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## WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements and other information required by the Securities Exchange Act of 1934, as amended ("Exchange Act"), with the Securities and Exchange Commission ("SEC"). Our SEC filings are available to the public from the SEC's internet site at [SEC.gov](http://SEC.gov).

We post the following filings to LPL.com as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our annual reports on Form 10-K, our proxy statements, 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](mailto:investor.relations@lpl.com)), telephone ((617) 897-4574) or mail (LPL Financial Investor Relations at 75 State Street, 22nd Floor, Boston, MA 02109). The information contained or incorporated on our website is not a part of this Annual Report on Form 10-K.

We may use our website as a means of disclosing material information and for complying with our disclosure obligations under Regulation Fair Disclosure promulgated by the SEC. These disclosures are included on our website in the "Investor Relations" or "Press Releases" sections. Accordingly, investors should monitor these portions of our website, in addition to following the Company's press releases, SEC filings, public conference calls and webcasts.

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

## SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Annual Report on Form 10-K regarding the Company's future financial and operating results, outlook, growth, plans, business strategies, liquidity and future share repurchases, including statements regarding future resolution of regulatory matters, legal proceedings and related costs; future revenues and expenses; future affiliation models and capabilities; market and macroeconomic trends; projected savings and anticipated improvements to the Company's operating model, services and technologies as a result of its investments, initiatives, programs and/or acquisitions; and expected impacts of the coronavirus disease 2019 ("COVID-19") pandemic on the Company's businesses, as well as any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. These forward-looking statements are based on the Company's historical performance and its plans, estimates and expectations as of February 23, 2021. The words "anticipates," "believes," "expects," "may," "plans," "predicts," "will" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future results, plans, intentions or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive and other factors, which may cause actual financial or operating results, levels of activity or the timing of events to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in general economic and financial market conditions, including retail investor sentiment; changes in interest rates and fees payable by banks participating in the Company's client cash programs, including the Company's success in negotiating agreements with current or additional counterparties; the Company's strategy and success in managing client cash program fees; fluctuations in the levels of advisory and brokerage assets, including net new assets, and the related impact on revenues; effects of competition in the financial services industry; the success of the Company in attracting and retaining financial advisors and institutions, and their ability to market effectively financial products and services; whether retail investors served by newly-recruited advisors choose to move their respective assets to new accounts at the Company; changes in growth and profitability of the Company's fee-based business, including the Company's centrally managed advisory platform; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by federal and state regulators and self-regulatory organizations; the cost of settling and remediating issues related to regulatory matters or legal proceedings, including actual costs of reimbursing customers for losses in excess of our reserves; changes made to the Company's services and pricing, including in response to competitive developments and current, pending and future legislation, regulation and regulatory actions, and the effect that such changes may have on the Company's gross profit streams and costs; execution of the Company's capital management plans, including its compliance with the terms of its credit agreement and the indentures governing its senior notes; the price, the availability and trading volumes of shares of

the Company's common stock, which will affect the timing and size of future share repurchases by the Company, if any; execution of the Company's plans and its success in realizing the synergies, expense savings, service improvements or efficiencies expected to result from its investments, initiatives and acquisitions, including its pending acquisition involving the wealth management business of Waddell & Reed Financial, Inc., expense plans and technology initiatives; the performance of third-party service providers to which business processes have been transitioned; the Company's ability to control operating risks, information technology systems risks, cybersecurity risks and sourcing risks; the effects of the COVID-19 pandemic, including efforts to contain it; 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 on Form 10-K, 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 on Form 10-K.

## PART I

### Item 1. Business

#### General Corporate Overview

We are a leader in the retail financial advice market and the nation's largest independent broker-dealer. We serve independent financial advisors and financial institutions, providing them with the technology, research, clearing and compliance services and practice management programs they need to create and grow their practices. We enable them to provide objective financial guidance to millions of American families seeking wealth management, retirement planning, financial planning and asset management solutions.

We believe that objective financial guidance is a fundamental need for everyone. We enable our advisors to focus on what they do best—create the personal, long-term relationships that are the foundation for turning life's aspirations into financial realities. We do that through a singular focus on providing our advisors with the front-, middle- and back-office support they need to serve the large and growing market for independent investment advice. We believe that 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 a wide range of non-proprietary products, all delivered in an environment unencumbered by conflicts from product manufacturing, underwriting and market-making.

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

LPL Financial Holdings Inc., which is the parent company of our business, was incorporated in Delaware in 2005. The Company's most significant, wholly owned subsidiaries are described below:

- LPL Holdings, Inc. is a direct subsidiary of LPL Financial Holdings Inc. and is an intermediate holding company of our business.
- LPL Financial LLC ("LPL Financial") is a clearing broker-dealer and an investment adviser that clears and settles customer transactions.
- Fortigent Holdings Company, Inc. and its subsidiaries ("Fortigent") provide solutions and consulting services to registered investment advisers ("RIAs"), banks and trust companies serving high-net-worth clients.
- LPL Insurance Associates, Inc. ("LPLIA") operates as a brokerage general agency that offers life and disability insurance products and services.
- AdvisoryWorld provides technology products, including proposal generation, investment analytics and portfolio modeling.
- The Private Trust Company, N.A. ("PTC") provides trust administration, investment management oversight and Individual Retirement Account ("IRA") custodial services.
- LPL Employee Services, LLC is a holding company for Allen & Company of Florida, LLC ("Allen & Company"), an RIA that we acquired in 2019.
- Blaze Portfolio Systems LLC ("Blaze"), which we acquired in 2020, provides an advisor-facing trading and portfolio rebalancing platform.

#### Our Business

##### ***Our Advisor Relationships***

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

We work alongside advisors to navigate complex market and regulatory environments and strive to empower them to create the best outcomes for investors. In addition, we make meaningful investments in technology and services to support the growth, productivity and efficiency of advisors across a broad spectrum of business models as their practices evolve. Our advisors are a community of diverse, entrepreneurial financial services professionals. They build long-term relationships with their clients in communities across the United States by guiding them through the complexities of investment decisions, retirement solutions, financial planning and wealth management.

Our advisors support approximately 6.0 million client accounts. Our services are designed to support the evolution of our advisors' businesses over time and to adapt as our advisors' needs change.

We believe we offer a compelling economic value proposition to independent advisors, which is a key factor in our ability to attract and retain advisors and their practices. The independent channels pay advisors a greater share of advisory fees and brokerage commissions than the captive channels — generally 80-90% compared to 30-50%.

Furthermore, we believe that our technology and service platforms enable our advisors to operate their practices with a greater focus on serving investors at a lower cost than other independent advisors. Finally, as business owners, our independent financial advisors, unlike captive advisors, also have the opportunity to build equity in their own businesses.

Our approximately 17,300 advisors average about 20 years in the industry, which generally allows us to focus on supporting and enhancing our advisors' businesses without needing to provide basic training or subsidizing advisors who are new to the industry. Our flexible business platform allows our advisors to choose the most appropriate business model to support their clients, whether they conduct brokerage business, offer brokerage and fee-based services on our corporate RIA platform or provide fee-based services through their own RIA practices.

The majority of our advisors are independent contractors who are primarily located in rural and suburban areas and, as such, are viewed as local providers of independent advice. Many of our advisors operate under their own business name, and we may assist these advisors with their own branding, marketing and promotion and regulatory review. We also support advisors who are our employees through our independent employee advisor affiliation model, which we introduced in 2020.

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

LPL Financial also supports over 450 independent RIA firms that conduct their business through separate entities ("Hybrid RIAs") with over 5,000 advisors who conduct their advisory business through these separate entities, rather than through LPL Financial. Hybrid RIAs operate pursuant to the Investment Advisers Act of 1940, as amended (the "Advisers Act"), or their respective states' investment advisory licensing rules. These Hybrid RIAs engage us for technology, clearing and custody services, as well as access to our investment platforms. Advisors associated with Hybrid RIAs retain 100% of their advisory fees, and in return, we charge separate fees for custody, trading, administrative and support services. In addition, most financial advisors associated with Hybrid RIAs carry their brokerage license with LPL Financial and access our fully-integrated brokerage platform under standard terms.

We believe we are the market leader in providing support to over 2,500 financial advisors at approximately 800 banks and credit unions nationwide. The core capabilities of these institutions may not include investment and financial planning services, or they may find the technology, infrastructure and regulatory requirements of supporting such services to be cost-prohibitive. For these institutions, we provide their financial advisors with the infrastructure and services they need to be successful, allowing the institutions to focus more attention and capital on their core businesses.

We also provide support to approximately 3,000 additional financial advisors who are affiliated and licensed with insurance companies. These arrangements allow us to provide outsourced customized clearing, advisory platforms and technology solutions that enable the financial advisors at these insurance companies to offer a breadth of services to their client base in an efficient manner.

### ***Our Value Proposition***

We are dedicated to making it easy for advisors to do what is best for their clients. Our scale and self-clearing platform enable us to provide advisors with the capabilities they need, and the service they expect, at a compelling

price. We are dedicated to continuously improving the processes, systems and resources we leverage to meet these needs.

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

#### *Integrated Technology Solutions*

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

#### *Comprehensive Clearing and Compliance Services*

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

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

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

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

#### *Practice Management Programs and Training*

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

- personalized business consulting that helps eligible advisors and program leadership enhance the value and operational efficiency of their businesses;
- advisory and brokerage consulting and financial planning to support advisors in growing their businesses through our broad range of products and fee-based offerings, as well as wealth management services, to assist advisors serving high-net-worth clients with comprehensive estate, tax, philanthropic and financial planning processes;
- marketing strategies, including campaign templates, to enable advisors to build awareness of their services and capitalize on opportunities in their local markets;
- succession planning and an advisor loan program for advisors looking to either sell their own or buy another practice;
- transition services to help advisors establish independent practices and migrate client accounts to us; and

- in-person and virtual training and educational programs on topics including technology, use of advisory platforms and business development.

#### *Independent Research*

We provide our advisors with integrated access to comprehensive research on a broad range of investments and market analysis on macro-economic events, capital markets assumptions and strategic and tactical asset allocation. Our research team provides advice that is designed to empower our advisors to provide their clients with thoughtful advice in a timely manner, including the creation of discretionary portfolios for which we serve as a portfolio manager, available through our turnkey advisory asset management platforms. Our research team actively works with our product risk management group to review the financial products offered through our platforms. This includes third-party asset manager search, selection and monitoring services for both traditional and alternative strategies across all investment access points (exchange-traded funds, mutual funds, separately managed accounts, unified managed accounts and other products and services). We believe not providing proprietary products or investment banking services better enables us to provide research that is unbiased and objective.

#### **Our Product and Solution Access**

We do not manufacture any financial products. Instead, we provide our advisors with open architecture access to a broad range of commission, fee-based, cash and money market products and services. The sales and administration of these products are facilitated through our technology solutions that allow our advisors to access client accounts, product information, asset allocation models, investment recommendations and economic insight as well as to perform trade execution.

#### *Commission-Based Products*

Commission-based products are those for which we and our advisors receive an upfront commission and, for certain products, a trailing commission, or a mark-up or mark-down. Our brokerage offerings include variable and fixed annuities, mutual funds, equities, fixed income, alternative investments, retirement and 529 education savings plans and insurance. We regularly review the structure and fees of our commission-based products in the context of retail investor preferences and the changing regulatory environment, as well as the competitive landscape. As of December 31, 2020, the total brokerage assets in commission-based products were \$441.9 billion.

#### *Fee-Based Advisory Platforms and Support*

LPL Financial has various fee-based advisory platforms that provide centrally managed or customized solutions from which advisors can choose to meet the investment needs of their clients, including wrap-fee programs, mutual fund asset allocation programs, an advisor-enhanced digital advice program, advisory programs offered by third-party investment advisor firms, financial planning services and retirement plan consulting services. The fee structure of our platforms enables our advisors to provide their clients with higher levels of service, while establishing a recurring revenue stream for the advisor and for us. Our fee-based platforms provide access to mutual funds, exchange-traded funds, stocks, bonds, certain option strategies, unit investment trusts and institutional money managers and no-load multi-manager variable annuities. As of December 31, 2020, the total advisory assets under custody in these platforms, through both our corporate RIA platform and Hybrid RIAs, were \$461.2 billion.

#### *Client Cash Programs*

We assist our advisors in managing their clients' cash balances through money market programs and insured bank sweep vehicles. As of December 31, 2020, the total assets in our client cash programs, which are held within advisory and brokerage accounts, were approximately \$48.9 billion.

#### *Other Services*

We provide a number of tools and services that enable advisors to maintain and grow their practices. Through our subsidiary PTC, we provide custodial services to trusts for estates and families. Under our model, an advisor may provide a trust with investment management services, while administrative services for the trust are provided by PTC. We also offer retirement solutions for commission- and fee-based services that allow advisors to provide brokerage services, consultation and advice to retirement plan sponsors using LPL Financial. We offer proposal generation, investment analytics and portfolio modeling capabilities to both our advisors and external clients in the wealth management industry through our subsidiary AdvisoryWorld. Finally, through our subsidiary Blaze, we offer an advisor-facing trading and portfolio rebalancing platform.

## Our Financial Model

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

- Our revenues stem from diverse sources, including advisor-generated advisory and commission fees, as well as other asset-based fees from product sponsors, recordkeeping, networking services, client cash balances and transaction and other fees for other ancillary services that we provide. Revenues are not concentrated by advisor, product or geography. For the year ended December 31, 2020, no single relationship with our independent advisor practices, banks, credit unions or insurance companies accounted for more than 7% of our net revenues, and no single advisor accounted for more than 2% of our net revenues.
- The largest variable component of our cost base, advisor payout percentages, is directly linked to revenues generated by our advisors.
- A portion of our revenues, such as software licensing and account and client fees, are not correlated with the equity financial markets.
- Our operating model is scalable and is capable of delivering expanding profit margins over time.
- We have managed our capital requirements and expenditures such that we have been able to invest in our business as well as return capital to shareholders.

## Our Competitive Strengths

### ***Market Leadership Position and Significant Scale***

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

Our scale enables us to benefit from the following dynamics:

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

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

### ***Comprehensive Solutions***

We differentiate through the combination of our capabilities across research, technology, risk management and practice management. LPL makes meaningful investments to support the growth, productivity and efficiency of advisors across a broad spectrum of models as their practices evolve. Our focus is working alongside advisors to navigate complex environments in order to create the best outcomes for their clients.

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

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

## **Flexibility of Our Business Model**

Our business model allows our advisors the freedom to choose how they conduct their business, subject to certain regulatory parameters, which has helped us attract and retain advisors from multiple channels, including wirehouses, regional broker-dealers and other independent broker-dealers. Our platform can accommodate a variety of independent advisor business models, including independent financial advisors and Hybrid RIAs, as well as employee advisors. The flexibility of our business model enables our advisors to select their preferred affiliation model and product mix as their business evolves and preferences change within the market or their client base. Our business model provides advisors with a multitude of customizable service and technology offerings that allow them to increase their efficiency, focus on their clients and grow their practice.

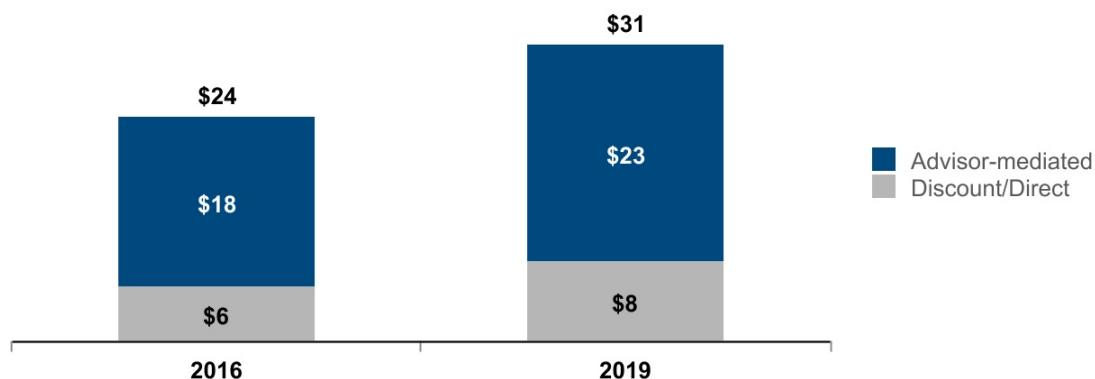
## **Our Sources of Growth**

We believe we can increase our revenues 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*

From 2016 to 2019, the U.S. retail investment market averaged 10% annual growth. The chart below shows the historical growth of assets in the U.S. retail investment market (in trillions):



Source: The Cerulli Report: U.S. Advisor Metrics 2020.

#### *Increasing Demand for Independent Financial Advice*

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

#### *Advisor Migration to Independent Channels*

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

## **Executing Our Growth Strategies**

#### *Increasing Productivity of Existing Advisor Base*

We believe the productivity of our advisors has the potential to increase over time as we continue to develop solutions designed to enable them to add new clients, manage more of their clients' investable assets and expand their existing practices with additional advisors. We expect to facilitate these productivity improvements by helping

our advisors better manage their practices in an increasingly complex external environment, which we believe has the potential to result in the assets per advisor growing over time.

#### *Attracting New Assets to Our Platform*

We intend to grow the assets served by our platform. There is an estimated \$22.7 trillion in advisor-mediated assets in the United States, of which we have a 4.0% market share, and we believe we are positioned to attract assets from any channel.

Channel (dollars in billions)	Advisor-mediated Assets	% of Market
Independent Channels	\$8,469	37.3%
Wirehouses	7,850	34.5%
Other Employee Channels	6,412	28.2%
Total	\$22,731	100.0%

Source: The Cerulli Report: U.S. Advisor Metrics 2020.

#### **Competition**

We compete with a variety of financial firms to attract and retain experienced and productive advisors. These financial firms operate in various channels and markets:

- Within the independent broker-dealer channel, the industry is highly fragmented and comprised primarily of regional firms that rely on third-party custodians and technology providers to support their operations.
- Wirehouses tend to consist of large nationwide firms with multiple lines of business that have a focus on the highly competitive high-net-worth investor market.
- Competition for advisors also includes regional firms that primarily focus on specific client niches or geographic areas.
- Independent RIA firms, which are registered with the SEC or through their respective states' investment advisory regulator and not through a broker-dealer, may choose from a number of third-party firms to provide custodial services.

Competitors within these various channels and markets generally do not offer a complete clearing solution for advisors and are frequently supported by third-party clearing and custody-oriented firms. These clearing firms and their affiliates and other providers also offer an array of service, technology and reporting tools, while retaining a portion of the economics for the offerings utilized by their clients.

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 online financial services and discount brokerage services.

#### **Human Capital**

Our success depends on our ability to attract, hire, retain and develop highly-skilled professionals in a variety of specialties, including finance, technology, compliance, business development, cybersecurity and management. As of December 31, 2020, we had 4,756 full-time employees. Due to the complexity of our business, we compete for talent with other companies, both inside and outside of our industry, and in multiple geographical areas in the United States. In 2020, our human capital efforts focused on establishing a culture of service that emphasizes taking care of our advisors, so they can take care of their clients. To that end, we seek employees who are approachable, proactive, collaborative, agile and innovative, and who share our commitment to excellence, integrity and service.

To maintain a high-caliber, values-driven workforce that is committed to our culture, we strive to offer total rewards, including compensation, benefits and recognition programs that position our company as an employer of choice. We design our compensation to be competitive in the markets in which we compete, and closely monitor industry trends and practices to ensure we are able to attract and retain the personnel who are critical to our success. We also monitor internal pay equity to make sure that our compensation practices are fair and equitable across our organization. Our company's senior leaders have an opportunity to receive a portion of their compensation in company equity, and, subject to a cap, we match the contributions of all of our employees to our retirement savings plan that supports their long-term financial goals. We also offer an employee stock purchase plan that enables eligible employees to acquire an ownership interest in our company at a discount to prevailing market

prices. To support our employees' health and well-being, we offer competitive medical, dental and vision plan benefits, as well as access to free resources such as fitness classes and an online wellness portal.

We believe in our employees' potential and provide training and development opportunities intended to maximize their performance and professional growth. To ensure that new employees integrate into our culture and their daily work, we provide a robust new-hire experience, as well as extensive ongoing training for our employees to acquaint them with our business. We require all of our employees to complete courses in key regulatory areas, such as insider trading and anti-money laundering compliance, and we offer opportunities for professional development through training sessions and cross-departmental workshops. In addition, we have a mentorship program that pairs younger employees with more experienced professionals, giving mentees access to experience, expertise and guidance as they chart their career paths.

We aim to provide a safe, inclusive environment for our employees, where they feel engaged in our business, supported in who they are and empowered to succeed. We are committed to providing a workplace that is free from violence, harassment and other unsafe or disruptive conditions, and require our personnel to attend regular training sessions and workshops on those topics. To promote safety during the COVID-19 pandemic, starting in March 2020, we implemented a work-from-home policy that enables our employees to work remotely. For our essential workers, we introduced additional hospital-grade disinfectants and modified workspaces in our office locations to ensure social distancing. We believe that well-being is more than just physical safety, and that our employees should feel welcome and supported as who they are. We seek to foster diversity and a culture of inclusivity through our employee resource groups, which are employee-run resource teams that focus on the needs, concerns and experiences of various diverse groups. In addition, our recruitment efforts have focused on improving the diversity of our employee population, including through targeted outreach to and collaborations with organizations that serve diverse populations.

Continuous improvement is a pillar of our culture, and we regularly solicit our employees' feedback on the effectiveness and quality of our support programs and their engagement with our business. We use this feedback to improve our programming and inform decisions about our business. In addition, we closely monitor employee turnover, both in the aggregate and in key subcategories such as executive leadership and diversity, to evaluate our effectiveness in retaining critical personnel.

## **Regulation**

The financial services industry is subject to extensive regulation by U.S. federal, state and international government agencies as well as various self-regulatory organizations. We take an active leadership role in the development of the rules and regulations that govern our industry. We have been investing in our compliance functions to monitor our adherence to the numerous legal and regulatory requirements applicable to our business. Compliance with all applicable laws and regulations, only some of which are described below, involves a significant investment in time and resources. Any new laws or regulations applicable to our business, any changes to existing laws or regulations, or any changes to the interpretations or enforcement of those laws or regulations, may affect our operations and/or financial condition.

