,251	$1,030,951	$937,933	$844,926	$953,301
Gross Margin as a % of net revenue(3)	30.4 %	29.6 %	30.1 %	30.7 %	30.6 %
Number of advisors(4)	13,352	12,847	12,444	11,950	11,920
Advisory and brokerage assets (in billions)(5)	$373.3	$330.3	$315.6	$279.4	$233.9
Advisory assets under custody (in billions)(6)	$122.1	$101.6	$93.0	$77.2	$59.6
Insured cash account balances (in billions)(6)	$16.3	$14.4	$12.2	$11.6	$11.2
Money market account balances (in billions)(6)	$8.4	$8.0	$6.9	$7.0	$11.2

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

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

(3) Gross Margin is calculated as net revenues less production expenses. Production expenses consist of the following expense categories from our consolidated statements of operations: (i) commission and advisory and (ii) brokerage, clearing and exchange. All other expense categories, including depreciation and amortization, are considered general and administrative in nature. Because our gross margin amounts do not include any depreciation and amortization expense, we consider our gross margin amounts to be non-GAAP measures which may not be comparable to those of others in our industry. Additionally in 2010, upon closing our IPO in the fourth quarter, the restriction on approximately 7.4 million shares of common stock issued to our advisors under the Fifth Amended and Restated 2000 Stock Bonus Plan was released. Accordingly, we recorded a share-based compensation charge of $222.0 million in the fourth quarter of 2010, representing the offering price of $30.00 per share multiplied by 7.4 million shares. This charge has been classified as adjusted production expense in 2010. Therefore gross margin and gross margin as a percentage of net revenue, as calculated for 2010 above, does not include this charge for comparability purposes with previous years shown.

(4) Number of advisors is defined as those investment professionals who are licensed to do business with our broker-dealer subsidiaries. During 2012, an institutional client's parent company consolidated its operations onto the broker-dealer platform of an affiliate within its organization, which resulted in a loss of 181 advisors. Excluding the attrition of the institutional client's advisors, we added 686 net new advisors during the twelve months ended December 31, 2012. In 2011, we consolidated the operations of UVEST with LPL Financial which resulted, as expected, in attrition of 146 advisors. Excluding attrition from the integration of the UVEST platform, we added 549 net new advisors during the year ended December 31, 2011. In 2009, we attracted record levels of new advisors due to the dislocation in the marketplace that impacted many of our competitors. This record recruitment was offset by attrition related to the consolidation of the operations of the Affiliated Entities which resulted, as expected, in attrition of 720 advisors. Excluding attrition from the integration of the Affiliated Entities, we added 750 net new advisors during the year ended December 31, 2009.

(5) Advisory and brokerage assets are comprised of assets that are custodied, networked and non-networked and reflect market movement in addition to new assets, inclusive of new business development and net of attrition. Such totals do not include the market value of certain other client assets as of December 31, 2012, comprised of

$46.4 billion held in retirement plans supported by advisors licensed with LPL Financial, $12.0 billion of trust assets supported by Concord Capital Partners ("Concord"), and $59.1 billion of assets supported by Fortigent Holdings Company, Inc. Data regarding certain of these assets was not available at December 31, 2011. In addition, reported retirement plan assets represent assets that are custodied with 26 third-party providers of retirement plan administrative services who provide reporting feeds. We estimate the total assets in retirement plans supported to be between $70.0 billion and $85.0 billion. If we receive reporting feeds in the future from providers for whom we do not currently receive feeds, we intend to include and identify such additional assets in this metric. During the fourth quarter of 2012, we began receiving a reporting feed from one such provider, which accounted for $4.1 billion of the $4.8 billion increase to $46.4 billion from the $41.6 billion of assets reported at September 30, 2012.

In reporting our financial and operating results for the year ended December 31, 2012, we have renamed this business metric as advisory assets under custody (formerly known as advisory assets under management).

(6) Advisory assets under custody, insured cash account balances and money market account balances are components of advisory and brokerage assets. Advisory assets under custody are comprised of advisory assets under management in our corporate RIA platform, and Independent RIA assets in advisory accounts custodied by us.

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

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

Overview

We are the nation's largest independent broker-dealer, a top custodian for registered investment advisors ("RIAs"), and a leading independent consultant to retirement plans. We provide an integrated platform of brokerage and investment advisory services to more than 13,300 independent financial advisors including financial advisors at approximately 700 financial institutions (our "advisors") across the country, enabling them to provide their retail investors (their "clients") with objective, conflict-free financial advice. We also support approximately 4,500 financial advisors who are affiliated and licensed with insurance companies with customized clearing services, advisory platforms and technology solutions.

In addition, through our subsidiary companies, we support a diverse client base. Fortigent Holdings Company, Inc. is a leading provider of solutions and consulting services to RIAs, banks and trust companies servicing high-net-worth clients, while The Private Trust Company N.A. manages trusts and family assets for high-net-worth clients in all 50 states. Our newest subsidiary, NestWise LLC, supports the recruitment and development of new-to-the-industry financial advisors dedicated to serving mass market clients under the fee-based, independent model.