### ***Broker-Dealer Regulation***

LPL Financial is a broker-dealer registered with the SEC, a member of the Financial Industry Regulatory Authority ("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. 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.

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, the conduct of directors, officers and employees, qualification and licensing of supervisory and sales personnel, marketing practices, supervisory and organizational procedures intended to ensure compliance with securities laws and to prevent improper trading on material nonpublic information, limitations on extensions of credit in securities transactions, clearance and settlement procedures and rules designed to promote high standards of commercial honor and just and equitable principles of trade. Broker-dealers are also subject to state securities laws and regulated by state securities administrators in those jurisdictions where they do business. Applicable laws, rules and regulations may be subject to varying interpretations and change from time to time.

Regulators make periodic examinations and inquiries of us, and review annual, monthly and other reports on our operations and financial condition. Regulatory actions brought against us alleging violations of applicable laws, rules and regulations could result in censures, penalties and fines, settlements, disgorgement of profits, restitution to customers, remediation or the issuance of cease-and-desist orders. Such actions could also result in the restriction, suspension, or expulsion from the securities industry of us or our financial advisors, officers or employees. We also may incur substantial expenses, damage to our reputation, or similar adverse consequences in connection with any such actions by the SEC, FINRA, the U.S. Department of Labor ("DOL") or state securities regulators, regardless of the outcome.

LPL Financial's 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 LPL Financial 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.

In June 2019, the SEC adopted a new standard of conduct applicable to retail brokerage accounts ("Regulation BI"), with a compliance date of June 30, 2020. Regulation BI requires that broker-dealers act in the best interest of retail customers without placing their own financial or other interests ahead of the customer's and imposes new obligations related to disclosure, duty of care, conflicts of interest and compliance. Certain state securities and insurance regulators have also adopted, proposed or are considering adopting similar laws and regulations. Compliance with these provisions could require us to review our product and service offerings for potential changes and would likely result in increased compliance costs. Moreover, to the extent new rules or regulations affect the operations, financial condition, liquidity and capital requirements of financial institutions with which we do business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us. The ultimate impact that new rules or regulations will have on us, the financial industry and the economy cannot be known until such rules and regulations have been finalized, implemented and enforced. In addition, it is unclear how and whether other regulators, including banking regulators and state securities and insurance regulators, may respond to or attempt to enforce similar issues addressed by Regulation BI. As of June 30, 2020, we implemented new procedures in accordance with Regulation BI.

### ***Investment Advisor Regulation***

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

The SEC is authorized to institute proceedings and impose sanctions for violations of the Advisers Act and associated regulations. Investment advisors also are subject to certain state securities laws and regulations. Failure to comply with the Advisers Act or other federal and state securities laws and regulations could result in investigations, censures, penalties and fines, settlements, disgorgement of profits, restitution to customers, remediation, the issuance of cease-and-desist orders or the termination of an investment advisor's registration. We also may incur substantial expenses, damage to our reputation or similar adverse consequences in connection with such actions, regardless of the outcome.

### ***Retirement Plan Services Regulation***

Certain subsidiaries, including LPL Financial, PTC and LPLIA, are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), and to regulations promulgated under ERISA or the Code, insofar as the subsidiaries provide services with respect to plan clients, or otherwise deal with plan clients that are subject to ERISA or the Code. ERISA imposes certain duties on persons who are "fiduciaries" (as defined in Section 3(21) of ERISA) and prohibits certain transactions involving plans subject to ERISA and fiduciaries or other service providers to such plans. Non-compliance with or breaches of these provisions may expose an ERISA fiduciary or other service provider to liability under ERISA, which may include monetary and criminal penalties as well as equitable remedies for the affected plan. Section 4975 of the Code prohibits certain transactions involving "plans" (as defined in Section 4975(e)(1), which include, for example, IRAs and certain Keogh plans) and service providers, including fiduciaries (as defined in Section 4975(e)(3)), to such plans. Section 4975 imposes excise taxes for violations of these prohibitions.

In December 2020, the DOL issued a new rule that expanded the definition of “fiduciary” under ERISA and Section 4975 of the Code, which we expect to result in legal, compliance, information technology and other costs and could lead to a greater risk of client lawsuits and enforcement activity by the DOL. The effect of any future DOL regulation on our retirement plan business cannot be anticipated or planned for, but may have further impacts on our products and services and results of operations.

### **Commodities and Futures Regulation**

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

### **Trust Regulation**

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

Because of its limited purpose, PTC is not a “bank” as defined under the Bank Holding Company Act of 1956. Consequently, neither its immediate parent, PTC Holdings, Inc., nor its ultimate parent, LPLFH, is regulated by the Board of Governors of the Federal Reserve System as a bank holding company. However, PTC is subject to regulation by the OCC and to various laws and regulations enforced by the OCC, such as capital adequacy, change of control restrictions and regulations governing fiduciary duties, conflicts of interest, self-dealing and anti-money laundering. For example, the Change in Bank Control Act of 1978, as implemented by OCC supervisory policy, imposes restrictions on parties who wish to acquire a controlling interest in a limited purpose national bank such as PTC or the holding company of a limited purpose national bank such as LPLFH. In general, an acquisition of 10% or more of our common stock, or another acquisition of “control” as defined in OCC regulations, may require OCC approval. These laws and regulations are designed to serve specific bank regulatory and supervisory purposes and are not meant for the protection of PTC, PTC Holdings, Inc., LPLFH, or their stockholders.

### **Regulatory Capital Requirements**

The SEC, FINRA, the CFTC and the NFA have stringent rules and regulations with respect to the maintenance of specific levels of net capital by regulated entities. The net capital rule under the Exchange Act requires a broker-dealer to maintain a minimum net capital, and applies certain discounts to the value of its assets based on the liquidity of such assets. LPL Financial is also subject to the NFA’s financial requirements and is required to maintain net capital that is in excess of or equal to the greatest of the NFA’s minimum financial requirements. Under these requirements, LPL Financial is currently required to maintain minimum net capital that is in excess of or equal to the minimum net capital calculated and required pursuant to the SEC’s Net Capital Rule.

The SEC, FINRA, the CFTC and the NFA impose rules that require notification when net capital falls below certain predefined criteria. These broker-dealer capital rules also dictate the ratio of debt to equity in regulatory capital composition and constrain the ability of a broker-dealer to expand its business under certain circumstances. If a broker-dealer fails to maintain the required net capital, then certain notice requirements to the regulators are required and the broker-dealer 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 require prior notice to the SEC and FINRA for certain capital withdrawals. LPL Financial, which is subject to net capital rules, has been and currently is in compliance with those rules and has net capital in excess of the minimum requirements.

### **Anti-Money Laundering and Sanctions Compliance**

The USA PATRIOT Act of 2001, which amended the Bank Secrecy Act, contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers,

futures commission merchants and other financial services companies. Financial institutions subject to these requirements generally must have an anti-money laundering program in place, which includes monitoring for and reporting suspicious activity, implementing specialized employee training programs, designating an anti-money laundering compliance officer and annually conducting an independent test of the effectiveness of its program. In addition, sanctions administered by the United States Office of Foreign Asset Control prohibit U.S. persons from doing business with blocked persons and entities or certain sanctioned countries. We have established policies, procedures and systems designed to comply with these regulations and work continuously to improve and strengthen our regulatory compliance mechanisms.

### **Security and Privacy**

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

### **Financial Information about Geographic Areas**

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

### **Trademarks**

Access Overlay®, BlazePortfolio®, BranchNet®, CLIENTWORKS®, Fortigent®, LPL®, LPL Career Match®, LPL Financial (& Design)®, Manager Access Network®, Manager Access Select®, OMP® and SPONSORWORKS® are our registered trademarks, and ADVISORYWORLD, CLIENTWORKS CONNECTED, ALLEN & COMPANY OF FLORIDA, LLC, and THE PRIVATE TRUST COMPANY, N.A. (& Design) are among our service marks.

## **Item 1A. Risk Factors**

### **Risk Factor Summary**

Our business, operations and financial results are subject to varying degrees of risk and uncertainty. We are providing the following summary of the risk factors to enhance readability of our risk factor disclosure. Material risks that may adversely affect our business and operating results include, but are not limited to, the following:

#### *Risks Related to Our Business and Industry*

- We depend on our ability to attract and retain experienced and productive advisors, and we are subject to competition in all aspects of our business.
- Our financial condition and results of operations may be adversely affected by market fluctuations and other economic factors.
- Significant interest rate changes could affect our profitability and financial condition.
- Any damage to our reputation could harm our business and lead to a loss of revenues and net income.
- Our business is subject to risks related to litigation, arbitration claims and regulatory actions.
- There are risks inherent in the independent broker-dealer business model.
- We rely on third-party service providers, including off-shore providers, to perform technology, processing and support functions, and our operations are dependent on financial intermediaries that we do not control.
- Lack of liquidity or access to capital could impair our business and financial condition.
- Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments.
- 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 face competition in attracting and retaining key talent.
- The securities settlement process exposes us to risks related to adverse movements in price.
- Our indebtedness could adversely affect our financial health and may limit our ability to use debt to fund future capital needs.
- Restrictions under our Credit Agreement and the Indentures governing our Notes may prevent us from taking actions that we believe would be in the best interest of our business.
- Provisions of our Credit Agreement and the Indentures could discourage an acquisition of us by a third-party.
- Our insurance coverage may be inadequate or expensive.
- 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.
- A loss of our marketing relationships with manufacturers of financial products could harm our relationship with our advisors and, in turn, their clients.
- Changes in U.S. federal income tax law could make some of the products distributed by our advisors less attractive to clients.
- The effects of the outbreak of the novel coronavirus (COVID-19) have negatively affected the global economy, U.S. economy and global financial markets, and may disrupt our operations and our advisors' operations, which could have a material adverse effect on our business, financial condition and results of operations.

#### *Risks Related to Our Regulatory Environment*

- Any failure to comply with applicable federal or state laws or regulations exposes us to litigation and regulatory actions, which could increase our costs or negatively affect our reputation.
- Regulatory developments could adversely affect our business by increasing our costs or making our business less profitable.
- We are subject to various regulatory requirements, which, if not complied with, could result in the restriction of the conduct or growth of our business.

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

#### 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 information technology systems may be vulnerable to security risks.
- 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.
- Inadequacy or disruption of our business continuity and disaster recovery plans and procedures in the event of a catastrophe could adversely affect our business.

#### Risks Related to Ownership of Our Common Stock

- The price of our common stock may be volatile and fluctuate substantially, which could result in substantial losses for our investors.
- 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.
- Our future ability to pay regular dividends to holders of our common stock or repurchase shares are subject to the discretion of our board of directors and will be limited by our ability to generate sufficient earnings and cash flows.

#### **Risks Related to Our Business and Industry**

***We depend on our ability to attract and retain experienced and productive advisors, and we are subject to competition in all aspects of our business.***

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

The market for experienced and productive advisors is highly competitive, and we devote significant resources to attracting and retaining well-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.

More broadly, we are subject to competition in all aspects of our business from:

- brokerage and investment advisory firms, including national and regional firms, as well as independent RIA firms;
- asset management firms;
- commercial banks and thrift institutions;
- insurance companies;
- other clearing/custodial technology companies; and
- investment firms offering so-called “robo” advice solutions.

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

of consolidation and acquisition activity and because new competitors face few barriers to entry, which could adversely affect our ability to recruit new advisors and retain existing advisors.

If we fail to continue to attract highly qualified advisors, or if advisors licensed with us leave us to pursue other opportunities, we could face a significant decline in market share, commission and fee revenues or net income. We could face similar consequences if current or potential clients of ours, including current clients that use our outsourced customized clearing, advisory platforms or technology solutions, decide to use one of our competitors rather than us. 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.

***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 revenues. For example, a decrease in market levels or market volatility can:

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

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

In addition, because certain of our expenses are fixed, our ability to reduce them in response to market factors 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 client cash programs, which are generally based on prevailing interest rates. Our revenues from our client cash programs have declined in the past as a result of a low interest rate environment, and our revenues may decline in the future due to decreases in interest rates, decreases in client cash balances or mix shifts among the current or future bank sweep vehicles and money market programs that we offer. The Federal Reserve decreased the federal funds rate in 2020 and there can be no assurance that it will not do so again or maintain a low-interest rate environment for a significant period of time. Our revenues from our client cash programs also depend on our success in negotiating favorable terms in current and future agreements with banks and money market fund providers participating in our programs, as well as our success in offering competitive products, program fees and interest rates payable to clients. The expiration of contracts with favorable pricing terms, less favorable terms in future contracts with participants in our client cash programs or changes in the bank sweep vehicles or money market programs that we offer, could result in declines in our revenues. A sustained low interest rate environment may also 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 client cash programs. If interest rates do not rise, or if balances or yields in our client cash programs decrease, future revenues from our client cash programs may be lower than expected.

**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 client service, which is built upon our support for our advisors through: 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 acceptable standards of service and quality, including technology or cybersecurity failures;
- 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, and could lead advisors to terminate their agreements with us, which they generally have the right to do unilaterally upon short notice. 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 revenues and net income.

**Our business is subject to risks related to litigation, arbitration claims and regulatory actions.**

From time to time, we have been subjected to and are currently subject to legal and regulatory proceedings arising out of our business operations, including lawsuits, arbitration claims, governmental subpoenas and regulatory, governmental and self regulatory organization ("SRO") inquiries, investigations and enforcement proceedings, as well as other actions and claims. Many of our legal claims are initiated by clients of our advisors and involve the purchase or sale of investment securities, but other claims and proceedings may be, and have been, initiated by state-level and federal regulatory authorities and SROs, including the SEC, FINRA and state securities regulators.

The outcomes of any such legal or regulatory proceedings, including inquiries, investigations and enforcement proceedings by the SEC, FINRA, DOL and state securities regulators, are difficult to predict. A negative outcome in such a matter could result in substantial legal liability, censures, penalties and fines, disgorgement of profits, restitution to customers, remediation, the issuance of cease-and-desist orders, or injunctive or other equitable relief against us. Further, such negative outcomes individually or in the aggregate may cause us significant reputational harm and could have a material adverse effect on our ability to recruit or retain financial advisors, or our results of operations, cash flows or financial condition.

We may face liabilities for deficiencies or failures in our compliance systems and programs, as well as actual or alleged breaches of legal duties to our advisors' clients, including 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 and certain fiduciary obligations for advice and recommendations made to our advisory clients.

Moreover, new and developing state and federal regulatory requirements with respect to standards of care and other obligations, as discussed under "Risks Related to Our Regulatory Environment" below, may introduce new grounds for legal claims or enforcement actions against us in the future, including, in particular with respect to our brokerage services. We may also become subject to claims, allegations and legal proceedings related to employment matters, including wage and hour, discrimination or harassment claims, or matters involving others' intellectual property or other proprietary rights, including infringement or misappropriation claims.

**There are risks inherent in the independent broker-dealer business model.**

Compared to wirehouses and other employee model broker-dealers, we generally offer advisors wider choice in operating their businesses with regard to product offerings, outside business activities, office technology and supervisory models. Our approach may make it more challenging for us to comply with our supervisory and regulatory compliance obligations, particularly in light of our limited on-site supervision and the complexity of certain advisor business models.

Misconduct and errors by our employees and our advisors could be difficult for us to detect and could result in violations of law by us, regulatory sanctions, or serious reputational or financial harm. Although we have designed policies and procedures to comply with applicable laws, rules, regulations and interpretations, we cannot always

prevent or detect 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 typically not our direct employees and some of whom tend to be located in small, decentralized offices, present additional challenges, particularly in the case of complex products or supervision of outside business activities. In addition, although we provide our advisors with requirements and recommendations for their office technology, we cannot fully control or monitor the extent of their implementation of our requirements and recommendations. Accordingly, we cannot assure that our advisors' technology meets our standards, including with regard to information security and cybersecurity. We also cannot assure that misconduct or errors by our employees or advisors will not lead to a material adverse effect on our business, or that our errors and omissions insurance will be sufficient to cover such misconduct or errors.

***We rely on third-party service providers, including off-shore providers, to perform technology, processing and support functions, and our operations are dependent on financial intermediaries that we do not control.***

We rely on outsourced service providers to perform certain technology, processing and support functions. For example, we have an agreement with Refinitiv US LLC, under which it provides us key operational support, including data processing services for securities transactions and back office processing support ("BETAHost"). Our use of third-party service providers may decrease our ability to control operating risks and information technology systems risks.

Any significant failures by BETAHost or our other service providers could cause us to sustain serious operational disruptions and incur losses and could harm our reputation. These third-party service providers are also susceptible to operational and technology vulnerabilities, including cyber-attacks, security breaches, fraud, phishing attacks and computer viruses, which could result in unauthorized access, misuse, loss or destruction of data, an interruption in service or other similar events that may impact our business.

We cannot assure that our third-party service providers will be able to continue to provide their services in an efficient, cost-effective manner, if at all, or that they will be able to adequately expand their services to meet our needs and those of our advisors. An interruption in or the cessation of service by a third-party service provider and our inability to make alternative arrangements in a timely manner could cause a disruption to our business and could have a material impact on our ability to serve our advisors and their clients. In addition, we cannot predict the costs or time that would be required to find an alternative service provider.

We have transitioned certain business and technology processes to off-shore providers, which has increased the related risks described above. For example, we rely on several off-shore service providers, operating in multiple locations, for functions related to cash management, account transfers, information technology infrastructure and support and document indexing, among others. To the extent third-party service providers are located in foreign jurisdictions, we are exposed to risks inherent in such providers conducting business outside of the United States, including international economic and political conditions, and the additional costs associated with complying with foreign laws and fluctuations in currency values.

We expect that our regulators would hold us responsible for any deficiencies in our oversight and control of our third-party relationships and for the performance of such third parties. If there were deficiencies in the oversight and control of our third-party relationships, and if our regulators held us responsible for those deficiencies, our business, reputation and results of operations could be adversely affected.

In addition, certain aspects of our operations are dependent on third-party financial institutions that we do not control, such as clearing agents, securities exchanges, clearing houses and other financial intermediaries. Any failure of these intermediaries, or any interruption in their operations, either on a widespread or individual basis, could adversely affect our ability to execute transactions, service our clients and manage our exposure to risk. In the event of such failure or interruption, there is no guarantee that we would be able to find adequate and cost-effective replacements on a timely basis, if at all.

Like us, these intermediaries are exposed to risks related to fluctuations and volatility in the financial markets and broader economy, as well as specific operational risks related to their business, such as those related to technology, security and the prevailing regulatory environment. Because we rely on these intermediaries, we share indirect exposure to these risks. If these risks were to materialize, or if there was a widespread perception that they could materialize, our business and results of operations could be adversely affected.

**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;
- regulatory penalties or fines, settlements, customer restitution or other remediation costs; or
- adverse legal settlements or judgments.

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 limit or curtail our operations or growth plans, and our business would suffer.

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, the committed revolving credit facility at our broker-dealer subsidiary, LPL Financial, or uncommitted lines of credit. We may also need access to capital in connection with the growth of our business, through acquisitions or otherwise.

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 as a result of industry- or company-specific considerations. 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 revenues 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.

**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. We can provide no assurances that advisors who join LPL Financial through acquisitions or investments in advisor practices will remain at LPL Financial. Moreover, we may not be able to successfully integrate acquired businesses into ours, and therefore we may not be able to realize the intended benefits from an acquisition. We may have a lack of experience in new markets, products or technologies brought on by the acquisition and we may have an initial dependence on unfamiliar supply or distribution partners. An acquisition may create an impairment of relationships with customers or suppliers of the acquired business or our advisors or suppliers. All of these and other potential risks may serve as a diversion of our management's attention from other business concerns, and any of these factors could have a material adverse effect on our business.

In December 2020, our wholly owned subsidiary LPL Holdings, Inc. ("LPL Holdings") entered into a stock and asset purchase agreement (the "Purchase Agreement") with Macquarie Management Holdings, Inc. ("Macquarie"). Pursuant to the Agreement, LPL Holdings will acquire the wealth management business of Waddell & Reed

Financial, Inc. ("Waddell & Reed"), upon completion of Macquarie's acquisition of all of the issued and outstanding common shares of Waddell & Reed.

The transaction is expected to close in the middle of 2021, subject to satisfaction of closing conditions. There can be no assurance that the transaction will be completed timely or at all due to several factors, including, but not limited to: the failure of the parties to satisfy the closing conditions in the Purchase Agreement in a timely manner or at all, including the completion of the acquisition of Waddell & Reed by Macquarie, obtaining the required stockholder and regulatory approvals and the retention by Waddell & Reed of minimum assets prior to closing. Further, several factors could negatively affect our ability to fully realize the revenue or expense synergies or the other expected benefits of the transaction, including, but not limited to: difficulties and delays in recruiting Waddell & Reed financial advisors or onboarding the clients or businesses of Waddell & Reed financial advisors to our platforms, challenges in separating the operations of Waddell & Reed's wealth management business from the operations to be retained by Macquarie and disruptions to our or Waddell & Reed's businesses as a result of the announcement and pendency of the transactions.

***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 effective and may not be adapted quickly enough to respond effectively to changed circumstances. Some of our compliance and risk evaluation functions depend upon information technology systems, 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 available, accurate, complete or up-to-date. Also, because many of our advisors work in decentralized offices, additional risk management challenges may exist, including with regard to advisor office technology and information security practices. In addition, our existing systems, policies and procedures, and staffing levels may be insufficient to support a significant increase in our advisor population. Any such increase could require us to increase our costs, including information technology costs, in order to maintain our compliance and risk management obligations, or strain our existing policies and procedures as we evolve to support a larger advisor population. If our systems, policies and procedures are not effective, or if we are not successful in capturing 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.

***We face competition in attracting and retaining key talent.***

Our success depends upon the continued services of our key senior management personnel, including our executive officers and senior managers. Each of our executive officers is an employee at will, and none has an employment agreement. 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.

Moreover, 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, and 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.

***The securities settlement process exposes us to risks related to adverse movements in price.***

LPL Financial 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 liabilities 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 losses resulting from adverse movements in the prices of such securities.

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

At December 31, 2020, we had total indebtedness of \$2.3 billion, of which \$1.1 billion is subject to floating interest rates. Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions. It could also require us to dedicate a substantial portion of our cash flow from operations to payments on

our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes. In addition, our level of indebtedness may limit our flexibility in planning for changes in our business and the industry in which we operate, and limit our ability to borrow additional funds. If interest rates increase, our interest expense would increase because borrowings under our senior secured credit agreement ("Credit Agreement") are based on variable interest rates.

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 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 Credit Agreement or other future indebtedness, our creditors could, among other things, accelerate the maturity of our indebtedness.

Our Credit Agreement and the indentures (as supplemented, "Indentures") governing our senior unsecured notes (as defined further below, the "Notes") permit us to incur additional indebtedness. Under our Credit Agreement, we have the right to request additional commitments for new term loans, new revolving credit commitments and increases to then-existing term loans and revolving credit commitments, subject to certain limitations. Although the Credit Agreement and the Indentures contain 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 the Credit Agreement or the Indentures. 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 the Credit Agreement or the Indentures. 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. In addition, if such downgrade were to occur, or if ratings agencies indicated that a downgrade may occur, perceptions of our financial strength could be damaged, which could affect our client relationships and decrease the number of investors, clients and counterparties that do business with us.

***Restrictions under our Credit Agreement and the Indentures governing our Notes may prevent us from taking actions that we believe would be in the best interest of our business.***

Our Credit Agreement and the Indentures contain customary restrictions on our activities, including covenants that may restrict us from:

- incurring additional indebtedness or issuing disqualified stock or preferred stock;
- declaring dividends or other distributions to stockholders;
- repurchasing equity interests;
- redeeming indebtedness that is subordinated in right of payment to certain debt instruments;
- making investments or acquisitions;
- creating liens;
- selling assets;
- guaranteeing indebtedness;
- engaging in certain transactions with affiliates;
- entering into agreements that restrict dividends or other payments from subsidiaries; and
- consolidating, merging or transferring all or substantially all of our assets.

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 Credit Agreement or the Indentures, as applicable, and payment of the indebtedness could be accelerated. Acceleration of our indebtedness under our Credit Agreement or the Indentures 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 Credit Agreement and the Indentures could discourage an acquisition of us by a third-party.***

Certain provisions of our Credit Agreement and the Indentures 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 Credit Agreement may be accelerated and become due and payable and noteholders will have the right to require us to repurchase the Notes at a purchase price equal to 101% of the principal amount of the Notes plus accrued and unpaid interest, if any, to but not including the purchase date. A potential acquirer may not have sufficient financial resources to purchase our outstanding indebtedness in connection with a change of control.

***Our insurance coverage may be inadequate or expensive.***

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

We maintain voluntary and required insurance coverage, including, among others, general liability, property, director and officer, excess-SIPC, business interruption, cyber and data breach, errors and omissions and fidelity bond insurance. We have self-insurance for certain potential liabilities through a wholly-owned captive insurance subsidiary. While we endeavor to self-insure and purchase coverage that is appropriate based on our assessment of our risk, we are unable to predict with certainty the frequency, nature or magnitude of claims for direct or consequential damages. Assessing the probability of a loss occurring and the timing and amount of any loss related to a regulatory matter or a legal proceeding is inherently difficult, and there are particular uncertainties and complexities involved when assessing the adequacy of loss reserves for potential liabilities that are self-insured by our captive insurance subsidiary. In addition, certain types of potential claims for damages cannot be insured. Our business may be negatively affected if in the future some or all of our insurance proves to be inadequate or unavailable to cover our liabilities related to legal or regulatory matters. Such negative consequences could include additional expense and financial loss, which could be significant in amount. In addition, insurance claims may harm our reputation or divert management resources away from operating our business.

***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 have control over their assets that are served under our platforms. Poor service or performance of the financial products that we offer, the emergence of new financial products or services from others, harm to our reputation or competitive pressures on pricing of such services or products may result in the loss of clients. 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 or zero commissions to attract clients or trading volume, direct-to-investor online financial services, including so-called "robo" advice, or higher deposit rates to attract client cash balances, could result in pricing pressure or otherwise adversely impact our business. The decrease in revenues that could result from such an event could have a material adverse effect on our business.

***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 many of the industry-leading providers of financial and insurance products. We have sponsorship agreements with some manufacturers of fixed and variable annuities and mutual funds that, subject to the survival of certain terms and conditions, may be terminated by the manufacturer upon notice. If we lose our relationships with one or more of these manufacturers, our ability to serve our advisors and, in turn, their clients, and our business, may be materially adversely affected. As an example, certain variable annuity product sponsors have ceased offering and issuing new variable annuity contracts. If this trend continues, we could experience a loss in the revenues 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 revenues we currently generate from the sale of such products.

***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.

***The effects of the outbreak of the novel coronavirus (COVID-19) have negatively affected the global economy, U.S. economy and global financial markets, and may disrupt our operations and our advisors' operations, which could have a material adverse effect on our business, financial condition and results of operations.***

The ongoing COVID-19 pandemic has caused significant disruption in the international and U.S. economies and financial markets. The spread of COVID-19 and efforts to contain it have resulted in illness, quarantines, cancellation of events and travel, business shutdowns, reduction in business activity and financial transactions, labor shortages, increased unemployment, supply chain interruptions and overall economic and financial market instability. Impacts on our business could be wide-ranging, and material impacts are possible, including the following:

- Employees contracting COVID-19, including unavailability of key personnel necessary to conduct our business operations
- A prolonged downturn in equity and other financial markets, which would adversely affect our advisory, asset-based and trailing commission revenues
- A sustained low interest rate environment, which would reduce revenues from our client cash programs included in asset-based revenues
- Reductions in our service levels or operating effectiveness as a substantial majority of our employees are working remotely in response to the pandemic
- Failure of our information technology systems, which could result in interruptions or errors in performing securities clearing and custody functions, as a result of extraordinary trading volumes, malware, ransomware or malicious cyber activity
- Disruptions in technology, processing or support functions as our outsourced service providers or other vendors, including off-shore providers, experience disruptions in their business operations
- Reduction in our ability to recruit advisors or otherwise execute our growth plans due to travel restrictions, limitations on interpersonal contact and challenging macro economic conditions
- Closure of our offices or the offices of our advisors

The COVID-19 pandemic and efforts to contain it have also resulted in increased volatility. The further spread of COVID-19 and attempts to curtail it by limiting interpersonal activity, including business activity, may increase instability in domestic and international financial markets and materially disrupt general economic and financial activity. Significant disruptions in financial markets could result in a decline in demand for the products and services offered by our advisors to their clients, or their ability to provide them, which would negatively impact our and their financial results and growth strategy.

In addition, an overall decline in equity market prices will generally reduce the value of advisory and brokerage assets, which has previously resulted and may in the future result in a reduction in the advisory fees, asset-based fees and trailing commissions we are entitled to receive. Moreover, in response to the economic fallout from the COVID-19 pandemic, the Federal Reserve reduced the federal funds rate by 150 basis points in March 2020 and there is a substantial likelihood that interest rates will remain low while global economic activity is suppressed. The reduction in prevailing interest rates has in turn reduced, and will continue to reduce, our revenues from our client cash programs and may affect our ability to negotiate favorable terms in future agreements with banks and money market fund providers that participate in our programs.

The COVID-19 pandemic could also jeopardize our ability to rely on our outsourced service providers, including those that operate offshore. As COVID-19 has spread, governments in the United States and around the

world, including in jurisdictions where our service providers have operations, have from time to time imposed or encouraged varying degrees of limitations on travel and social interaction. In many cases this has resulted in the partial or complete closure of businesses, including some that we rely on. While we have taken steps to minimize the disruptions that these closures have caused, and are seeking to avoid interruptions to our critical operations, there can be no guarantee that they will be effective, or, if they are effective, that such effect will be sustained or cost-effective. In addition, if business closures are prolonged or become more widespread, our ability to modify our operations to avoid interruption may become more limited or costly. Any interruption to our operations could have a negative effect on our reputation and results of operations.

In response to the COVID-19 pandemic, we have implemented significant elements of our business continuity plans, and have begun relying on capabilities that we previously put into place to support these plans. While we believe that these plans and their implementation have helped avoid significant interruptions to our critical services, there can be no assurance that they will be able to do so on a sustained or uninterrupted basis, and reliance on such plans could expose our business to other operational risks. For example, while we have taken steps to ensure that our remote-work solutions are reliable and secure, especially those related to the handling, transmission, storage and disposal of sensitive personal or confidential information, there can be no assurance that these solutions will be used or function as intended, or that they will be completely effective in preventing interruptions in our services or cybersecurity incidents. In addition, there can be no assurance that the third parties that provide and maintain some of these solutions will be able to do so on a sustained and uninterrupted basis. Because we do not control these third parties, we are subject to the limitations, deficiencies and vulnerabilities of their services, products, and operations. Any compromise, failure, or interruption in the availability of the solutions that support our remote-work operations could directly or indirectly result in cybersecurity incidents, interruptions to our business, and negative effects on our reputation and results of operations.

## Risks Related to Our Regulatory Environment

***Any failure to comply with applicable federal or state laws or regulations exposes us to litigation and regulatory actions, which could increase our costs or negatively affect our reputation.***

Our business, including securities and investment advisory services, is subject to extensive regulation under both federal and state laws, rules and regulations. Our broker-dealer subsidiary, LPL Financial, is:

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

The primary self-regulator of LPL Financial is FINRA. LPL Financial is also subject to state laws, including state “blue sky” laws, and the rules of Municipal Securities Rulemaking Board for its municipal securities activities. The CFTC has designated the NFA as LPL Financial’s primary regulator for futures and commodities trading activities.

The SEC, FINRA, DOL, the CFTC, the OCC, various securities and futures exchanges and other United States and state-level governmental or regulatory authorities continuously review legislative and regulatory initiatives and may adopt new or revised laws, regulations or interpretations. There can be no assurance that other federal or state agencies will not attempt to further regulate our business or that specific interactions with foreign countries or foreign nationals will not trigger regulation in non-U.S. law in particular circumstances. These legislative and regulatory initiatives may affect the way in which we conduct our business and may make our business model less profitable.

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

reporting systems and procedures, as well as our ability to attract and retain qualified compliance, audit, supervisory and risk management personnel. We cannot assure you that our systems and procedures are, or have been, effective in complying with all applicable laws, rules and regulations and interpretations. In particular, the diversity of information security environments in which our services are offered makes it difficult to ensure a uniformly robust level of compliance. Regulators have in the past raised, and may in the future raise, concerns with respect to the quality, consistency or oversight of our compliance systems and programs and our past or future compliance with applicable laws, rules and regulations. As of the date of this Annual Report on Form 10-K, we have a number of pending regulatory matters.

Violations of laws, rules or regulations and settlements in respect of alleged violations have in the past resulted in, and could in the future result in, legal liability, censures, penalties and fines, disgorgement of profits, restitution to customers, remediation, the issuance of cease-and-desist orders or injunctive or other equitable relief against us, which individually or in the aggregate could negatively impact our financial results or adversely affect our ability to attract or retain financial advisors and institutions. Depending on the nature of the violation, we may be required to offer restitution or remediation to customers, and the costs of doing so could exceed our loss reserves.

We have established a captive insurance subsidiary that underwrites insurance for various regulatory and legal risks, although self-insurance coverage is not available for all matters. The availability of coverage depends on the nature of the claim and the adequacy of reserves, which depends in part on historical claims experience, including the actual timing and costs of resolving matters that begin in one policy period and are resolved in a subsequent period. Assessing the probability of a loss occurring and the timing and amount of any loss related to a regulatory matter or a legal proceeding is inherently difficult and requires significant and complex judgments, which may include the procedural status of the matter and any recent developments; prior experience and the experience of others in similar matters; the size and nature of potential exposures; available defenses; the progress of fact discovery; the opinions of counsel and experts; potential opportunities for settlement and the status of any settlement discussions; as well as the potential for insurance coverage and indemnification, if available. There are particular uncertainties and complexities involved when assessing the adequacy of loss reserves for potential liabilities that are self-insured by our captive insurance subsidiary. As a result, actual self-insurance liabilities could exceed our loss reserves, in which case coverage may not be available and we could incur material additional expense.

***Regulatory developments could adversely affect our business by increasing our costs or making our business less profitable.***

Our profitability could 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 standards of care applicable to investment advice and recommendations, taxation, the classification of our independent advisors as independent contractors rather than our employees, trading, electronic commerce, privacy, data protection and anti-money laundering. Failure to comply with these rules and regulations could subject us to regulatory actions or litigation and it could have a material adverse effect on our business, results of operations, cash flows or financial condition.

New laws, rules and regulations, or changes to the interpretation or enforcement of existing laws, rules or regulations, could also result in limitations on the lines of business we conduct or plan to conduct, modifications to our current or future business practices, compressed margins, increased capital requirements and additional costs. For example, in June 2019, the SEC adopted Regulation BI, which imposes an overarching standard of conduct that requires broker-dealers and their associated persons to act in the best interest of their retail customers when making securities recommendations and imposes a number of new compliance and disclosure obligations on broker-dealers. Nevada has enacted, and other state legislatures (including New Jersey, Massachusetts and Maryland) are considering, statutes that impose fiduciary standards and other obligations on broker-dealers and investment advisers operating in their states. New York recently adopted a best interest standard that became applicable to the sale of certain annuity and insurance products beginning August 1, 2019. We expect that these laws and proposals could negatively impact our results, including by increasing our expenditures related to legal, compliance, information technology, and could result in other costs, including greater risks of client lawsuits and enforcement activity by regulators. These changes may also affect the array of products and services we offer to clients and the compensation that we and our advisors receive in connection with such products and services.

It is also unclear how and whether other regulators, including FINRA, the DOL, banking regulators and other state securities and insurance regulators may respond to, or enforce elements of, these new regulations, or develop their own similar laws and regulations. The impacts, degree and timing of the effect of these laws and future regulations on our business cannot now be anticipated or planned for, and may have further impacts on our

products and services and the results of operations. Please consult the Retirement Plan Services Regulation section within Part I, "Item 1. Business" for specific information about risks associated with DOL regulations and related exemptions and their potential impact on our operations.

In addition, the Dodd-Frank Act enacted wide-ranging changes in the supervision and regulation of the financial industry designed to provide for greater oversight of financial industry participants, reduce risk in banking practices and in securities and derivatives trading, enhance public company corporate governance practices and executive compensation disclosures and provide for greater protections to individual consumers and investors. Certain elements of the Dodd-Frank Act remain subject to implementing regulations that are yet to be adopted by the applicable regulatory agencies. Compliance with these provisions could require us to review our product and service offerings for potential changes and would likely result in increased compliance costs. Moreover, to the extent the Dodd-Frank Act affects the operations, financial condition, liquidity and capital requirements of financial institutions with which we do business, those institutions may seek to pass on increased costs, reduce their capacity to transact, or otherwise present inefficiencies in their interactions with us. The ultimate impact that the Dodd-Frank Act will have on us, the financial industry and the economy cannot be known until all such applicable regulations called for under the Dodd-Frank Act have been finalized and implemented.

Likewise, federal and state standards prohibiting discrimination on the basis of disability in public accommodations and employment, including those related to the Americans with Disabilities Act, are evolving to require an increasing number of public spaces, including web-based applications, to be made accessible to the disabled. As a result, we could be required to make modifications to our internet-based applications or to our other client- or advisor-facing technologies, including our website, to provide enhanced or accessible service to, or make reasonable accommodations for, disabled persons. This adaptation of our websites and web-based applications and materials could result in increased costs and may affect the products and services we provide. Failure to comply with federal or state standards could result in litigation, including class action lawsuits.

In sum, our profitability may be adversely affected by current and future rulemaking and enforcement activity by the various federal, state and self-regulatory organizations to which we are subject. The effect of these regulatory developments on our business cannot now be anticipated or planned for, but may have further impacts on our products and services and results of operations.

***We are subject to various regulatory requirements, which, if not complied with, could result in the restriction of the conduct or growth 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. FINRA Rule 1017 generally provides, among other things, that FINRA approval must be obtained in connection with any transaction resulting in a 25% or more change in our ownership that results in one person or entity directly or indirectly owning or controlling 25% or more of us. Similarly, the OCC imposes advance approval requirements for a change of control, and control is presumed to exist if a person acquires 10% or more of our common stock. These regulatory approval processes can result in delay, increased costs or impose additional transaction terms in connection with a proposed change of control, such as capital contributions to the regulated entity. As a result of these regulations, our future efforts to sell shares or raise additional capital may be delayed or prohibited.

In addition, the SEC, FINRA, the CFTC, the OCC and the NFA have extensive rules and regulations with respect to capital requirements. As a registered broker-dealer, LPL Financial is subject to Rule 15c3-1 ("Net Capital Rule") under the Exchange Act, and related requirements of SROs. The CFTC and the NFA also impose net capital requirements. The 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 Net Capital Rule. However, the ability of our holding companies to withdraw capital from our broker-dealer subsidiary could be restricted, which in turn could limit our ability to repay debt, redeem or purchase shares of our outstanding stock or pay dividends. A large operating loss or charge against net capital could adversely affect our ability to expand or even maintain our present levels of business.

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

As discussed above, we are subject to ERISA and Section 4975 of the Code, and to regulations promulgated thereunder, insofar as we provide services with respect to plan clients, or otherwise deal with plan clients that are subject to ERISA or the Code. ERISA imposes certain duties on persons who are “fiduciaries” (as defined in Section 3(21) of ERISA) and prohibits certain transactions involving plans subject to ERISA and fiduciaries or other service providers to such plans. Non-compliance with or breaches of these provisions may expose an ERISA fiduciary or other service provider to liability under ERISA, which may include monetary and criminal penalties as well as equitable remedies for the affected plan. Section 4975 of the Code prohibits certain transactions involving “plans” (as defined in Section 4975(e)(1)), which include, for example, IRAs and certain Keogh plans, and service providers, including fiduciaries (as defined in Section 4975(e)(3)) to such plans. Section 4975 also imposes excise taxes for violations of these prohibitions. Our failure to comply with ERISA and the Code could result in significant penalties against us that could have a material adverse effect on our business (or, in a worst case, severely limit the extent to which we could act as fiduciaries for or provide services to these plans).

**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, storage 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:

- continue to invest significant resources on our technology systems in order to meet industry and regulatory standards, consumer preferences and the efforts of threat actors to penetrate our systems;
- successfully maintain and upgrade the capabilities of our systems;
- address the needs of our advisors and their clients by using technology to provide products and services that satisfy their demands while ensuring the security of the data involving those products and services;
- use technology effectively and securely to support our regulatory compliance and reporting functions;
- comply with the changing landscape of laws and regulations that govern protection of personally identifiable information; and
- retain skilled information technology employees.

Extraordinary trading volumes, malware, ransomware or attempts by hackers to introduce large volumes of fraudulent transactions into our systems, 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 or failure to effectively upgrade those systems or implement new technology-driven products or services, could result in financial losses, unanticipated disruptions in our service, liability to our advisors or advisors’ clients, compliance failures, 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, including personally identifiable information of advisors and their clients, as well as our employees. Although we take protective measures and endeavor to modify them as circumstances warrant, our computer systems, software and networks are to some degree vulnerable to unauthorized access, human error, computer viruses, denial-of-service attacks, malicious code, spam attacks, phishing, ransomware or other forms of social engineering and other events that could impact the security, reliability, confidentiality, integrity and availability of our systems. To the extent third parties, such as product sponsors, also retain similarly sensitive information about our advisors or their clients, their systems may face similar vulnerabilities. We are not able to protect against these events completely given the rapid evolution of new vulnerabilities, the complex and distributed nature of our systems, our interdependence on the systems of other companies and the increased sophistication of potential attack vectors and methods against our systems. In particular, advisors work in a wide variety of environments, and although we require minimum security by policy, we cannot ensure the consistent compliance with these policies across all of our advisors, or that our policy will be adequate to address the evolving threat environment. If one or more of these events occur, they 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. As a result, we could be subject to litigation, client loss, reputational harm, regulatory sanctions and financial losses that are either not insured or are not fully covered through any insurance we maintain. If any person, including any of our employees or advisors, negligently disregards or intentionally breaches our established controls with respect to client data, or otherwise mismanages or misappropriates that data, we could also be subject to significant monetary damages, regulatory enforcement actions, fines and/or criminal prosecution in one or more jurisdictions.

***Our information technology systems may be vulnerable to security risks.***

The secure transmission of confidential information, including personally identifiable 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, our advisors and our employees, as well as proprietary information relating to our business operations. The risks related to transmitting data and using service providers outside of and storing or processing data within our network are increasing based on escalating and malicious cyber activity, including activity that originates outside of the United States from criminal elements and hostile nation-states.

Cybersecurity requires ongoing investment and diligence against evolving threats and is subject to federal and state regulation relating to the protection of confidential information. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures, to make required notifications, or to update our technologies, websites and web-based applications to comply with industry and regulatory standards, but we may not have adequate personnel, financial or other resources to fully meet these standards. We will also be required to effectively and efficiently govern, manage and ensure timely evolutions in our systems, including in their design, architecture and interconnections as well as their organizational and technical protections. New regulations may be promulgated by relevant federal and state authorities at any time and compliance with regulatory expectations may become increasingly complex as more state regulatory authorities issue or amend regulations, which sometimes conflict, governing handling of confidential information by companies within their jurisdiction. Several states, including California, Colorado, Connecticut, Michigan, Nevada, New York, South Carolina and Vermont, have promulgated cybersecurity requirements that impact our compliance obligations. Compliance with these regulations also could be costly and disruptive to our operations, and we cannot provide assurance that the impact of these regulations would not, either individually or collectively, be material to our business.

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 or malicious computer code, we or our advisors could experience data loss, financial loss, harm to reputation, regulatory violations, class action and commercial litigation and significant business interruption or loss. In addition, vulnerabilities of our external service providers could pose security risks to client information. If any such disruption or failure, real or perceived, occurs, we or our advisors may be exposed to unexpected liability, advisors or their clients may withdraw assets, our reputation may be tarnished and there could be a material adverse effect on our business. Further, any actual or perceived breach or cybersecurity attack directed at other financial institutions or financial services companies, whether or not we are targeted, could lead to a general loss of customer confidence in the use of technology to conduct financial transactions, which could negatively impact us, including the market perception of the effectiveness of our security measures and technology infrastructure. The occurrence of any of these events may have a material adverse effect on our business or results of operations.