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

For over 20 years, we have served the independent advisor market. We currently support the largest independent advisor base and we believe we have the fourth largest overall advisor base in the United States based on the information available as of the date this Annual Report on Form 10-K has been issued. Through our advisors, we are also one of the largest distributors of financial products in the United States. Our scale is a substantial competitive advantage and enables us to more effectively attract and retain advisors. Our unique business model allows us to invest in more resources for our advisors, increasing their revenues and creating a virtuous cycle of growth. We have approximately 2,900 employees with primary offices in Boston, Charlotte and San Diego.

Our Sources of Revenue

Our revenues are derived primarily from fees and commissions from products and advisory services offered by our advisors to their clients, a substantial portion of which we pay out to our advisors, as well as fees we receive from our advisors for the use of our technology, custody, clearing, trust and reporting platforms. We also generate asset-based revenues through our platform of over 8,900 financial products from a broad range of product manufacturers. Under our self-clearing platform, we custody the majority of client assets invested in these financial products, for which we provide statements, transaction processing and ongoing account management. In return for these services, mutual funds, insurance companies, banks and other financial product manufacturers pay us fees based on asset levels or number of accounts managed. We also earn interest from margin loans made to our advisors' clients.

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

which are more difficult to predict, particularly in declining or volatile markets.
The table below summarizes the sources of our revenue, the primary drivers of each revenue source and the percentage of each revenue source that represents recurring revenue, a characterization of revenue and a statistical measure:

			For the Year Ended December 31, 2012		
	Sources of Revenue	Primary Drivers	Total (millions)	% of Total Net Revenue	% Recurring
Advisor-driven revenue with ~85%-90% payout ratio	Commission	- Transactions - Brokerage asset levels	$1,821	50%	39%
	Advisory	- Advisory asset levels	$1,062	29%	99%
Attachment revenue retained by us	Asset-Based - Cash Sweep Fees - Sponsorship Fees - Record Keeping	- Cash balances - Interest rates - Number of accounts - Client asset levels	$403	11%	100%
	Transaction and Other - Transactions - Client (Investor) Accounts - Advisor Seat and Technology	- Client activity - Number of clients - Number of advisors - Number of accounts - Premium technology subscribers	$322	9%	64%
	Interest and Other Revenue	- Margin accounts - Alternative investment transactions	$53	1%	43%
	Total Net Revenue		$3,661	100%	65%
	Total Recurring Revenue		$2,395	65%	

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

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

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

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

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

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

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

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

Our Operating Expenses

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

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

The following table is presented as an illustration of how the aforementioned production expenses impact our production payout ratio for the year ended December 31, 2012:

Base payout rate	84.16	%
Production based bonuses	2.68	%
GDC sensitive payout	86.84	%
Non-GDC sensitive payout	0.22	%
Total Payout Ratio	87.06	%

See "Results of Operations" for comparative 2011 and 2010 periods' analyses of production payout ratio.

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

- General and Administrative Expenses. General and administrative expenses include promotional fees, occupancy and equipment, communications and data processing, regulatory fees, travel and entertainment, professional services and other expenses. We host certain advisor conferences that serve as training, sales and marketing events.

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

- Restructuring Charges. Restructuring charges represent expenses incurred as a result of our 2011 consolidation of UVEST Financial Services Group, Inc. ("UVEST") and our 2009 consolidation of Mutual Service Corporation, Associated Financial Group, Inc., Associated Securities Corp., Associated Planners Investment Advisory, Inc. and Waterstone Financial Group, Inc. (collectively referred to herein as the “Affiliated Entities”).

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 key metrics as of and for the years ended December 31, 2012, 2011 and 2010 are as follows:

	As of and for the Year Ended December 31,					
	2012		2011		2010	
Business Metrics						
Advisors(1)	13,352		12,847		12,444	
Advisory and brokerage assets (in billions)(2)	$373.3		$330.3		$315.6	
Advisory assets under custody (in billions)(3)(4)	$122.1		$101.6		$93.0	
Net new advisory assets (in billions)(5)	$10.9		$10.8		$8.5	
Insured cash account balances (in billions)(4)	$16.3		$14.4		$12.2	
Money market account balances (in billions)(4)	$8.4		$8.0		$6.9	
Financial Metrics						
Revenue growth from prior year	5.2	%	11.8	%	13.2	%
Recurring revenue as a % of net revenue(6)	65.4	%	62.7	%	60.7	%
Net income (loss) (in millions)	$151.9		$170.4		$(56.9	)
Earnings (loss) per share (diluted)	$1.37		$1.50		$(0.64	)
Non-GAAP Measures:						
Gross margin (in millions)(7)	$1,112.3		$1,031.0		$937.9	
Gross margin as a % of net revenue(7)	30.4	%	29.6	%	30.1	%
Adjusted EBITDA (in millions)	$454.5		$459.7		$413.1	
Adjusted EBITDA as a % of net revenue	12.4	%	13.2	%	13.3	%
Adjusted EBITDA as a % of gross margin(7)	40.9	%	44.6	%	44.0	%
Adjusted Earnings (in millions)	$225.0		$218.6		$172.7	
Adjusted Earnings per share (diluted)	$2.03		$1.95		$1.71	

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