Our own information technology systems are to some degree vulnerable to unauthorized access and other security risks. 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, either intentionally or unintentionally, 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 infiltrate or damage our systems or facilities and wrongfully use our confidential information or clients' confidential information or cause interruptions or malfunctions in our operations. Cyber-attacks can be designed to collect information, manipulate, destroy or corrupt data, applications, or accounts and to disable the functioning or use of applications or technology assets. Such activity could, among other things:

- seriously damage our reputation;
- allow competitors or hackers 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 obligations, based on state law or the authority of the SEC and FINRA to enforce regulations regarding business continuity planning or cybersecurity;
- subject us to litigation by consumers, advisors or other business partners that may suffer damages as a result of such activity;
- result in inaccurate financial data reporting; and
- require significant capital and operating expenditures to investigate and remediate the breach.

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

In the course of operations, we share sensitive corporate and personal data with vendors, third parties and other financial institutions. Although we conduct some level of due diligence before sharing data with third parties, this due diligence may not uncover administrative, technical or electronic gaps or flaws in their processes or systems. In 2018, we experienced a limited breach of information security at a vendor, which led to notification costs and potential reputational harm with regulators, current and potential advisors and advisors' clients. We also experienced an incident at another financial institution which held advisor data in the normal course of operations. Similar incidents in the future could lead to litigation involving other financial institutions, class actions, regulatory investigations or other harm.

In light of the high volume of transactions we process, the large number of our advisors and their clients, the diversity of our advisors' security environments and the increasing sophistication of malicious actors, a cyber-attack could occur and persist for an extended period of time without detection. We expect that any investigation of a cyber-attack could take substantial amounts of time, and that there may be extensive delays before we obtain full and reliable information. In some cases, the nature of the attack may be such that full and reliable information may never be available. During such time we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be repeated or compounded before they are discovered and remediated, all of which would further increase the costs and consequences of such an attack.

***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 believe that 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 and their clients. 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;
- performance reporting;
- customer service;
- accounting and internal financial processes and controls; and
- regulatory compliance and reporting.

Our continued success depends on our ability to effectively adopt new or adapt existing technologies to meet changing client, industry and regulatory demands. The emergence of new industry standards and practices could render our existing systems obsolete or uncompetitive. There cannot be any assurance that another company will not design a similar or better platform that renders our technology less competitive.

Maintaining competitive technology requires us to make significant capital expenditures, both in the near term and longer-term. There cannot be any assurance that we will have sufficient resources to adequately update and expand our information technology systems or capabilities, or offer our services on the personal and mobile computing devices that may be preferred by our advisors and/or their clients, nor can there be any assurance that any upgrade or expansion efforts will be sufficiently timely, successful, secure and accepted by our current and prospective advisors or their clients. The process of upgrading and expanding our systems has at times caused,

and may in the future cause us to suffer system degradations, outages and failures. 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 breakdown in advisors' systems could have similar effects. 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. Security, stability and regulatory risks also exist because parts of our infrastructure and software are beyond their manufacturer's stated end of life. We are working to mitigate such risks through additional controls and increased modernization spending, although we cannot provide assurance that our risk mitigation efforts will be effective, in whole or in part.

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

We have made a significant investment in our infrastructure, and our operations are dependent on our ability to protect the continuity of our infrastructure against damage from catastrophe or natural disaster, breach of security, human error, loss of power, computer and/or 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. In addition, we depend on the adequacy of the business continuity and disaster recovery plans of our third-party service providers, including off-shore service providers, in order to prevent or mitigate service interruptions. If our business continuity and disaster recovery plans and procedures, or those of our third-party service providers, were disrupted or unsuccessful in the event of a catastrophe, we could experience a material adverse interruption of our operations.

**Risks Related to Ownership of Our Common Stock**

***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 may fluctuate substantially due to the following factors (in addition to the other risk factors described in this Item 1A):

- actual or anticipated fluctuations in our results of operations, including with regard to interest rates or revenues associated with our client cash programs or key business lines;
- variance in our financial performance from the expectations of equity research analysts;
- conditions and trends in the markets we serve;
- announcements of significant new services or products by us or our competitors;
- additions or changes to key personnel;
- the commencement or outcome of litigation or arbitration proceedings;
- the commencement or outcome of regulatory actions, including settlements with the SEC, FINRA, DOL or state securities regulators;
- changes in market valuation or earnings of our competitors;
- the trading volume of our common stock;
- future sales of our equity securities;
- changes in the estimation of the future size and growth rate of our markets;
- legislation or regulatory policies, practices or actions, including developments related to the "best interest" and "fiduciary" standards of care;
- political developments; and
- general economic conditions.

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

company. This type of litigation 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 or repurchase shares are subject to the discretion of our board of directors and will be limited by our ability to generate sufficient earnings and cash flows.***

Our board of directors declared quarterly cash dividends on our outstanding common stock in 2020 and has from time to time authorized us to repurchase shares of the Company's issued and outstanding shares of common stock. The declaration and payment of any future quarterly cash dividend or any additional repurchase authorizations will be subject to the board of directors' continuing determination that the declaration of future dividends or repurchase of our shares are in the best interests of our stockholders and are in compliance with our Credit Agreement, the Indentures and applicable law. Such determinations will depend upon a number of factors that the board of directors deems relevant, including future earnings, the success of our business activities, capital requirements, alternative uses of capital, the general financial condition and future prospects of our business and general business conditions.

The future payment of dividends or repurchases of shares will also depend on our ability to generate earnings and cash flows. If we are unable to generate sufficient earnings and cash flows from our business, we may not be able to pay dividends on our common stock or repurchase additional shares. In addition, our ability to pay cash dividends on our common stock and repurchase shares is dependent on the ability of our subsidiaries to pay dividends, including compliance with limitations under our Credit Agreement and the Indentures. 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.

**Item 1B. Unresolved Staff Comments**

None.

**Item 2. Properties**

A summary of our significant locations at December 31, 2020 is shown in the following table.

Location	Approximate Square Footage	Lease Expiration
San Diego, California	420,000	2029
Fort Mill, South Carolina	452,000	2036
Boston, Massachusetts	69,000	2023
Austin, Texas	29,000	2027

We also lease smaller administrative and operational offices in various locations throughout the United States. 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**

From time to time, we have been subjected to and are currently subject to legal and regulatory proceedings arising out of our business operations, including lawsuits, arbitration claims, and inquiries, investigations and enforcement proceedings initiated by the SEC, FINRA and state securities regulators, as well as other actions and claims.

For a discussion of legal proceedings, see Note 14 - *Commitments and Contingencies*, within the notes to the consolidated financial statements in this Annual Report on Form 10-K. Please also see "Risk Factors - Any failure to comply with applicable federal or state laws or regulations exposes us to litigation and regulatory actions, which could increase our costs or negatively affect our reputation" and "Risk Factors – Our business is subject to risks related to litigation, arbitration claims and regulatory actions" within Part I, "Item 1A. Risk Factors".

**Item 4. Mine Safety Disclosures**

Not applicable.

## Information about our Executive Officers

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

<b>Name</b>	<b>Age</b>	<b>Position</b>
Dan H. Arnold	56	President and Chief Executive Officer
Matthew J. Audette	46	Chief Financial Officer
Matthew Enyedi	47	Managing Director, Business Solutions
Edward Fandrey	45	Managing Director, Divisional President, Advisor Solutions
J. Andrew Kalbaugh <sup>(1)</sup>	57	Managing Director, Divisional President, National Sales and Consulting
Sallie R. Larsen	67	Managing Director, Chief Human Capital Officer
Michelle Oroschakoff	59	Managing Director, Chief Legal Officer
Scott Seese <sup>(2)</sup>	51	Managing Director, Chief Information Officer
Dayton Semerjian	55	Managing Director, Chief Customer Care Officer
Richard Steinmeier	47	Managing Director, Divisional President, Business Development
George B. White	52	Managing Director, Investor and Investment Solutions and Chief Investment Officer

(1) Mr. Kalbaugh will be retiring from the Company in March 2021.

(2) Mr. Seese is on a leave of absence as of the date of this Annual Report on Form 10-K.

## Executive Officers

### **Dan H. Arnold — President and Chief Executive Officer**

Mr. Arnold has served as our chief executive officer since January 2017. He has served as our president since March 2015, with responsibility for our primary client-facing functions and long-term strategy for growth. Mr. Arnold served as our chief financial officer from June 2012 to March 2015 and was responsible for formulating financial policy, leading our capital management efforts and ensuring the effectiveness of the organization's financial functions. Prior to 2012, he was managing director, head of strategy, with responsibility for long-term strategic planning for the firm, product and platform development and strategic investments, including acquisitions. He has also served as divisional president of our Institution Services. Mr. Arnold joined our Company in January 2007 following our acquisition of UVEST Financial Services Group, Inc. ("UVEST"). Prior to joining us, Mr. Arnold worked at UVEST for 13 years, serving most recently as president and chief operating officer. From April 2015 to July 2018, he served on the board of directors of the Securities Industry and Financial Markets Association ("SIFMA"). Mr. Arnold earned a B.S. in electrical engineering from Auburn University and holds an M.B.A. in finance from Georgia State University.

### **Matthew J. Audette — Chief Financial Officer**

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

### **Matthew Enyedi — Managing Director, Business Solutions**

Mr. Enyedi has served as managing director, business solutions of LPL Financial since November 2020. He is responsible for developing and deploying a suite of automated professional services to LPL advisors, and aligning them with the firm's other programs that support advisors as business owners. From January to November 2020, Mr. Enyedi served as managing director, national sales of LPL Financial, overseeing an integrated group of product

and platform sales consultants focused on helping financial advisors and institutions navigate and grow in an increasingly complex financial services landscape. Prior to his promotion to managing director, Mr. Enyedi served as executive vice president, national sales from March 2015 to January 2020. In that role, he led the firm's data analytics and business intelligence efforts, and oversaw a team focused on providing front- and middle-office capabilities to help advisors grow their businesses and reach new segments of clients. He was also previously responsible for teams supporting LPL Financial's RIA custody and high-net-worth solutions. Mr. Enyedi joined LPL Financial in 2003 and has also served as senior vice president, vice president, corporate strategy and assistant vice president of advisory consulting. Prior to joining the firm, he worked as a financial advisor with UBS PaineWebber. Mr. Enyedi received a B.A. in speech communication and business administration from the University of San Diego. He also holds the Certified Investment Management Analyst® designation from the Haas School of Business at the University of California, Berkeley.

***Edward Fandrey — Managing Director, Divisional President, Advisor Solutions***

Mr. Fandrey has served as managing director, divisional president, advisor solutions of LPL Financial since January 2021. In this role, he is responsible for leading the company's strategic plan to expand engagement with advisors, partnering with them to utilize the firm's evolving affiliation models, optimally leverage its tools and capabilities, and fully support their growth initiatives and other business needs. Prior to joining LPL, he served from 2016 to 2021 as vice president of the Financial Services business at Microsoft Corporation, where he led an organization of sales, support, technology and customer success professionals driving client-centric digital transformation across leading banks, insurance companies, hedge funds and capital markets firms. Mr. Fandrey joined Microsoft in 2000 and held various leadership roles including Chief of Staff for Worldwide Sales and Marketing. He earned his bachelor's degree in psychology from the State University of New York at Albany and has multiple technology and developer certifications.

***J. Andrew Kalbaugh — Managing Director, Divisional President, National Sales and Consulting***

Mr. Kalbaugh has served as managing director and divisional president, national sales and consulting of LPL Financial since January 2016. He is responsible for the long-term growth, satisfaction and retention of financial advisors and institutions. In addition, he leads the strategy for national sales and consulting support teams across LPL Financial's retirement planning services, high-net-worth and private client solutions, financial planning and insurance services. Previously, Mr. Kalbaugh served as managing director and divisional president of Institution Services and led business development and business consulting for all financial institutions from November 2011 to January 2016. Prior to being named managing director in 2011, Mr. Kalbaugh served as executive vice president, business consulting, for Independent Advisor Services, responsible for providing support to advisors and their practices. He joined the Company in July 2007 following the acquisition of Mutual Service Corporation ("MSC") and served as chief executive officer for MSC as well as for Associated Securities Corporation. Prior to that, he held senior positions at several financial services firms. Mr. Kalbaugh earned a B.A. in business and economics from the University of Maryland.

***Sallie R. Larsen — Managing Director, Chief Human Capital Officer***

Ms. Larsen is managing director, chief human capital officer of LPL Financial. She is responsible for overseeing executive communication, human resources, talent development, corporate real estate, total rewards and talent acquisition, advisor and employee learning and development and diversity and inclusion. Ms. Larsen joined us in May 2012 from the Federal Home Loan Bank/Office of Finance, where she served as the chief human resources officer from November 2009 to April 2012. In earlier roles, Ms. Larsen was a managing vice president of human resources for Capital One Financial Corporation, senior vice president of human resources for Marriott International and vice president of human resources and communications for TRW Inc. Ms. Larsen earned a M.A. in communications from Purdue University, a B.A. in sociology from California Lutheran University and a certificate in executive leadership coaching from Georgetown University.

***Michelle Oroschakoff — Managing Director, Chief Legal Officer***

Ms. Oroschakoff is managing director, chief legal officer of LPL Financial. She is responsible for company-wide legal and government relations matters, risk management processes and controls, compliance and governance, and has a leading role in the Company's ongoing focus on enhancing the corporate risk profile. Ms. Oroschakoff has more than 20 years of financial services industry experience deeply rooted in legal, compliance and risk management. She joined LPL Financial as managing director, chief risk officer in September 2013 from Morgan Stanley, and was promoted to chief legal and risk officer in June 2017. She became chief legal officer in

June 2018. At Morgan Stanley, she most recently served as managing director and Global Chief Risk Officer of the firm's Global Wealth Management Group from 2011 to 2013. Previously, while with Morgan Stanley, she served as chief administrative officer from 2010 to 2011, as well as Chief Compliance Officer from 2006 to 2010. Earlier in her career, Ms. Oroschakoff spent 11 years in a variety of legal and compliance roles at Morgan Stanley, including associate general counsel and head of the firm's San Francisco litigation department. She also served as the general counsel for a large and successful RIA firm, where she became familiar with the independent model. She also serves on the SIFMA Compliance and Legal Executive Committee. Ms. Oroschakoff earned a B.A. in English literature from the University of Oregon and a J.D., with honors, from the University of Michigan.

***Scott Seese — Managing Director, Chief Information Officer***

Mr. Seese is managing director, chief information officer of LPL Financial, responsible for managing all aspects of the firm's technology and systems applications. He leads our Technology department, which is responsible for delivering technology solutions and market-leading platforms that enable positive, compelling experiences for LPL Financial advisors and employees. Prior to joining LPL Financial in 2017, Mr. Seese served as CIO of American Express's global consumer business unit, from November 2014 to June 2016, where he was responsible for leveraging technology for revenue growth, gaining new customers and lowering costs. From August 2010 to October 2014, he served as CIO and vice president, information technology, at eBay, Inc. Prior to joining eBay, he served in a variety of senior technology roles at Bank of America and, before that, spent the first 12 years of his career at General Electric, where he helped start three different businesses. Mr. Seese earned his B.S. in electrical engineering from Ohio State University.

***Dayton Semerjian — Managing Director, Chief Customer Care Officer***

Mr. Semerjian has served as managing director, chief customer care officer of LPL Financial since February 2019. He is responsible for LPL Financial's customer satisfaction and client-centric efforts and leads Service, Trading and Operations, LPL Financial's largest business unit. Before joining LPL Financial, Mr. Semerjian was general manager and senior vice president for Global Customer Success at CA Technologies Inc., which he joined in 2005 when the firm acquired Concord Communication Inc. At Concord, he was executive vice president of Marketing and Strategic Alliances. Mr. Semerjian also gained experience leading firms in adopting new service models that focus on improving the customer experience at scale through leadership roles at Intel Corp., Nation Street Inc. and Corentine Inc., which was acquired by Oracle. Mr. Semerjian received a B.B.A. in marketing and management from the University of Massachusetts and an M.B.A. from Harvard Business School. He was also awarded an advanced certificate of executive management by the MIT Sloan School of Management.

***Richard Steinmeier — Managing Director, Divisional President, Business Development***

Mr. Steinmeier has served as managing director and divisional president, business development of LPL Financial since August 2018. In this role, he has responsibility for recruiting new financial advisors and institutions to LPL Financial and to existing advisor practices, as well as exploring new markets and merger and acquisition opportunities. Prior to joining LPL Financial, Mr. Steinmeier served as managing director, head of digital strategy and platforms for UBS Wealth Management Americas from September 2017 to August 2018 and as managing director, head of the Emerging Affluent Segment and Wealth Advice Center from August 2012 to September 2017. Prior to UBS, Mr. Steinmeier held a variety of leadership roles at Merrill Lynch, most recently as managing director of the Merrill Edge Advisory Center from February 2009 to August 2012. Prior to joining Merrill Lynch, he served as an engagement manager at McKinsey & Company from 2002 to 2006. Mr. Steinmeier earned a B.S. in economics from the Wharton School at the University of Pennsylvania and an M.B.A. from Stanford University.

***George B. White — Managing Director, Investor and Investment Solutions and Chief Investment Officer***

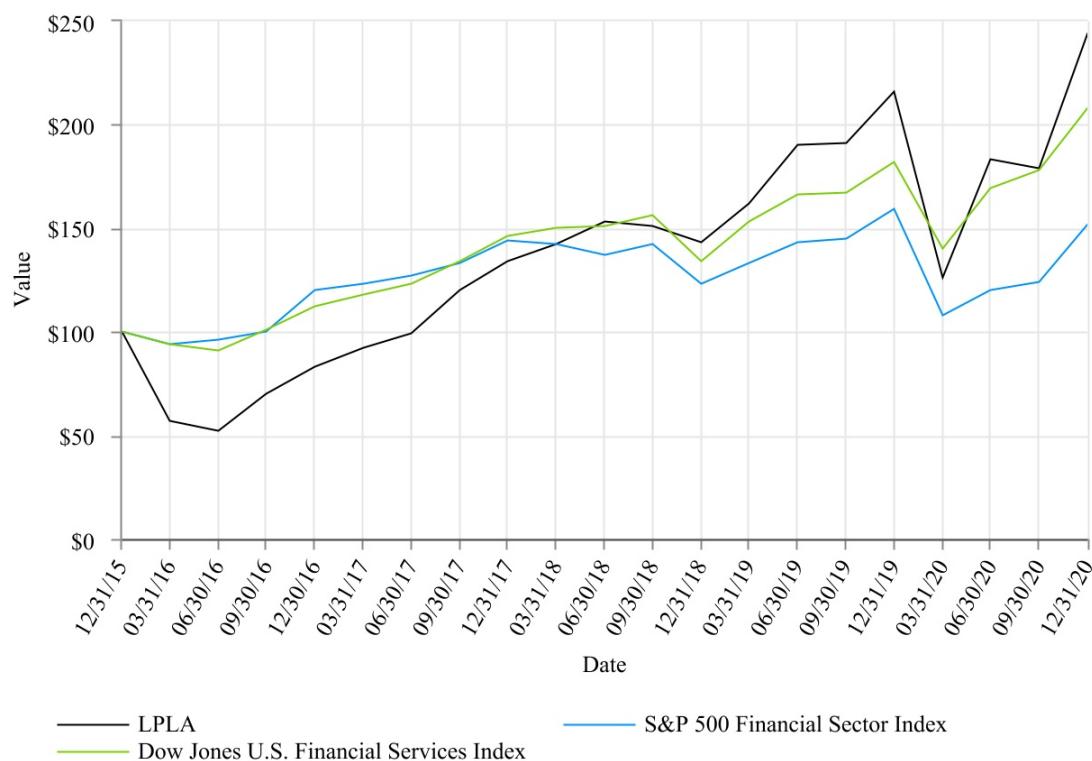
Mr. White has served as managing director, investor and investment solutions and chief investment officer of LPL Financial since January 2017. He served as managing director, research, and chief investment officer from 2009 to December 2016. Mr. White is responsible for the strategic direction and continued growth of LPL Financial's research, marketing, products and investment platforms. Prior to joining us in November 2007, Mr. White served as a managing director and director of research for Wachovia Securities for 10 years. Mr. White was also an investment analyst for Mercer Investment Consulting, where he provided investment advice to institutional clients. He started his financial services career on the buy side of the business as a research analyst for Thompson, Siegel, and Walmsley, a value-oriented asset manager. Mr. White received a B.B.A. from the College of William and Mary.

**PART II****Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities****Market Information**

Our common stock is traded on the Nasdaq Global Select Market under the symbol "LPLA." The closing sale price as of December 31, 2020 was \$104.22 per share. As of that date, there were 1,172 common stockholders of record based on information provided by our transfer agent. The number of stockholders of record does not reflect the number of individual or institutional stockholders that beneficially own the Company's stock because most stock is held in the name of nominees.

**Performance Graph**

The following graph compares the cumulative total stockholder return (rounded to the nearest whole dollar) of the Company's common stock, the Standard & Poor's 500 Financial Sector Index and the Dow Jones U.S. Financial Services Index for the last five years. The graph assumes a \$100 investment at the closing price on December 31, 2015 and reinvestment of the dividends on the respective dividend payment dates without commissions. This graph does not forecast future performance of the Company's stock.



## Dividend Policy

The payment, amount and timing of any future dividends will be subject to the discretion of our board of directors and will depend on a number of factors, including future earnings and cash flows, capital requirements, alternative uses of capital, general business conditions, our future prospects, contractual restrictions and covenants and other factors that our board of directors may deem relevant. Our Credit Agreement and the Indentures governing the Notes contain restrictions on our activities, including paying dividends on our capital stock. For an explanation of these restrictions, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations - Debt and Related Covenants”. In addition, FINRA regulations restrict dividends in excess of 10% of a member firm’s excess net capital without FINRA’s prior approval, potentially impeding our ability to receive dividends from LPL Financial.

## Securities Authorized for Issuance Under Equity Compensation Plans

The table below sets forth information on compensation plans under which our equity securities are authorized for issuance as of December 31, 2020:

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	2,000,383	\$ 45.57	3,531,003
Equity compensation plans not approved by security holders	—	—	—
<b>Total</b>	<b>2,000,383</b>	<b>\$ 45.57</b>	<b>3,531,003</b>

## Purchases of Equity Securities by the Issuer

The Company suspended share repurchases in early 2020 in light of the business and financial uncertainties created by the COVID-19 pandemic. As of December 31, 2020, the Company had \$349.8 million remaining under the existing share repurchase program.

## Item 6. Selected Financial Data

Omitted.

## **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. Financial Statements and Supplementary Data" of this Annual Report on 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 Annual Report on Form 10-K, our actual results may differ materially from those anticipated in these forward-looking statements. Please also refer to the section under heading "Special Note Regarding Forward-Looking Statements."*

### **Overview**

We are a leader in the retail financial advice market and the nation's largest independent broker-dealer. We serve independent financial advisors and financial institutions, providing them with the technology, research, clearing and compliance services and practice management programs they need to create and grow their practices. We enable them to provide objective financial guidance to millions of American families seeking wealth management, retirement planning, financial planning and asset management solutions. Please consult Part I, "Item 1. Business" for additional information related to our business activities.

### **Executive Summary**

#### *Financial Highlights*

Results for the year ended December 31, 2020 included net income of \$472.6 million, or \$5.86 per share, which compares to \$559.9 million, or \$6.62 per share, for the year ended December 31, 2019.

#### *Asset Growth Trends*

Total advisory and brokerage assets served were \$903.1 billion as of December 31, 2020, up 18.1% from \$764.4 billion as of December 31, 2019. Total net new assets were \$60.2 billion for the year ended December 31, 2020, compared to \$36.3 billion for the same period in 2019.

Net new advisory assets were an inflow of \$52.1 billion for the year ended December 31, 2020, compared to \$34.3 billion in 2019. As of December 31, 2020, our advisory assets had grown to \$461.2 billion from the prior year end balance of \$365.8 billion, an increase of 26.1%, and represented 51.1% of total advisory and brokerage assets served.

Net new brokerage assets were an inflow of \$8.1 billion for the year ended December 31, 2020, compared to \$2.0 billion in 2019. As of December 31, 2020, our brokerage assets were \$441.9 billion, up from \$398.6 billion as of December 31, 2019, an increase of 10.9%.

#### *Gross Profit Trends*

Gross profit, a non-GAAP financial measure, of \$2,103.3 million for the year ended December 31, 2020, decreased 3.2% from \$2,172.2 million for the year ended December 31, 2019. Gross profit is calculated as total net revenues, less advisory and commission expenses and brokerage, clearing and exchange fees. Management presents gross profit because we believe that measure may provide useful insight to investors in evaluating the Company's core operating performance before indirect costs that are general and administrative in nature. See footnote 9 to the Financial Metrics table within the "How We Evaluate Our Business" section for additional information on gross profit.

#### *Shareholder Capital Returns*

We returned \$229.1 million of capital to shareholders during the year ended December 31, 2020, including \$79.1 million of dividends and \$150.0 million of share repurchases, representing 1,809,553 shares.

#### *COVID-19 Response*

In response to the coronavirus disease 2019 ("COVID-19") pandemic, we have taken measures to protect the health and safety of our employees, as well as the stability and continuity of our operations. For example, we have equipped and enabled a substantial majority of employees to work remotely, implemented physical distancing and enhanced cleaning protocols throughout our corporate offices, and have worked closely with our vendors to maintain service continuity throughout the increased market volatility and operational volumes that occurred during the year. We also made extra support available to our advisors by extending service hours and providing additional

resources to enable them to deliver differentiated services to their clients. Please consult the “Risks Related to our Business and Industry” section within Part I, “Item 1A. Risk Factors” for more information about the risks associated with COVID-19.

## 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 bank sweep vehicles and money market programs and the access we provide to a variety of product providers with the following product lines:

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

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 sponsors 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 regularly review various aspects of our operations and service offerings, including our policies, procedures and platforms, in response to marketplace developments. We seek to continuously improve and enhance aspects of our operations and service offerings in order to position our advisors for long-term growth and to align with competitive and regulatory developments. For example, we regularly review the structure and fees of our products and services, including related disclosures, in the context of the changing regulatory environment and competitive landscape for advisory and brokerage accounts.

## How We Evaluate Our Business

We focus on several key metrics in evaluating the success of our business relationships and our resulting financial position and operating performance. In April 2020, we updated our definition of net new assets to make our figures more comparable with other companies. Our updated definition now includes dividends and interest, and subtracts advisory fees. All net new asset figures below align with our new definition. Our key operating, business and financial metrics are as follows:

	As of and for the Years Ended December 31,	
	2020	2019
<b>Operating Metrics (dollars in billions)<sup>(1)</sup></b>		
<b>Assets</b>		
Advisory assets <sup>(2)(3)</sup>	\$ 461.2	\$ 365.8
Brokerage assets <sup>(2)(4)</sup>	441.9	398.6
<b>Total Advisory and Brokerage Assets<sup>(2)</sup></b>	<b>\$ 903.1</b>	<b>\$ 764.4</b>
Advisory Assets % of Total Advisory and Brokerage Assets	51.1 %	47.8 %
<b>Net New Assets</b>		
Net new advisory assets <sup>(5)</sup>	\$ 52.1	\$ 34.3
Net new brokerage assets <sup>(6)</sup>	8.1	2.0
<b>Total Net New Assets</b>	<b>\$ 60.2</b>	<b>\$ 36.3</b>
<b>Organic Net New Assets<sup>(7)</sup></b>		
Net new advisory assets	\$ 49.6	\$ 33.3
Net new brokerage assets	6.6	0.2
<b>Total Organic Net New Assets</b>	<b>\$ 56.2</b>	<b>\$ 33.5</b>
Total Organic Net New Assets Annualized Growth Rate <sup>(8)</sup>	7.4 %	5.3 %
<b>Client Cash Balances<sup>(2)</sup></b>		
Insured cash account balances	\$ 37.3	\$ 24.4
Deposit cash account balances	8.2	5.0
<b>Total Bank Sweep Balances</b>	<b>45.5</b>	<b>29.4</b>
Money market account balances	1.5	1.9
Purchased money market fund balances	1.9	2.4
<b>Total Client Cash Balances</b>	<b>\$ 48.9</b>	<b>\$ 33.7</b>
Net Buy (Sell) Activity <sup>(9)</sup>	\$ 34.3	\$ 41.4
<b>Business and Financial Metrics (dollars in millions, except per share data)</b>		
<b>Advisors</b>	<b>17,287</b>	<b>16,464</b>
Average Total Assets per Advisor <sup>(10)</sup>	\$ 52.2	\$ 46.4
Employees	4,756	4,343
Share Repurchases	\$ 150.0	\$ 500.4
Dividends	\$ 79.1	\$ 82.6
% of Capital Returned to Shareholders <sup>(11)</sup>	44.0 %	96.1 %
Leverage Ratio <sup>(12)</sup>	2.16	2.05

	<b>For the Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Total net revenues	\$ 5,871.6	\$ 5,624.9
Net income	\$ 472.6	\$ 559.9
Earnings per share ("EPS"), diluted	\$ 5.86	\$ 6.62
EPS prior to amortization of intangible assets <sup>(13)</sup>	\$ 6.46	\$ 7.17
Gross Profit <sup>(14)</sup>	\$ 2,103.3	\$ 2,172.2
EBITDA <sup>(15)</sup>	\$ 908.9	\$ 1,036.1
EBITDA as a % of Gross Profit	43.2 %	47.7 %
Core G&A <sup>(16)</sup>	\$ 925.1	\$ 868.4

- (1) Totals may not foot due to rounding.
- (2) Advisory and brokerage assets consists of assets that are custodied, networked and non-networked and reflect market movement in addition to new assets, inclusive of new business development and net of attrition. Insured cash account balances, deposit cash account balances, money market account balances and purchased money market fund balances are also included in total advisory and brokerage assets.
- (3) Advisory assets consists of total advisory assets under custody at our broker-dealer subsidiary, LPL Financial LLC ("LPL Financial"). Please consult the "Results of Operations" section for a tabular presentation of advisory assets.
- (4) Brokerage assets consists of brokerage assets serviced by advisors licensed with LPL Financial.
- (5) Net new advisory assets consists of total client deposits into custodied advisory accounts less total client withdrawals from custodied advisory accounts, plus dividends, plus interest, minus advisory fees. We consider conversions from and to brokerage accounts as deposits and withdrawals, respectively. Figures for net new advisory assets reported prior to April 2020 did not include dividends and interest or subtract advisory fees. The figure previously reported for the year ended December 31, 2019 was an inflow of \$30.0 billion.
- (6) Net new brokerage assets consists of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts, plus dividends, plus interest. We consider conversions from and to advisory accounts as deposits and withdrawals, respectively. Figures for net new brokerage assets reported prior to April 2020 did not include dividends and interest. The figure previously reported for the year ended December 31, 2019 was an outflow of \$3.4 billion.
- (7) Consists of net new assets excluding the acquisitions of Lucia Securities, LLC and E.K. Riley Investments, LLC. Acquired assets include \$2.5 billion of net new assets related to E.K. Riley Investments, LLC in November 2020, \$1.5 billion of net new assets from Lucia Securities, LLC in October 2020 and \$2.8 billion of net new assets from Allen & Company in August 2019.
- (8) Calculated as annualized current period organic net new assets divided by preceding period total advisory and brokerage assets.
- (9) Represents the amount of securities purchased less the amount of securities sold in client accounts custodied with LPL Financial. Reported activity does not include any other cash activity, such as deposits, withdrawals, dividends received or fees paid.
- (10) Calculated based on the end-of-period total advisory and brokerage assets divided by end-of-period advisor count.
- (11) Percentage of capital returned to shareholders is calculated as the ratio of total shareholder capital returns per diluted share count to EPS prior to amortization of intangible assets. EPS prior to amortization of assets is a non-GAAP financial measure. For a reconciliation of EPS prior to amortization of intangible assets to the Company's GAAP EPS for the periods presented, see footnote 13.
- (12) A financial covenant from our credit agreement calculated as consolidated total debt to consolidated EBITDA. Please consult the "Debt and Related Covenants" section for more information.
- (13) EPS prior to amortization of intangible assets is a non-GAAP financial measure defined as GAAP EPS plus the per share impact of amortization of intangible assets. The per share impact is calculated as amortization of intangible assets expense, net of applicable tax benefit, divided by the number of shares outstanding for the applicable period. The Company presents EPS prior to amortization of intangible assets because management believes that the metric can assist investors in comparing our performance to that of other companies on a consistent basis without regard to certain items which do not directly affect our ongoing operating performance. EPS prior to amortization of intangible assets is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to GAAP EPS or any other performance measure derived in accordance with GAAP. Below is a reconciliation of EPS prior to amortization of intangible assets to the Company's GAAP EPS for the periods presented:

<b>EPS Reconciliation (in millions, except per share data)</b>	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
GAAP EPS	\$ 5.86	\$ 6.62
Amortization of intangible assets	\$ 67.4	\$ 65.3
Tax benefit	\$ (18.9)	\$ (18.3)
Amortization of intangible assets, net of tax benefit	\$ 48.5	\$ 47.0
Diluted share count	80.7	84.6
EPS impact	\$ 0.60	\$ 0.56
<b>EPS prior to amortization of intangible assets</b>	<b>\$ 6.46</b>	<b>\$ 7.17</b>

- (14) Set forth below is a calculation of gross profit, calculated as total net revenues less advisory and commission expenses and brokerage, clearing and exchange fees. All other expense categories, including depreciation and amortization of fixed assets and amortization of intangible assets, are considered by management to be general and administrative in nature. Because our gross profit amounts do not include any depreciation and amortization expense, we consider our gross profit amounts to be non-GAAP financial measures that may not be comparable to those of others in our industry. We believe that gross profit amounts can provide investors with useful insight into our core operating performance before indirect costs that are general and administrative in nature.

<b>Gross Profit (in millions)</b>	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Total net revenues	\$ 5,871.6	5,624.9
Advisory and commission expense	3,697.1	3,388.2
Brokerage, clearing and exchange fees	71.2	64.4
<b>Gross Profit(<sup>(†)</sup>)</b>	<b>\$ 2,123.3</b>	<b>2,172.2</b>

(†) Totals may not foot due to rounding.

- (15) EBITDA is a non-GAAP financial measure defined as net income plus interest and other expense, income tax expense, depreciation and amortization, and amortization of intangible assets. The Company presents EBITDA because management believes that it can be a useful financial metric in understanding the Company's earnings from operations. EBITDA is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of profitability or liquidity. In addition, the Company's EBITDA can differ significantly from EBITDA calculated by other companies, depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, and capital investments. Below is a reconciliation of EBITDA to net income for the periods presented:

<b>EBITDA Reconciliation (in millions)</b>	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Net income	\$ 472.6	\$ 559.9
Non-operating interest expense and other	105.8	130.0
Provision for income taxes	153.4	182.0
Depreciation and amortization	109.7	95.8
Amortization of intangible assets	67.4	65.3
Loss on extinguishment of debt	—	3.2
<b>EBITDA</b>	<b>\$ 908.9</b>	<b>\$ 1,036.1</b>

- (16) Core G&A is a non-GAAP financial measure. Core G&A consists of total operating expenses, excluding the following expenses: advisory and commission, regulatory charges, promotional, employee share-based compensation, depreciation and amortization, amortization of intangible assets, and brokerage, clearing and exchange. Management presents Core G&A because it believes Core G&A reflects the corporate operating expense categories over which management can generally exercise a measure of control, compared with expense items over which management either cannot exercise control, such as advisory and commission expenses, or which management views as promotional expense necessary to support advisor growth and retention, including conferences and transition assistance. Core G&A is not a measure of the Company's total operating expenses as calculated in accordance with GAAP. Below is a reconciliation of Core G&A against the Company's total operating expenses for the periods presented:

<b>Operating Expense Reconciliation (in millions)</b>	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Core G&A	\$ 925.1	\$ 868.4
Regulatory charges	29.4	32.3
Promotional	208.3	205.5
Employee share-based compensation	31.6	29.9
<b>Total G&amp;A</b>	<b>1,194.4</b>	<b>1,136.1</b>
Advisory and commission	3,697.1	3,388.2
Depreciation and amortization	109.7	95.8
Amortization of intangible assets	67.4	65.3
Brokerage, clearing and exchange	71.2	64.4
<b>Total operating expenses</b>	<b>\$ 5,139.8</b>	<b>\$ 4,749.9</b>

## Legal and Regulatory Matters

As a regulated entity, we are subject to regulatory oversight and inquiries related to, among other items, our compliance and supervisory systems and procedures and other controls, as well as our disclosures, supervision and reporting. We review these items in the ordinary course of business in our effort to adhere to legal and regulatory requirements applicable to our operations. Nevertheless, additional regulation and enhanced regulatory enforcement has resulted, and may result in the future, in additional operational and compliance costs, as well as increased costs in the form of penalties and fines, investigatory and settlement costs, customer restitution and

remediation related to regulatory matters. For additional information, see the “Risks Related to Our Regulatory Environment” and the “Risks Related to Our Business and Industry” sections within Part I, “Item 1A. Risk Factors”. In the ordinary course of business, we periodically identify or become aware of purported inadequacies, deficiencies and other issues. It is our policy to evaluate these matters for potential legal or regulatory violations, and other potential compliance issues. It is also our policy to self-report known violations and issues as required by applicable law and regulation. When deemed probable that matters may result in financial losses, we accrue for those losses based on an estimate of possible fines, customer restitution and losses related to the repurchase of sold securities and other losses, as applicable. Certain regulatory and other legal claims and losses may be covered through our wholly-owned captive insurance subsidiary, which is chartered with the insurance commissioner in the state of Tennessee. For more information, see Note 2 - *Summary of Significant Accounting Policies* - “Commitments and Contingencies,” within the notes to the consolidated financial statements.

Assessing the probability of a loss occurring and the timing and amount of any loss related to a regulatory matter or legal proceeding, whether or not covered by our captive insurance subsidiary, is inherently difficult and requires judgments based on a variety of factors and assumptions. There are particular uncertainties and complexities involved when assessing the adequacy of loss reserves for potential liabilities that are self-insured by our captive insurance subsidiary, which depends in part on historical claims experience, including the actual timing and costs of resolving matters that begin in one policy period and are resolved in a subsequent period.

Our accruals, including those established through our captive insurance subsidiary at December 31, 2020, include estimated costs for significant regulatory matters or legal proceedings, generally relating to the adequacy of our compliance and supervisory systems and procedures and other controls, for which we believe losses are both probable and reasonably estimable. For example, on May 1, 2018, we agreed to a settlement structure with the North American Securities Administrators Association that related to our historical compliance with certain state “blue sky” laws and resulted in aggregate fines of \$26.4 million, the majority of which were covered by our captive insurance subsidiary loss reserves. As part of the settlement structure, we engaged independent third party consultants to conduct a historical review of securities transactions and an operational review of our systems for complying with blue sky securities registration requirements. We also agreed to offer customers remediation in the form of reimbursement for any actual losses, plus interest, and these costs were not material.

The outcome of regulatory or legal proceedings could result in legal liability, regulatory fines or monetary penalties in excess of our accruals and insurance, which could have a material adverse effect on our business, results of operations, cash flows or financial condition. For more information on management’s loss contingency policies, see Note 14 - *Commitments and Contingencies*, within the notes to the consolidated financial statements.

In June 2018, the U.S. Court of Appeals for the Fifth Circuit invalidated regulations previously enacted by the U.S. Department of Labor (“DOL”) that expanded the definition of “fiduciary” and would have resulted in significant new prohibited transaction exemption requirements for our servicing of certain retirement plan accounts subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and individual retirement accounts (“IRAs”). In December 2020, the DOL finalized a new investment advice fiduciary prohibited transaction exemption with regard to such accounts that became effective on February 16, 2021. Because ERISA plans and IRAs comprise a significant portion of our business and we continue to expect that compliance with current and future laws and regulations with respect to retail retirement savings and reliance on prohibited transaction exemptions under such laws and regulations will require increased legal, compliance, information technology and other costs and could lead to a greater risk of class action lawsuits and other litigation.

In June 2019, the SEC adopted a new standard of conduct applicable to retail brokerage accounts (“Regulation BI”) with a compliance date of June 30, 2020. Regulation BI requires that broker-dealers act in the best interest of retail customers without placing their own financial or other interests ahead of the customer’s and imposes new obligations related to disclosure, duty of care, conflicts of interest and compliance. Certain state securities and insurance regulators have also adopted, proposed or are considering adopting similar laws and regulations. In addition, it is unclear how and whether other regulators, including banking regulators and state securities and insurance regulators, may respond to or attempt to enforce similar issues addressed by the newly proposed DOL Rule and Regulation BI. As of June 30, 2020, we implemented new procedures in accordance with Regulation BI.

Future laws and regulations, including the new rule proposed by the DOL and state rules relating to the standards of conduct applicable to both retirement and non-retirement accounts, may affect our business in ways that cannot be anticipated or planned for, and may have negative impacts on our products, services and results of operations.

## Acquisitions, Integrations and Divestitures

We continuously assess the competitive landscape in connection with our capital allocation framework as we pursue acquisitions, integrations and divestitures. These activities are part of our overall growth strategy, but can distort comparability when reviewing revenue and expense trends for periods presented. Our recent acquisitions are as follows:

- Waddell & Reed Financial, Inc. ("Waddell & Reed") - In December 2020, we entered into an agreement with Macquarie Management Holdings, Inc. ("Macquarie") to acquire the wealth management business of Waddell & Reed upon completion of Macquarie's acquisition of all of the issued and outstanding common shares of Waddell & Reed. The transaction is expected to close in the middle of 2021, subject to satisfaction of closing conditions.
- Blaze Portfolio Systems LLC ("Blaze") - In October 2020, we acquired Blaze, a technology company that provides an advisor-facing trading and portfolio rebalancing platform.
- E.K. Riley Investments, LLC ("E.K. Riley") - In August 2020, we acquired business relationships with advisors from E.K. Riley, a broker-dealer and registered investment adviser ("RIA").
- Lucia Securities, LLC ("Lucia") - In August 2020, we acquired business relationships with advisors from Lucia, a broker-dealer and RIA firm.
- Allen & Company of Florida, LLC ("Allen & Company") - In August 2019, we acquired Allen & Company, an RIA. Allen & Company advisors and staff became employees of the Company.
- AdvisoryWorld - In December 2018, we acquired AdvisoryWorld, a technology company that provides proposal generation, investment analytics and portfolio modeling capabilities in the wealth management industry.

See Note 4 - *Acquisitions*, within the notes to the consolidated financial statements for further detail.

## Economic Overview and Impact of Financial Market Events

Our business is directly and indirectly sensitive to several macroeconomic factors and the state of the U.S. financial markets. Global economic conditions in the fourth quarter of 2020 continued to be dominated by the COVID-19 pandemic and the economic impact of containment efforts. Significant mitigation efforts through supportive central bank policy (monetary stimulus) and government spending (fiscal stimulus) have helped the global and U.S. economies take meaningful steps toward recovery, but the results have been uneven and uncertainty remains elevated in the near term. The fall / winter surge in cases slowed fourth quarter growth after a strong rebound in the U.S. economy in the third quarter, but the start of vaccine distribution increases the prospects of a more durable recovery emerging by the middle of 2021.

According to the most recent estimate by the U.S. Bureau of Economic Analysis, the U.S. economy contracted an annualized 31.4% in the second quarter of 2020, extending the recession that began in the first quarter, but then rebounded strongly, growing at an annualized 33.4% in the third quarter of 2020. Data received during the fourth quarter of 2020 suggests that the U.S. economy continued to expand, but at a much slower rate. Despite growth slowing, there are continued signs of progress. The unemployment rate, which had spiked to 14.8% in April 2020, has declined steadily to 6.7% in December 2020. Consumer spending on goods has rebounded sharply, although spending on the services industries most impacted by COVID-19 remains depressed. Business investment has continued to rebound and industrial production has strengthened but remains below pre-pandemic levels. The Federal Reserve's ("Fed") most recent median gross domestic product projections, released following its December 15-16, 2020 policy meeting, saw the economy contracting 2.4% for all of 2020, a meaningful improvement from its September projection of a 3.7% contraction, followed by 4.2% growth in 2021.

Equity markets posted solid gains in the fourth quarter. The S&P 500 Index returned 12.2% for the quarter, bringing the full-year return to 18.4%. Small cap stocks had a particularly strong quarter, as the Russell 2000 Index returned 31.4%. Non-U.S. stocks outperformed their U.S. counterparts in the fourth quarter, led by emerging markets' 19.8% return compared to 16.1% for developed international equities, based on the MSCI EM and MSCI EAFE Indexes. The Bloomberg Barclays U.S. Aggregate Bond Index returned 0.7% during the quarter, with rising interest rates weighing on returns but narrowing credit spreads helping corporate bonds. The 10-year Treasury yield rose 0.24% over the fourth quarter, to end the quarter at 0.93%. Nevertheless, 2020 was a solid year for bonds overall, with the U.S. Aggregate Bond Index climbing 7.5%. More economically sensitive bonds were rewarded in the fourth quarter, with the Bloomberg Barclays U.S. High Yield Index climbing 6.5%.

Our business is also sensitive to current and expected short-term interest rates, which are largely driven by Fed policy. During the fourth quarter, Fed policymakers maintained the target range for the federal funds rate at 0.0 to 0.25%. According to projection materials released following the conclusion of the December 15-16, 2020 policy meeting, the median expectation among meeting participants was that the Fed will not begin raising rates until after 2023, although one participant projected the Fed raising rates as early as 2022 and several in 2023. The Fed also enhanced guidance on how long it would continue its bond purchase program at current levels, highlighting the need for “substantial further progress” toward inflation and unemployment goals. The updated language signaled extended potential support for the economy.

Please consult the “Risks Related to Our Business and Industry” section within Part I, “Item 1A. Risk Factors” for more information about the risks associated with significant interest rate changes, and the potential related effects on our profitability and financial condition.

## Results of Operations

A discussion of changes in our results of operations during the year ended December 31, 2019 compared to the year ended December 31, 2018 has been omitted from this Annual Report on Form 10-K, but may be found in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our Annual Report on Form 10-K for the fiscal year ended December 31, 2019, filed with the SEC on February 21, 2020.

The following discussion presents an analysis of our results of operations for the years ended December 31, 2020 and 2019.

(Dollars in thousands)	Years Ended December 31,		
	2020	2019	% Change
<b>REVENUES</b>			
Advisory	\$ 2,327,519	\$ 1,982,869	17.4 %
Commission	1,906,560	1,892,407	0.7 %
Asset-based	1,044,517	1,165,979	(10.4)%
Transaction and fee	506,071	480,328	5.4 %
Interest income, net of interest expense	29,412	46,508	(36.8)%
Other	57,561	56,765	(1.4)%
<b>Total net revenues</b>	<b>5,871,640</b>	<b>5,624,856</b>	<b>4.4 %</b>
<b>EXPENSES</b>			
Advisory and commission	3,697,147	3,388,186	9.1 %
Compensation and benefits	609,257	556,128	9.6 %
Promotional	208,250	205,537	1.3 %
Depreciation and amortization	109,732	95,779	14.6 %
Amortization of intangible assets	67,358	65,334	3.1 %
Occupancy and equipment	166,389	136,163	22.2 %
Professional services	57,067	73,887	(22.8)%
Brokerage, clearing and exchange	71,185	64,445	10.5 %
Communications and data processing	52,399	49,859	5.1 %
Other	101,018	114,546	(11.8)%
<b>Total operating expenses</b>	<b>5,139,802</b>	<b>4,749,864</b>	<b>8.2 %</b>
Non-operating interest expense and other	105,765	130,001	(18.6)%
Loss on extinguishment of debt	—	3,156	100.0 %
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>626,073</b>	<b>741,835</b>	<b>(15.6)%</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>153,433</b>	<b>181,955</b>	<b>(15.7)%</b>
<b>NET INCOME</b>	<b>\$ 472,640</b>	<b>\$ 559,880</b>	<b>(15.6)%</b>

## Revenues

### Advisory

Advisory revenues primarily represent fees charged to clients of our advisors for the use of our corporate RIA advisory platform, and are based on the value of their advisory assets. Advisory fees are billed to clients in advance, on a quarterly basis, and are recognized as revenue ratably during the quarter. The majority of our client accounts are on a calendar quarter and are billed using values as of the last business day of the preceding quarter. The value of the assets in an advisory account on the billing date determines the amount billed, and accordingly, the revenues earned in the following three-month period. Advisory revenues collected on our corporate advisory platform are proposed by the advisor and agreed to by the client and averaged 1.0% of the underlying assets for the year ended December 31, 2020.

We also support separate investment adviser firms ("Hybrid RIAs"), through our hybrid advisory platform, which allows advisors to engage us for technology, clearing and custody services, as well as access to the capabilities of our investment platforms. The assets held under a Hybrid RIA's investment advisory accounts custodied with LPL Financial are included in total advisory assets and net new advisory assets. The advisory revenue generated by a Hybrid RIA is not included in our advisory revenues. We charge separate fees to Hybrid RIAs for technology, clearing, administrative, oversight and custody services, which are included in our transaction and fee revenues in our consolidated statements of income. The administrative fees collected on our hybrid advisory platform vary and can reach a maximum of 0.2% of the underlying assets as of December 31, 2020.

The following table summarizes the composition of advisory assets for the periods presented (dollars in billions):

	December 31,		\$ Change	% Change
	2020	2019		
Corporate platform advisory assets	\$ 291.9	\$ 228.3	\$ 63.6	27.9 %
Hybrid platform advisory assets	169.3	137.5	31.8	23.1 %
Total advisory assets	<u>\$ 461.2</u>	<u>\$ 365.8</u>	<u>\$ 95.4</u>	<u>26.1 %</u>

Net new advisory assets in a particular quarter drive advisory revenues in future quarters, due to billing quarterly in advance. Therefore, the full impact of net new advisory assets to advisory revenues is not realized in the same period. The following table summarizes activity in advisory assets for the periods presented (in billions):

	Years Ended December 31,	
	2020	2019
Beginning balance at January 1	\$ 365.8	\$ 282.0
Net new advisory assets <sup>(1)</sup>	52.1	34.3
Market impact <sup>(2)</sup>	43.3	49.5
Ending balance at December 31	<u>\$ 461.2</u>	<u>\$ 365.8</u>

(1) Net new advisory assets consists of total client deposits into custodied advisory accounts less total client withdrawals from custodied advisory accounts, plus dividends, plus interest, minus advisory fees. We consider conversions from and to brokerage accounts as deposits and withdrawals, respectively. Previously reported figures for net new advisory assets did not include dividends and interest or subtract advisory fees. The figure previously reported for the year ended December 31, 2019 was an inflow of \$30.0 billion.

(2) Market impact is the difference between the beginning and ending asset balance less the net new asset amounts, representing the implied growth or decline in asset balances due to market changes over the same period of time.

The growth in advisory revenues from 2019 to 2020 was due to net new advisory assets resulting from the acquisitions and our recruiting efforts and strong advisor productivity, as well as market gains as represented by higher levels of the S&P 500 Index.

### Commission

We generate two types of commission revenues: sales-based commissions and trailing commissions. Sales-based commission revenues, which occur when clients trade securities or purchase various types of investment products, primarily represent gross commissions generated by our advisors. The levels of sales-based commission revenues can vary from period to period based on the overall economic environment, number of trading days in the reporting period and investment activity of our advisors' clients. Trailing commission revenues, which are paid over time, are recurring in nature and are earned based on the market value of investment holdings in trail-eligible

assets. We earn trailing commission revenues primarily on mutual funds and variable annuities held by clients of our advisors. See Note 3 - *Revenues*, within the notes to the consolidated financial statements for further detail regarding our commission revenues by product category.

The following table sets forth our commission revenues included in our consolidated statements of income (dollars in thousands):

	<b>Years Ended December 31,</b>			
	<b>2020</b>	<b>2019</b>	<b>\$ Change</b>	<b>% Change</b>
Sales-based	\$ 770,764	\$ 782,852	\$ (12,088)	(1.5) %
Trailing	1,135,796	1,109,555	26,241	2.4 %
Total commission revenues	\$ 1,906,560	\$ 1,892,407	\$ 14,153	0.7 %

The decrease in sales-based commission revenues in 2020 compared to 2019 was primarily driven by the low interest rate environment impacted by the COVID-19 pandemic, which led to a decrease in sales of annuities, partially offset by an increase in sales of equities.

The increase in trailing commission revenues in 2020 compared to 2019 was primarily due to the increase in value of annuities as a result of the market increases during the second half of the year, partially offset by the decline in value of other trail eligible assets as a result of the market downturn during the first quarter of 2020.

The following table summarizes activity in brokerage assets for the periods presented (in billions):

	<b>Years Ended December 31,</b>	
	<b>2020</b>	<b>2019</b>
Beginning balance at January 1	\$ 398.6	\$ 346.0
Net new brokerage assets <sup>(1)</sup>	8.1	2.0
Market impact <sup>(2)</sup>	35.2	50.6
Ending balance at December 31	\$ 441.9	\$ 398.6

(1) Net new brokerage assets consists of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts, plus dividends, plus interest. We consider conversions from and to advisory accounts as deposits and withdrawals, respectively. Previously reported figures for net new brokerage assets did not include dividends and interest or subtract advisory fees. The figure previously reported for the year ended December 31, 2019 was an outflow of \$3.4 billion.

(2) Market impact is the difference between the beginning and ending asset balance less the net new asset amounts, representing the implied growth or decline in asset balances due to market changes over the same period of time.

We are uncertain, as of the date of this Annual Report on Form 10-K, of the effect of the COVID-19 pandemic on our future commission revenues. We cannot predict how the ongoing COVID-19 pandemic and foreign and domestic responses to it will impact our future sales-based or trailing commission revenues. While domestic equity markets have started to recover, COVID-19 cases remain widespread in the United States and many other parts of the world, and significant market disruptions and volatility remain possible.

#### Asset-Based

Asset-based revenues consist of fees from omnibus processing and networking services (collectively referred to as "recordkeeping"), our sponsorship programs with financial product manufacturers and fees from our client cash programs. Omnibus processing revenues are paid to us by mutual fund product sponsors and are based on the value of custodied assets in advisory accounts and the number of brokerage accounts in which the related mutual fund positions are held. Networking revenues on brokerage assets are correlated to the number of positions we administer and are paid to us by mutual fund and annuity product manufacturers. We receive fees from certain financial product manufacturers in connection with sponsorship programs that support our marketing and sales education and training efforts. Client cash-based revenues are generated on advisors' clients' cash balances in insured bank sweep accounts and money market programs. Pursuant to contractual arrangements, we receive fees based on account type and invested balances for administration and recordkeeping.

Asset-based revenues for the year ended December 31, 2020 decreased by \$121.5 million compared to 2019, primarily due to decreased revenues from our client cash programs, partially offset by an increase in recordkeeping revenues and sponsorship programs.

Revenues for our recordkeeping and sponsorship programs for the year ended December 31, 2020, which are largely based on the market value of the underlying assets, increased compared to 2019 due to the impact of market appreciation on the value of the underlying assets.

Client cash revenues for the year ended December 31, 2020 decreased compared to 2019 due to the impact of a lower federal funds effective rate, partially offset by higher average client cash balances. For the year ended December 31, 2020, our average client cash balances increased to \$44.7 billion compared to \$31.0 billion for the year ended December 31, 2019.

#### *Transaction and Fee*

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

Transaction and fee revenues for the year ended December 31, 2020 increased by \$25.7 million compared to 2019, primarily due to increased transaction volume in response to the market volatility caused by the COVID-19 pandemic, partially offset by a decrease in conference service revenues as a result of advisor-related conferences being cancelled or held in a virtual format in 2020 in response to the COVID-19 pandemic.

#### *Interest Income, Net of Interest Expense*

We earn interest income from client margin loans and cash equivalents, net of interest expense. Period-over-period variances correspond to changes in the average balances of margin loans and cash equivalents as well as changes in interest rates. Interest income, net of interest expense for the year ended December 31, 2020 decreased by \$17.1 million compared to 2019, primarily due to lower average interest rates.

#### *Other*

Other revenues primarily include mark-to-market gains or losses on assets held by us in our advisor non-qualified deferred compensation plan and model research portfolios, marketing allowances received from certain financial product manufacturers, primarily those who offer alternative investments, such as non-traded real estate investment trusts and business development companies and other miscellaneous revenues.

Other revenues for the year ended December 31, 2020 increased by \$0.8 million compared to 2019, primarily due to realized and unrealized gains on assets held in our advisor non-qualified deferred compensation plan, which are based on the market performance of the underlying investment allocations chosen by advisors in the plan, partially offset by decreases in dividend income on assets held in our advisor non-qualified deferred compensation plan.

#### **Expenses**

##### *Advisory and Commission*

Advisory and commission expenses consist of the following: base payout amounts that are earned by and paid out to advisors and institutions based on advisory and commission revenues earned on each client's account; production based bonuses earned by advisors and institutions based on the levels of advisory and commission revenues they produce; the recognition of share-based compensation expense from equity awards granted to advisors and financial institutions based on the fair value of the awards at grant date; and the deferred advisory and commissions fee expenses associated with mark-to-market gains or losses on the non-qualified deferred compensation plan offered to our advisors.

The following table shows the components of our payout ratio, which is a statistical or operating measure:

	Years Ended December 31,		Change
	2020	2019	
Base payout rate <sup>(1)</sup>	82.22 %	83.05 %	(83) bps
Production based bonuses	3.90 %	3.22 %	68 bps
Total payout ratio <sup>(2)</sup>	86.12 %	86.27 %	(15) bps

(1) Our base payout rate is calculated as advisory and commission expenses less production based bonuses and mark-to-market gains or losses on the non-qualified deferred compensation plan, divided by advisory and commission revenues.

(2) Totals may not foot due to rounding.

Our total payout ratio decreased slightly for the year ended December 31, 2020 compared to 2019, primarily due to a decrease in base payout rate, which was driven by increases in the sale of equities and a shift from brokerage to advisory business, each of which results in lower payouts, partially offset by an increase in production based bonuses, which was driven by broader price reductions on our corporate advisory platform.

#### Compensation and Benefits

Compensation and benefits include salaries, wages, benefits, share-based compensation and related taxes for our employees, as well as compensation for temporary employees and contractors. The following table sets forth our average number of employees for the year ended December 31, 2020 as compared to 2019.

	Years Ended December 31,		% Change
	2020	2019	
Average number of employees	4,560	4,327	5.4%

Compensation and benefits for the year ended December 31, 2020 increased by \$53.1 million compared to 2019, primarily due to an increase in salary and employee benefit expenses resulting from an increase in headcount.

#### Promotional

Promotional expenses include business development costs related to advisor recruitment and retention, costs related to hosting certain advisory conferences that serve as training, sales and marketing events and other costs that support advisor business growth. For the year ended December 31, 2020 promotional expenses increased by \$2.7 million compared to 2019, primarily due to an increase in costs associated with advisor loans, which are driven by larger recruitment and retention, partially offset by a decrease in advisor conference expenses due to conferences being cancelled or held in a virtual format in 2020 in response to the COVID-19 pandemic.

#### Depreciation and Amortization

Depreciation and amortization relates to the use of fixed assets, which include internally developed software, hardware, leasehold improvements and other equipment. Depreciation and amortization for the year ended December 31, 2020 increased by \$14.0 million compared to 2019, primarily due to an increase in internally developed software.

#### Amortization of Intangible Assets

Amortization of intangible assets relates to intangible assets established through our acquisitions. Amortization of intangible assets for the year ended December 31, 2020 remained relatively flat compared to 2019.

#### Occupancy and Equipment

Occupancy and equipment expenses include the costs of leasing and maintaining our office spaces, software licensing and maintenance costs and maintenance expenses on computer hardware and other equipment. For the year ended December 31, 2020 occupancy and equipment expenses increased by \$30.2 million compared to 2019, primarily due to an increase in costs related to software licensing fees in support of our service and technology investments.

#### *Professional Services*

Professional services expenses include costs paid to outside firms for assistance with legal, accounting, technology, regulatory, marketing and general corporate matters, as well as non-capitalized costs related to service and technology enhancements. Professional services expenses for the year ended December 31, 2020 decreased by \$16.8 million compared to 2019, primarily due to the Company temporarily bringing certain services in-house as a result of the COVID-19 pandemic.

#### *Brokerage, Clearing and Exchange Fees*

Brokerage, clearing and exchange fees include expenses originating from trading or clearing operations as well as any exchange membership fees. These fees fluctuate largely in line with the volume of sales and trading activity. Brokerage, clearing and exchange fees increased by \$6.7 million for the year ended December 31, 2020 compared to 2019, primarily due to an increase in the volume of sales and trading activity.

#### *Communications and Data Processing*

Communications and data processing expenses consist primarily of the cost of voice and data telecommunication lines supporting our business, including connectivity to data centers, exchanges and markets as well as customer statement processing and postage costs. Communications and data processing expenses remained relatively flat for the year ended December 31, 2020 compared to 2019.

#### *Other*

Other expenses include the costs of the investigation, settlement and resolution of regulatory matters (including customer restitution and remediation), licensing fees, insurance, broker-dealer regulator fees, travel-related expenses and other miscellaneous expenses. Other expenses will depend in part on the size and timing of resolving regulatory matters and the availability of self-insurance coverage, which depends in part on the amount and timing of resolving historical claims. There are particular uncertainties and complexities involved when assessing the potential costs and timing of regulatory matters, including the adequacy of loss reserves for potential liabilities that are self-insured by our captive insurance subsidiary. Other expenses for the year ended December 31, 2020 decreased by \$13.5 million compared to 2019, primarily due to a decrease in travel expenses as a result of the COVID-19 pandemic and lower costs associated with the investigation of regulatory matters.

#### *Non-Operating Interest Expense and Other*

Non-operating interest expense and other represents expenses from our senior secured credit facilities, senior unsecured notes, finance leases and other non-operating expenses. Non-operating interest expense and other for the year ended December 31, 2020 decreased by \$24.2 million compared to 2019, primarily due to a lower outstanding principal balance and a lower interest rate on our senior secured term loan, partially offset by the issuance of additional senior unsecured notes in 2019.

#### *Loss on Extinguishment of Debt*

On November 12, 2019, we closed a refinancing transaction and accelerated the recognition of \$3.2 million of unamortized debt issuance costs as a loss on extinguishment of debt. There were no refinancing transactions during the year ended 2020.

#### *Provision for Income Taxes*

Our effective income tax rate remained consistent at 24.5% for the year ended December 31, 2020 and 2019.

#### *COVID-19 Impact*

On March 11, 2020, the World Health Organization designated the spread of the COVID-19 as a pandemic. As of the date of this Annual Report on Form 10-K, the COVID-19 pandemic has had a significant impact on global financial markets, and we continue to monitor its effects on the overall economy and our operations. We are not yet able to determine the full impact of the pandemic; however, should it continue, there could be a material and adverse financial impact to our results of operations. Please consult the “Risks Related to our Business and Industry” section within Part I, “Item 1A. Risk Factors” for more information about the risks associated with the COVID-19 pandemic.

## Liquidity and Capital Resources

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

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

	Years Ended December 31,	
	2020	2019
Net cash flows provided by (used in):		
Operating activities	\$ 789,941	\$ 623,871
Investing activities	(187,499)	(180,987)
Financing activities	(275,186)	(533,225)
Net increase (decrease) in cash, cash equivalents and restricted cash	327,256	(90,341)
Cash, cash equivalents and restricted cash — beginning of year	1,471,778	1,562,119
Cash, cash equivalents and restricted cash — end of year	<u>\$ 1,799,034</u>	<u>\$ 1,471,778</u>

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

Net cash flows provided by operating activities includes net income and adjustments for non-cash expenses; changes in operating assets and liabilities, including balances related to the settlement and funding of client transactions; receivables from product sponsors; and accrued advisory and commission expenses due to our advisors. In addition to net income, operating assets and liabilities that arise from the settlement and funding of transactions by our advisors' clients are the principal cause of changes to our net cash from operating activities and can fluctuate significantly from day to day and period to period depending on overall trends and clients' behaviors.

The increase in cash flows provided by operating activities for 2020 compared to 2019 was primarily due to increases in inflows to receivables from and payables to clients, partially offset by a decrease in net income.

The increase in cash flows used in investing activities for 2020 compared to 2019 was primarily attributable to increases in acquisition costs and purchases of held-to-maturity securities.

The decrease in cash flows used in financing activities for 2020 compared to 2019 was primarily attributable to the suspension of repurchases of our common stock, partially offset by repayments of our revolving line of credit.

We actively monitor changes to our liquidity needs caused by general business volumes and price volatility, including higher margin requirements of clearing corporations and exchanges, and stress scenarios involving a sustained market downturn and the persistence of current interest rates, which include the impacts of the COVID-19 pandemic. We believe that based on current levels of operations and anticipated growth, our cash flow from operations, together with other available sources of funds, which include six uncommitted lines of credit, the revolving credit facility established through our senior secured credit agreement (the "Credit Agreement") and the committed revolving credit facility of LPL Financial, will provide us with adequate liquidity to satisfy our working capital needs, the payment of all of our obligations and the funding of anticipated capital expenditures for the foreseeable future.

The following table presents our external lines of credit at December 31, 2020 (dollars in millions):

Description	Borrower	Maturity Date	Outstanding	Available
Senior secured, revolving credit facility	LPL Holdings, Inc.	November 2024	\$ —	\$ 750
Broker-dealer revolving credit facility	LPL Financial LLC	July 2024	\$ —	\$ 300
Secured, uncommitted lines of credit	LPL Financial LLC	March 2022	\$ —	\$ 75
Unsecured, uncommitted lines of credit	LPL Financial LLC	September 2021	\$ —	\$ 75
Unsecured, uncommitted lines of credit	LPL Financial LLC	September 2021	\$ —	\$ 50
Unsecured, uncommitted lines of credit	LPL Financial LLC	None	\$ —	\$ 75
Secured, uncommitted lines of credit	LPL Financial LLC	None	\$ —	unspecified
Secured, uncommitted lines of credit	LPL Financial LLC	None	\$ —	unspecified

We regularly evaluate our existing indebtedness, including potential refinancing opportunities, based on a number of factors, including our capital requirements, future prospects, contractual restrictions, the availability of refinancing on attractive terms and general market conditions. The earliest principal maturity date for our long-term borrowings is 2025 and our revolving credit facilities mature in 2024, which makes us less dependent on capital markets in the near-term.

We have certain capital adequacy requirements related to our registered broker-dealer subsidiary and bank trust subsidiary. As of December 31, 2020, we were in compliance with all such requirements.

### Share Repurchases

We engage in share repurchase programs, which are approved by our board of directors (the "Board of Directors"), pursuant to which we may repurchase our issued and outstanding shares of common stock from time to time. Purchases may be effected in open market or privately negotiated transactions. We suspended share repurchases in early 2020 in light of the business and financial uncertainties created by the COVID-19 pandemic. The resumption, timing and amount of future share repurchases, if any, will be determined at our discretion within the constraints of our Credit Agreement, the indentures governing our senior unsecured notes (the "Indentures") and consideration of our general liquidity needs. See Note 15 - *Stockholders' Equity*, within the notes to the consolidated financial statements for additional information regarding our share repurchases.

### Dividends

The payment, timing and amount of any dividends are subject to approval by the Board of Directors as well as certain limits under our Credit Agreement and the Indentures. See Note 15 - *Stockholders' Equity*, within the notes to the consolidated financial statements for additional information regarding our dividends.

### Operating Capital Requirements

Our primary requirement for working capital relates to funds we loan to our advisors' clients for trading conducted on margin and funds we are required to maintain for regulatory capital and reserves based on the requirements of our regulators and clearing organizations, which also consider client balances and trading activities. We have several sources of funds that enable us to meet increases in working capital requirements that relate to increases in client margin activities and balances. These sources include cash and cash equivalents on hand, cash segregated under federal and other regulations, the committed revolving credit facility of LPL Financial and proceeds from repledging or selling client securities in margin accounts. When an advisor's client purchases securities on margin or uses securities as collateral to borrow from us on margin, we are permitted, pursuant to the applicable securities industry regulations, to repledge, loan or sell securities, up to 140% of the client's margin loan balance, that collateralize those margin accounts.

Our other working capital needs are primarily related to advisor loans and timing associated with receivables and payables, which we have satisfied in the past from internally generated cash flows.

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 flows or, if needed, with funds drawn on our uncommitted lines of credit at LPL Financial or under one of our revolving credit facilities.

LPL Financial is subject to the Securities and Exchange Commission's ("SEC") Uniform Net Capital Rule, which requires the maintenance of minimum net capital. LPL Financial computes net capital requirements under the

alternative method, which requires firms to maintain minimum net capital equal to the greater of \$250,000 or 2% of aggregate debit balances arising from client transactions. At December 31, 2020, LPL Financial had net capital of \$119.0 million with a minimum net capital requirement of \$11.1 million.

LPL Financial's ability to pay dividends greater than 10% of its excess net capital during any 35-day rolling period requires approval from the Financial Industry Regulatory Authority ("FINRA"). In addition, payment of dividends is restricted if LPL Financial's net capital would be less than 5% of aggregate customer debit balances.

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

Our subsidiary, The Private Trust Company, N.A. ("PTC"), is also subject to various regulatory capital requirements. Failure to meet the respective minimum capital requirements can result in certain mandatory and discretionary actions by regulators that, if undertaken, could have substantial monetary and non-monetary impacts on PTC's operations.

### **Debt and Related Covenants**

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

- incur additional indebtedness or issue disqualified stock or preferred stock;
- declare dividends, or other distributions to stockholders;
- repurchase equity interests;
- redeem indebtedness that is subordinated in right of payment to certain debt instruments;
- make investments or acquisitions;
- create liens;
- sell assets;
- guarantee indebtedness;
- engage in certain transactions with affiliates;
- enter into agreements that restrict dividends or other payments from subsidiaries; and
- consolidate, merge or transfer all or substantially all of our assets.

Our Credit Agreement and the Indentures allow us to pay dividends and distributions or repurchase our capital stock only when certain conditions are met. In addition, our revolving credit facility requires us to be in compliance with certain financial covenants as of the last day of each fiscal quarter. The financial covenants require the calculation of Credit Agreement EBITDA, as defined in, and calculated by management in accordance with, the Credit Agreement. The Credit Agreement defines Credit Agreement EBITDA as "Consolidated EBITDA," which is Consolidated Net Income (as defined in the Credit Agreement) plus interest expense, tax expense, depreciation and amortization, and further adjusted to exclude certain non-cash charges and other adjustments (including unusual or non-recurring charges) and gains, and to include future expected cost savings, operating expense reductions or other synergies from certain transactions.

As of December 31, 2020, we were in compliance with both financial covenants, a maximum Consolidated Total Debt to Consolidated EBITDA Ratio (as defined in the Credit Agreement) or "Leverage Ratio" and a minimum Consolidated EBITDA to Consolidated Interest Expense Ratio (as defined in the Credit Agreement) or "Interest Coverage". The breach of these financial covenants would be subject to certain equity cure rights. The required ratios under our financial covenants and actual ratios were as follows:

Financial Ratio	December 31, 2020	
	Covenant Requirement	Actual Ratio
Leverage Ratio (Maximum)	5.0	2.16
Interest Coverage (Minimum)	3.0	9.81

See Note 11 - *Long-term and Other Borrowings*, within the notes to the consolidated financial statements for further detail regarding the Credit Agreement and the Indentures.

### Off-Balance Sheet Arrangements

We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our advisors' clients. These arrangements include Company commitments to extend credit. For information on these arrangements, see Note 14 - *Commitments and Contingencies* and Note 21 - *Financial Instruments with Off-Balance-Sheet Credit Risk and Concentrations of Credit Risk*, within the notes to the consolidated financial statements.

### Contractual Obligations

The following table provides information with respect to our commitments and obligations as of December 31, 2020 (in thousands):

	Payments Due by Period				
	Total	< 1 Year	1-3 Years	3-5 Years	> 5 Years
Operating leases <sup>(1)</sup>	\$ 185,905	\$ 22,025	\$ 44,799	\$ 43,748	\$ 75,333
Finance leases <sup>(2)</sup>	269,480	9,735	17,379	17,606	224,760
Purchase obligations <sup>(3)</sup>	105,528	47,187	44,755	13,258	328
Long-term borrowings <sup>(4)</sup>	2,359,300	10,700	21,400	921,400	1,405,800
Interest payments <sup>(5)</sup>	502,855	90,279	179,950	179,137	53,489
Commitment and other fees <sup>(6)</sup>	11,397	3,002	6,005	2,390	—
<b>Total contractual cash obligations</b>	<b>\$ 3,434,465</b>	<b>\$ 182,928</b>	<b>\$ 314,288</b>	<b>\$ 1,177,539</b>	<b>\$ 1,759,710</b>

(1) Represents future payments under operating leases. See Note 12 - *Leases*, within the notes to the consolidated financial statements for further detail.

(2) Represents future payments under finance leases. See Note 12 - *Leases*, within the notes to the consolidated financial statements for further detail.

(3) Includes future minimum payments under service, development and agency contracts, and other contractual obligations. See Note 14 - *Commitments and Contingencies*, within the notes to the consolidated financial statements for further detail on obligations under noncancelable service contracts.

(4) Represents principal payments under our Credit Agreement. See Note 11 - *Long-term and Other Borrowings*, within the notes to the consolidated financial statements for further detail.

(5) Represents interest payments under our Credit Agreement, which include a variable interest payment for our senior secured credit facilities and a fixed interest payment for senior unsecured notes. Variable interest payments assume the applicable interest rates at December 31, 2020 remain unchanged. See Note 11 - *Long-term and Other Borrowings*, within the notes to the consolidated financial statements for further detail.

(6) Represents commitment fees for unused borrowings on the revolving credit facility under our Credit Agreement. See Note 11 - *Long-term and Other Borrowings*, within the notes to the consolidated financial statements for further detail.

As of December 31, 2020, we have a liability for unrecognized tax benefits of \$54.4 million, which we have included in income taxes payable in the consolidated statements of financial condition. This amount has been excluded from the contractual obligations table because we are unable to reasonably predict the ultimate amount or timing of future tax payments.

### Fair Value of Financial Instruments

We use fair value measurements to record certain financial assets and liabilities at fair value and to determine fair value disclosures. See Note 5 - *Fair Value Measurements*, within the notes to the consolidated financial statements for a detailed discussion regarding our fair value measurements.

### Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with GAAP, which requires management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We believe that of our critical accounting policies, the following are noteworthy because they require management to make estimates regarding matters that are uncertain and

susceptible to change where such change may result in a material adverse impact on our financial position and reported financial results.

#### **Revenue Recognition**

Revenues are recognized when control of the promised service is transferred to customers, in an amount that reflects the consideration that we expect to be entitled to in exchange for those services. Management exercises judgment to estimate revenue accruals. In particular, our trailing commission revenues, included in commission revenues on the consolidated statements of income, are generally received in arrears and therefore require our management to estimate accrued amounts based on revenues received in prior periods, market performance and payment frequency of each product type or sponsor. See Note 2 - *Summary of Significant Accounting Policies* and Note 3 - *Revenues*, within the notes to the consolidated financial statements for more details on our policies and disclosures related to revenues.

#### **Commitments and Contingencies**

Liabilities related to loss contingencies, are recognized when we believe it is probable a liability has occurred and the amount can be reasonably estimated by management. We have established an accrual for those legal proceedings and regulatory matters for which a loss is both probable and the amount can be reasonably estimated.

We also accrue for losses at our captive insurance subsidiary for those matters covered by self-insurance. Our captive insurance subsidiary records losses and loss reserve liabilities based on actuarially determined estimates of losses incurred, as well as specific reserves for proceedings and matters that are probable and estimable. Assessing the probability of a loss occurring and the timing and amount of any loss related to a legal proceeding or regulatory matter is inherently difficult and requires management to make significant judgments. For additional information, see Note 2 - *Summary of Significant Accounting Policies* and Note 14 - *Commitments and Contingencies* - "Legal & Regulatory Matters," within the notes to the consolidated financial statements.

#### **Valuation of Goodwill and Other Intangible Assets**

Goodwill is recognized as a result of business combinations and is measured as the excess of the purchase price over the fair value of the net assets acquired. The valuation of goodwill and other intangible assets requires management to apply judgment and assumptions when estimating future earnings and performance. Management also applies judgment when testing for impairment of goodwill and other indefinite-lived intangible assets, including estimating fair values. Goodwill and other indefinite-lived intangible assets are tested annually for impairment in the fourth fiscal quarter and between annual tests if certain events occur indicating that the carrying amounts may be impaired.

Intangible assets that are deemed to have definite lives are amortized over their useful lives, or the estimated period the intangible asset will provide economic benefit. Definite-lived intangible assets are reviewed for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount may not be recoverable. For additional information on our policies and disclosures related to goodwill and other intangible assets, see Note 2 - *Summary of Significant Accounting Policies* and Note 9 - *Goodwill and Other Intangible Assets*, within the notes to the consolidated financial statements.

#### **Income Taxes**

In preparing the consolidated financial statements, we estimate income tax expense based on various jurisdictions where we conduct business. This requires management to estimate current tax obligations and to assess temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. These temporary differences result in deferred tax assets and liabilities, which we must then assess the likelihood that the deferred tax assets will be realized. A valuation allowance is established to the extent that it is more likely than not that such deferred tax assets will not be realized. Changes in the estimate of tax assets and liabilities occur periodically due to changes in the tax rates, changes in the business operations, implementation of tax planning strategies, resolution with taxing authorities of issues where we had previously taken certain tax positions and newly enacted statutory, judicial and regulatory guidance. For more information on our policies and disclosures related to taxes, see Note 2 - *Summary of Significant Accounting Policies* and Note 13 - *Income Taxes*, within the notes to the consolidated financial statements.

**Recently Issued Accounting Pronouncements**

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

## Item 7A. Quantitative and Qualitative Disclosures About Market Risk

### Market Risk

We maintain trading securities owned and securities sold, but not yet purchased in order to facilitate client transactions, to meet a portion of our clearing deposit requirements at various clearing organizations and to track the performance of our research models. These securities could include mutual funds, debt securities and equity securities. Changes in the value of our trading securities may result from fluctuations in interest rates, credit ratings of the issuer, equity prices or a combination of these factors.

In facilitating client transactions, our securities owned and securities sold, but not yet purchased generally involve mutual funds, including dividend reinvestments. Our positions held are based upon the settlement of client transactions, which are monitored by our Service, Trading and Operations ("STO") department.

Positions held to meet clearing deposit requirements consist of U.S. government securities. The amount of securities deposited depends upon the requirements of the clearing organization. The level of securities deposited is monitored by the settlements group within our STO department.

Our Research department develops model portfolios that are used by advisors in developing client portfolios. We maintain securities owned in internal accounts based on these model portfolios to track the performance of our Research department. At the time a portfolio is developed, we purchase the securities in that model portfolio in an amount equal to the account minimum, which varies by product.

In addition, we are subject to market risk resulting from system incidents or interruptions and human error, which can require customer trade corrections. We also have market risk on the fees we earn that are based on the market value of advisory and brokerage assets along with assets on which trailing commissions are paid, and assets eligible for sponsor payments.

As of December 31, 2020, the fair value of our trading securities owned was \$29.3 million, and securities sold, but not yet purchased were immaterial. The fair value of securities included within other assets was \$380.2 million as of December 31, 2020. See Note 5 - *Fair Value Measurements*, within the notes to the consolidated financial statements for information regarding the fair value of trading securities owned, securities sold, but not yet purchased and other assets associated with our client facilitation activities. See Note 6 - *Held-to-Maturity Securities*, within the notes to the consolidated financial statements for information regarding the fair value of securities held to maturity.

### Interest Rate Risk

We are exposed to risk associated with changes in interest rates. As of December 31, 2020, \$1.1 billion of our outstanding debt under our Credit Agreement was subject to floating interest rate risk. While our senior secured term loan is subject to increases in interest rates, we do not believe that a short-term change in interest rates would have a material impact on our income before taxes given assets owned, which are generally subject to the same, but off-setting, interest rate risk.

The following table summarizes the impact of increasing interest rates on our interest expense from the variable portion of our debt outstanding, calculated using the projected average outstanding balance over the subsequent twelve-month period (in thousands):

Senior Secured Credit Facility	Outstanding Balance at December 31, 2020	Annual Impact of an Interest Rate <sup>(†)</sup> Increase of			
		10 Basis Points	25 Basis Points	50 Basis Points	100 Basis Points
		\$ 1,055	\$ 2,638	\$ 5,276	\$ 10,553
Term Loan B	\$ 1,059,300				

(†) Our interest rate for Term Loan B is locked in for one, two, three, six or twelve months as allowed under the Credit Agreement. At the end of the selected periods the rates will be locked in at the then current rate. The effect of these interest rate locks are not included in the table above.

See Note 11 - *Long-term and Other Borrowings*, within the notes to the consolidated financial statements for additional information.

As of December 31, 2020, we offered our advisors and their clients two primary bank sweep vehicles that are interest rate sensitive: (1) our insured cash account ("ICA") for individuals, trusts, sole proprietorships and entities organized or operated to make a profit, such as corporations, partnerships, associations, business trusts and other organizations; and (2) an insured deposit cash account ("DCA") for advisory individual retirement accounts. In

addition, we offer our advisors and their clients a money market program, including money market accounts as well as the ability to participate in purchased money market funds. While clients earn interest on deposits in ICA and DCA, we earn a fee. The fees we earn from cash held in ICAs are based on prevailing interest rates in the current interest rate environment. The fees we earn from DCAs are calculated as a per account fee, and such fees increase as the federal funds target rate increases, subject to a cap. The fees we earn on cash balances in our advisors' clients' accounts in our money market program, including administrative and recordkeeping fees based on account type and the invested balances, are also sensitive to prevailing interest rates. Changes in interest rates and fees for the bank deposit sweep vehicles are monitored by our Rate Setting Committee (the "RSC"), which governs and approves any changes to our fees. By meeting promptly around the time of Federal Open Market Committee meetings, or for other market or non-market reasons, the RSC considers financial risk of the insured bank deposit sweep vehicles relative to other products into which clients may move cash balances.

## Credit Risk

Credit risk is the risk of loss due to adverse changes in a borrower's, issuer's or counterparty's ability to meet its financial obligations under contractual or agreed upon terms. Credit risk includes the risk that loans we extend to advisors to facilitate their transition to our platform or to fund their business development activities are not repaid in full or on time. Credit risk also includes the risk that collateral posted with LPL Financial by clients to support margin lending or derivative trading is insufficient to meet clients' contractual obligations to LPL Financial. We bear credit risk on the activities of our advisors' clients, including the execution, settlement and financing of various transactions on behalf of these clients.

These activities are transacted on either a cash or margin basis. Our credit exposure in these transactions consists primarily of margin accounts, through which we extend credit to advisors' clients collateralized by securities in the clients' accounts. Under many of these agreements, we are permitted to sell, repledge or loan these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions.

As our advisors execute margin transactions on behalf of their clients, we may incur losses if clients do not fulfill their obligations, the collateral in the clients' accounts is insufficient to fully cover losses from such investments and our advisors fail to reimburse us for such losses. Our losses on margin accounts were immaterial during the years ended December 31, 2020 and 2019. We monitor exposure to industry sectors and individual securities and perform analyses on a regular basis in connection with our margin lending activities. We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions.

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

## Operational Risk

Operational risk is defined as the risk of loss resulting from failed or inadequate processes or systems, actions by people or external events. We operate in diverse markets and are reliant on the ability of our employees and information technology systems, as well as third-party service providers and their systems, to manage a large volume of transactions and confidential information, including personally identifiable information, effectively and securely. These risks are less direct and quantifiable than credit and market risk, but managing them is critical, particularly in a rapidly changing operating environment with increasing transaction volumes and in light of increasing reliance on systems capabilities and performance, as well as third-party service providers. In the event of the breakdown, obsolescence or improper operation of systems, malicious cyber activity or improper action by employees, advisors or third-party service providers, we could suffer business disruptions, financial loss, data loss, regulatory sanctions and damage to our reputation. Although we have developed business continuity and disaster recovery plans, those plans could be inadequate, disrupted or otherwise unsuccessful in maintaining the competitiveness, stability, security or continuity of critical systems as a result of, among other things, obsolescence, improper operation, third-party dependencies or limitations of our current technology.

In order to assist in the mitigation and control of operational risk, we have an operational risk framework that is designed to enable assessment and reporting on operational risk across the firm. This framework aims to ensure policies and procedures are in place and appropriately designed to identify and manage operational risk at appropriate levels throughout our organization and within various departments. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our employees and advisors operate within established corporate policies and limits. Notwithstanding the foregoing, please consult the “Risks Related to Our Technology” and the “Risks Related to Our Business and Industry” sections within Part I, “Item 1A. Risk Factors” for more information about the risks associated with our technology, including risks related to security, our risk management policies and procedures, and the potential related effects on our operations.

Our senior management is monitoring developments in the COVID-19 pandemic and has implemented changes to our policies, procedures and operations to protect the integrity and continuity of our business and the health and safety of our employees. For example, we equipped and enabled a substantial majority of employees to work remotely, implemented physical distancing and enhanced cleaning protocols throughout our corporate offices and worked closely with our vendors to maintain service continuity throughout the market volatility and increased operational volumes that occurred from time to time during the pandemic. There can be no guarantee that our business continuity plans and the other efforts to manage the business implications of COVID-19 will be effective, or that there will not be material adverse effects on our results of operations. Please consult Part I, “Item 1A. Risk Factors” for more information about the risks associated with the COVID-19 pandemic.

### **Regulatory and Legal Risk**

The regulatory environment in which we operate is discussed in detail within Part I, “Item 1. Business” of this Annual Report on Form 10-K. In recent years, and during the period presented in this Annual Report on Form 10-K, we have observed the SEC, FINRA and state regulators broaden the scope, frequency and depth of their examinations and inquiries to include greater emphasis on the quality, consistency and oversight of our compliance systems and programs. Please consult the “Risks Related to Our Regulatory Environment” and the “Risks Related to Our Business and Industry” sections within Part I, “Item 1A. Risk Factors” for more information about the risks associated with operating within our regulatory environment, pending regulatory matters and the potential related effects on our operations.

### **Risk Management**

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

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

Our risk management governance approach includes the Board of Directors (the “Board”) and certain of its committees; our Risk Oversight Committee (the “ROC”) and its subcommittees; and our three-lines-of-defense. We regularly reevaluate and, when necessary, modify our processes to improve the identification and escalation of risks and events.

### **Audit Committee of the Board**

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

## **Compensation and Human Resources Committee of the Board**

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

## **Risk Oversight Committee of LPL Financial**

The Audit Committee has mandated that the ROC oversee our risk management activities, including those of our subsidiaries. The Chief Compliance Officer of LPL Financial serves as chair of the ROC, which generally meets on a monthly basis with additional *ad hoc* meetings as necessary. The members of the ROC include certain Managing Directors of LPL Financial, as well as other members of LPL Financial's senior management team who serve as ex-officio members and represent key control areas of the Company. Participation in the ROC by senior officers is intended to ensure that the ROC covers the key risk areas of the Company, including its subsidiaries, and that the ROC thoroughly reviews significant matters relating to risk priorities, policies, control procedures and related exceptions, certain new and complex products and business arrangements, transactions with significant risk elements, and identified emerging risks.

The Chief Legal Officer provides updates on pertinent ROC discussions to the Audit Committee on a regular basis and, if necessary or requested, to the Board.

## **Subcommittees of the Risk Oversight Committee**

The ROC has established multiple subcommittees that cover key areas of risk. The subcommittees meet regularly and are responsible for keeping the ROC informed and escalating issues in accordance with the Company's escalation policies. The responsibilities of such subcommittees include, for example, oversight of operational risk; oversight of the approval of new and complex investment products offered to advisors' clients; oversight of the firm's technology; and issues and trends related to advisor compliance.

## **Internal Audit Department**

As the third line of defense, the Internal Audit department provides independent and objective assurance of the effectiveness of the Company's governance, risk management and internal controls by conducting risk assessments and audits designed to identify and cover important risk categories. Internal Audit reports directly to the Audit Committee, which provides oversight of Internal Audit's activities and approves its annual plan. The Internal Audit department provides regular updates to the ROC and reports to the Audit Committee at least as often as quarterly.

## **Control Groups**

The CLR department provides compliance oversight and guidance, and conducts various risk and other assessments to address regulatory and Company-specific risks and requirements. The CLR department includes the Chief Legal Officer, who reviews the results of the Company's risk management process with the ROC, the Audit Committee and the Board as necessary. STO and Technology each have risk management teams that identify, define and remediate risk-related items within their respective groups. Additionally, the Internal Audit department is a control group.

## **Business Line Management**

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

## **Advisor Policies**

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

compliance with industry regulations and codes of conduct and ethics to govern employee and advisor conduct, among other matters.

**Item 8. Financial Statements and Supplementary Data**

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## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the stockholders and the Board of Directors of  
LPL Financial Holdings Inc.  
San Diego, California

### **Opinion on the Financial Statements**

We have audited the accompanying consolidated statements of financial condition of LPL Financial Holdings Inc. and subsidiaries (the "Company") as of December 31, 2020 and 2019, the related consolidated statements of income, stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2020, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 23, 2021, expressed an unqualified opinion on the Company's internal control over financial reporting.

### **Basis for Opinion**

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

### **Critical Audit Matter**

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

### **Revenues - Trailing Commission Revenue Accrual - Refer to Note 3 to the financial statements**

#### *Critical Audit Matter Description*

The Company's trailing commission revenues are generally received in arrears and therefore estimated and accrued at year-end. The estimate is based on commission revenues received in prior periods, adjusted using change factors based on market performance and the payment frequency for each investment product type and sponsor. Because of the volume of investment product types and sponsors and variability in the corresponding

payment frequencies, the Company performs manual calculations and exercises judgment in determining the revenue estimate.

We identified the Company's trailing commission revenue accrual as a critical audit matter because of the judgments necessary for management to estimate the revenue accrual. This required an increased extent of audit effort and a high degree of auditor judgment when performing audit procedures to evaluate the inputs and judgments related to the revenue accrual and evaluating the results of those procedures.

*How the Critical Audit Matter Was Addressed in the Audit*

Our audit procedures related to the inputs and judgments used by management to estimate the year-end accrual for trailing commission revenues included the following, among others:

- We tested the effectiveness of internal controls over the accrual for trailing commission revenues, including those over the inputs and judgments used by management in the calculation of the accrual and the historical lookback analysis comparing monthly accruals to subsequent cash receipts
- We compared management's market performance data to external sources and challenged their methodology for potential management bias by evaluating the sensitivity of changes in market factors on the accrual
- We compared the accrual to actual trailing commission revenue received subsequent to year-end
- We tested the historical cash receipts used to estimate the year-end accrual by comparing them to bank statements
- We evaluated the payment frequency assumption used by management in the estimation of the accrual for a sample of investment product types and sponsors by comparing the assumption to the actual cash receipts frequency
- We tested the mathematical accuracy of the accrual

/s/ DELOITTE & TOUCHE LLP

San Diego, California  
February 23, 2021

We have served as the Company's auditor since 2001.

**LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES****Consolidated Statements of Income**

(In thousands, except per share data)

	Years Ended December 31,		
	2020	2019	2018
<b>REVENUES</b>			
Advisory	\$ 2,327,519	\$ 1,982,869	\$ 1,793,493
Commission	1,906,560	1,892,407	1,919,694
Asset-based	1,044,517	1,165,979	972,515
Transaction and fee	506,071	480,328	471,299
Interest income, net of interest expense	29,412	46,508	40,210
Other	57,561	56,765	(8,811)
<b>Total net revenues</b>	<b>5,871,640</b>	<b>5,624,856</b>	<b>5,188,400</b>
<b>EXPENSES</b>			
Advisory and commission	3,697,147	3,388,186	3,177,576
Compensation and benefits	609,257	556,128	506,650
Promotional	208,250	205,537	208,603
Depreciation and amortization	109,732	95,779	87,656
Amortization of intangible assets	67,358	65,334	60,252
Occupancy and equipment	166,389	136,163	115,598
Professional services	57,067	73,887	85,651
Brokerage, clearing and exchange	71,185	64,445	63,154
Communications and data processing	52,399	49,859	46,322
Other	101,018	114,546	119,278
<b>Total operating expenses</b>	<b>5,139,802</b>	<b>4,749,864</b>	<b>4,470,740</b>
Non-operating interest expense and other	105,765	130,001	125,023
Loss on extinguishment of debt	—	3,156	—
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>626,073</b>	<b>741,835</b>	<b>592,637</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>153,433</b>	<b>181,955</b>	<b>153,178</b>
<b>NET INCOME</b>	<b>\$ 472,640</b>	<b>\$ 559,880</b>	<b>\$ 439,459</b>
<b>EARNINGS PER SHARE (Note 17)</b>			
Earnings per share, basic	\$ 5.96	\$ 6.78	\$ 4.99
Earnings per share, diluted	\$ 5.86	\$ 6.62	\$ 4.85
Weighted-average shares outstanding, basic	79,244	82,552	88,119
Weighted-average shares outstanding, diluted	80,702	84,624	90,619

See notes to consolidated financial statements.

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**LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Financial Condition**  
**(In thousands, except share data)**

	December 31,	
	2020	2019
<b>ASSETS</b>		
Cash and cash equivalents	\$ 808,612	\$ 590,209
Cash segregated under federal and other regulations	923,158	822,697
Restricted cash	67,264	58,872
Receivables from:		
Clients, net	405,106	433,986
Product sponsors, broker-dealers and clearing organizations	233,192	177,654
Advisor loans, net	547,372	441,743
Others, net	306,640	298,790
Securities owned:		
Trading — at fair value	29,252	46,447
Held-to-maturity — at amortized cost	13,235	11,806
Securities borrowed	30,130	17,684
Fixed assets, net	582,868	533,044
Operating lease assets	101,921	102,477
Goodwill	1,513,866	1,503,648
Intangible assets, net	397,486	439,838
Deferred income taxes, net	24,112	—
Other assets	539,357	401,343
<b>Total assets</b>	<b>\$ 6,523,571</b>	<b>\$ 5,880,238</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Drafts payable	\$ 178,403	\$ 218,636
Payables to clients	1,356,083	1,058,873
Payables to broker-dealers and clearing organizations	89,743	92,002
Accrued advisory and commission expenses payable	187,040	174,330
Accounts payable and accrued liabilities	681,554	557,969
Income taxes payable	28,145	20,129
Unearned revenue	95,328	82,842
Securities sold, but not yet purchased — at fair value	206	176
Long-term and other borrowings, net	2,345,414	2,398,818
Operating lease liabilities	139,377	141,900
Finance lease liabilities	107,424	108,592
Deferred income taxes, net	—	2,098
<b>Total liabilities</b>	<b>5,208,717</b>	<b>4,856,365</b>
<b>Commitments and contingencies (Note 14)</b>		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$0.001 par value; 600,000,000 shares authorized; 127,585,764 shares and 126,494,028 shares issued at December 31, 2020 and 2019, respectively	127	126
Additional paid-in capital	1,762,770	1,703,973
Treasury stock, at cost — 48,115,037 shares and 46,259,989 shares at December 31, 2020 and 2019, respectively	(2,391,062)	(2,234,793)
Retained earnings	1,943,019	1,554,567
<b>Total stockholders' equity</b>	<b>1,314,854</b>	<b>1,023,873</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 6,523,571</b>	<b>\$ 5,880,238</b>

See notes to consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE — December 31, 2017	123,030	\$ 123	\$ 1,556,117	33,262	\$ (1,309,568)	\$ —	\$ 718,336	\$ 965,008
Net income, net of tax expense							439,459	439,459
Issuance of common stock to settle restricted stock units	369	—	—	75	(4,843)			(4,843)
Treasury stock purchases				6,533	(417,891)			(417,891)
Cash dividends on common stock							(88,360)	(88,360)
Stock option exercises and other	1,511	2	49,058	(49)	1,767		711	51,538
Share-based compensation	—	—	29,162					29,162
BALANCE — December 31, 2018	124,910	\$ 125	\$ 1,634,337	39,821	\$ (1,730,535)	\$ —	\$ 1,070,146	\$ 974,073
Cumulative effect of accounting change							5,724	5,724
Net income, net of tax expense							559,880	559,880
Issuance of common stock to settle restricted stock units	366	—	—	75	(5,863)			(5,863)
Treasury stock purchases				6,419	(500,370)			(500,370)
Cash dividends on common stock							(82,597)	(82,597)
Stock option exercises and other	1,218	1	36,772	(55)	1,975		1,414	40,162
Share-based compensation	—	—	32,864					32,864
BALANCE — December 31, 2019	126,494	\$ 126	\$ 1,703,973	46,260	\$ (2,234,793)	\$ —	\$ 1,554,567	\$ 1,023,873
Cumulative effect of accounting change							(7,317)	(7,317)
Net income, net of tax expense							472,640	472,640
Issuance of common stock to settle restricted stock units	417	—	—	134	(9,420)			(9,420)
Treasury stock purchases				1,810	(150,036)			(150,036)
Cash dividends on common stock							(79,097)	(79,097)
Stock option exercises and other	675	1	24,822	(89)	3,187		2,226	30,236
Share-based compensation	—	—	33,975					33,975
BALANCE — December 31, 2020	<u>127,586</u>	<u>\$ 127</u>	<u>\$ 1,762,770</u>	<u>48,115</u>	<u>\$ (2,391,062)</u>	<u>\$ —</u>	<u>\$ 1,943,019</u>	<u>\$ 1,314,854</u>

See notes to consolidated financial statements.

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**LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**(In thousands)**

	Years Ended December 31,		
	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net income	\$ 472,640	\$ 559,880	\$ 439,459
Adjustments to reconcile net income to net cash provided by operating activities:			
Noncash items:			
Depreciation and amortization	109,732	95,779	87,656
Amortization of intangible assets	67,358	65,334	60,252
Amortization of debt issuance costs	5,384	4,672	4,118
Share-based compensation	33,975	32,864	29,162
Provision for bad debts	5,824	6,698	6,113
Deferred income taxes	(23,684)	(18,615)	(1,754)
Loss on extinguishment of debt	—	3,156	—
Loan forgiveness	113,126	92,502	71,520
Other	(12,673)	(11,421)	5,447
Changes in operating assets and liabilities:			
Receivables from clients	28,475	(20,602)	(68,888)
Receivables from product sponsors, broker-dealers and clearing organizations	(55,538)	(7,180)	29,414
Advisor loans	(225,518)	(235,499)	(152,227)
Receivables from others	(11,090)	(52,365)	(20,894)
Securities owned	16,072	(16,848)	(13,741)
Securities borrowed	(12,446)	(12,855)	7,660
Operating leases	(1,967)	(1,446)	—
Other assets	(103,925)	(62,670)	(51,708)
Drafts payable	(40,233)	(6,398)	39,105
Payables to clients	297,210	107,927	(11,945)
Payables to broker-dealers and clearing organizations	(2,259)	15,822	21,918
Accrued advisory and commission expenses payable	12,710	8,462	17,116
Accounts payable and accrued liabilities	96,521	87,210	43,987
Income taxes receivable/payable	8,016	(12,861)	32,521
Unearned revenue	12,201	2,318	8,302
Securities sold, but not yet purchased	30	7	(1,013)
Net cash provided by operating activities	<u>789,941</u>	<u>623,871</u>	<u>581,580</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Capital expenditures	(155,532)	(156,389)	(132,688)
Acquisitions, net of cash acquired	(30,556)	(25,853)	(27,928)
Purchase of securities classified as held-to-maturity	(6,511)	(3,745)	(6,137)
Proceeds from maturity of securities classified as held-to-maturity	5,100	5,000	5,000
Net cash used in investing activities	<u>(187,499)</u>	<u>(180,987)</u>	<u>(161,753)</u>

Continued on following page

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**LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**(In thousands)**

	Years Ended December 31,		
	2020	2019	2018
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Proceeds from revolving credit facilities	1,806,000	523,000	—
Repayments of revolving credit facilities	(1,851,000)	(478,000)	—
Repayment of senior secured term loans	(10,700)	(411,250)	(15,000)
Proceeds from senior secured term loans and senior notes	—	400,000	—
Payment of debt issuance costs	—	(17,615)	—
Payment of contingent consideration	(10,000)	—	—
Tax payments related to settlement of restricted stock units	(9,420)	(5,863)	(4,843)
Repurchase of common stock	(150,036)	(500,370)	(417,891)
Dividends on common stock	(79,097)	(82,597)	(88,360)
Proceeds from stock option exercises and other	30,236	40,162	51,538
Principal payment of finance leases and obligations	(1,169)	(692)	(8,807)
Net cash (used in) financing activities	(275,186)	(533,225)	(483,363)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	327,256	(90,341)	(63,536)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of year	<u>1,471,778</u>	<u>1,562,119</u>	<u>1,625,655</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of year	<u>\$ 1,799,034</u>	<u>\$ 1,471,778</u>	<u>\$ 1,562,119</u>
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>			
Interest paid	\$ 106,879	\$ 126,949	\$ 123,623
Income taxes paid	\$ 169,237	\$ 213,339	\$ 122,215
<b>NONCASH DISCLOSURES:</b>			
Capital expenditures included in accounts payable and accrued liabilities	\$ 12,186	\$ 13,736	\$ 20,634
Lease assets obtained in exchange for operating lease liabilities	\$ 7,968	\$ 108,879	\$ —
Fixed assets obtained in exchange for finance lease liabilities	\$ —	\$ 1,453	\$ —

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated statements of financial condition that sum to the total of the same such amounts shown in the consolidated statements of cash flows.

	December 31,		
	2020	2019	2018
Cash and cash equivalents	\$ 808,612	\$ 590,209	\$ 511,096
Cash segregated under federal and other regulations	923,158	822,697	985,195
Restricted cash	67,264	58,872	65,828
Total cash, cash equivalents and restricted cash shown in the consolidated statements of cash flows	<u>\$ 1,799,034</u>	<u>\$ 1,471,778</u>	<u>\$ 1,562,119</u>

See notes to consolidated financial statements.

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

## **NOTE 1 - ORGANIZATION AND DESCRIPTION OF THE COMPANY**

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

- LPL Holdings, Inc. (“LPLH”), a Massachusetts holding corporation, owns 100% of the issued and outstanding common stock or other ownership interest in each of LPL Financial LLC (“LPL Financial”), AW Subsidiary, Inc., LPL Employee Services, LLC, Fortigent Holdings Company, Inc. and LPL Insurance Associates, Inc. (“LPLIA”), as well as a captive insurance subsidiary (the “Captive Insurance Subsidiary”) that underwrites insurance for various legal and regulatory risks of the Company. LPLH is also the majority stockholder in PTC Holdings, Inc. (“PTCH”), and owns 100% of the issued and outstanding voting common stock. Each member of PTCH’s board of directors meets the direct equity ownership interest requirements that are required by the Office of the Comptroller of the Currency.
- LPL Financial, with primary offices in San Diego, California; Fort Mill, South Carolina; and Boston, Massachusetts, is a clearing broker-dealer and an investment adviser that principally transacts business as an agent for its advisors and financial institutions on behalf of their clients in a broad array of financial products and services. LPL Financial is licensed to operate in all 50 states, Washington D.C., Puerto Rico and the U.S. Virgin Islands.
- Fortigent Holdings Company, Inc. and its subsidiaries provide solutions and consulting services to registered investment advisers (“RIAs”), banks, and trust companies serving high-net-worth clients.
- LPLIA operates as an insurance brokerage general agency that offers life and disability insurance products and services for LPL Financial advisors.
- AW Subsidiary, Inc. is a holding company for AdvisoryWorld and Blaze Portfolio Systems LLC (“Blaze”). AdvisoryWorld offers technology products, including proposal generation, investment analytics and portfolio modeling, to both the Company’s advisors and external clients in the wealth management industry. Blaze offers a trading and rebalancing platform to both the Company’s advisors and external clients.
- PTCH is a holding company for The Private Trust Company, N.A. (“PTC”). PTC is chartered as a non-depository limited purpose national bank, providing a wide range of trust, investment management oversight, and custodial services for estates and families. PTC also provides Individual Retirement Account (“IRA”) custodial services for LPL Financial.
- LPL Employee Services, LLC is a holding company for Allen & Company of Florida, LLC (“Allen & Company”), an RIA.

## **NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Basis of Presentation***

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

### ***Consolidation***

These consolidated financial statements include the accounts of LPLFH and its subsidiaries. Intercompany transactions and balances have been eliminated.

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

### **Reportable Segment**

Management has determined that the Company operates in one segment, given the similarities in economic characteristics between its operations and the common nature of its products and services, production and distribution process and regulatory environment.

### **Revenue Recognition**

Revenues are recognized when control of the promised service is transferred to customers, in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. For additional information, see Note 3 - *Revenues*.

### **Compensation and Benefits**

The Company records compensation and benefits expense for all cash and deferred compensation, benefits and related taxes as earned by its employees. Compensation and benefits expense also includes fees earned by temporary employees and contractors who perform similar services to those performed by the Company's employees, primarily software development and project management activities.

### **Share-Based Compensation**

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

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

The Company recognizes share-based compensation for equity awards granted to advisors and financial institutions as advisory and commission expense on the consolidated statements of income. The fair value of restricted stock units is equal to the closing price of the Company's stock on the date of grant. Share-based compensation is recognized over the requisite service period of the individual awards, which generally equals the vesting period.

The Company also makes assumptions regarding the number of stock options, warrants, restricted stock awards, restricted stock units, deferred stock units and performance stock units that will be forfeited. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeiture assumptions do not impact the total amount of expense ultimately recognized over the vesting period. Rather, different forfeiture assumptions would only impact the timing of expense recognition over the vesting period. See Note 16 - *Share-Based Compensation*, for additional information regarding share-based compensation for equity awards granted.

### **Earnings Per Share**

Basic earnings per share is computed by dividing net income available to common stockholders by the basic weighted-average number of shares of common stock outstanding during the period. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the denominator is increased to include the number of additional shares of common stock that would have been outstanding if dilutive potential shares of common stock had been issued.

### **Income Taxes**

In preparing the consolidated financial statements, the Company estimates income tax expense based on various jurisdictions where it conducts business. The Company needs to estimate current tax obligations and to

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

assess temporary differences between the financial statement carrying amounts and the tax basis of assets and liabilities. These temporary differences result in deferred tax assets and liabilities. The Company then must assess the likelihood that the deferred tax assets will be realized. A valuation allowance is established to the extent that it is more likely than not that such deferred tax assets will not be realized. When the Company establishes a valuation allowance or modifies the existing allowance in a certain reporting period, it generally records a corresponding increase or decrease to tax expense in the consolidated statements of income. Management makes significant judgments in determining the provision for income taxes, the deferred tax assets and liabilities and any valuation allowances recorded against the deferred tax asset. Changes in the estimate of these taxes occur periodically due to changes in the tax rates, changes in the business operations, implementation of tax planning strategies, resolution with taxing authorities of issues where the Company had previously taken certain tax positions, and newly enacted statutory, judicial and regulatory guidance. These changes could have a material effect on the Company's consolidated statements of income, financial condition or cash flows in the period or periods in which they occur. Income tax credits are accounted for using the flow-through method as a reduction of income tax in the years utilized.

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

**Cash and Cash Equivalents**

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

**Cash Segregated Under Federal and Other Regulations**

The Company's subsidiary, LPL Financial, is required to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of its customers in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other regulations. Held within this account is approximately \$100,000 for the proprietary accounts of broker-dealers.

**Restricted Cash**

Restricted cash primarily represents cash held by and for use by the Captive Insurance Subsidiary.

**Receivables from and Payables to Clients**

Receivables from clients include amounts due on cash and margin transactions. The Company extends credit to clients of its advisors to finance their purchases of securities on margin and receives income from interest charged on such extensions of credit. Payables to clients represent credit balances in client accounts arising from deposits of funds, proceeds from sales of securities and dividend and interest payments received on securities held in client accounts at LPL Financial. The Company pays interest on certain client payable balances.

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

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

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

	December 31,		
	2020	2019	2018
Beginning balance — January 1	\$ 115	\$ 640	\$ 466
Impact of ASU 2016-13 adoption	—	—	—
Provision for bad debts	432	130	174
Charge-offs, net of recoveries	(27)	(655)	—
Ending balance — December 31	<u>\$ 520</u>	<u>\$ 115</u>	<u>\$ 640</u>

#### Advisor Loans

The Company periodically extends credit to its advisors in the form of recruiting loans, commission advances and other loans. The decision to extend credit to an advisor is generally based on the advisor's credit history and their ability to generate future revenues. Loans made in connection with recruiting can be either repayable or forgivable over terms generally up to ten years provided that the advisor remains licensed through LPL Financial. Forgivable loans are not repaid in cash and are amortized over the term of the loan. If an advisor terminates their arrangement with the Company prior to the loan maturity date, the remaining balance becomes repayable immediately. An allowance for uncollectible amounts is recorded at the inception of repayable loans and upon advisor termination for forgivable loans using estimates and assumptions based on historical lifetime loss experience and expectations of future loss rates based on current facts.

Advisor repayable loans totaled \$128.2 million and advisor forgivable loans that have become repayable upon advisor termination totaled \$3.0 million as of December 31, 2020. Included in the table below is a \$1.2 million allowance for advisor forgivable loans that have become repayable.

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

	December 31,		
	2020	2019	2018
Beginning balance — January 1	\$ 3,974	\$ 5,080	\$ 3,264
Impact of ASU 2016-13 adoption	6,227	—	—
Provision for bad debts	1,694	1,500	2,206
Charge-offs, net of recoveries	(5,132)	(2,606)	(390)
Ending balance — December 31	<u>\$ 6,763</u>	<u>\$ 3,974</u>	<u>\$ 5,080</u>

#### Receivables from Others

Receivables from others primarily consist of accrued fees from product sponsors and other fees due from advisors. An allowance for uncollectible amounts is recorded at inception using estimates and assumptions based on historical experience, current facts and other factors. Management monitors the adequacy of these estimates through periodic evaluations against actual trends experienced.

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

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

	December 31,		
	2020	2019	2018
Beginning balance — January 1	\$ 10,292	\$ 8,099	\$ 6,115
Impact of ASU 2016-13 adoption	3,617	—	—
Provision for bad debts	3,559	3,671	3,733
Charge-offs, net of recoveries	(14,367)	(1,478)	(1,749)
Ending balance — December 31	\$ 3,101	\$ 10,292	\$ 8,099

**Securities Owned and Securities Sold, But Not Yet Purchased**

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

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

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

**Securities Borrowed**

The Company borrows securities from other broker-dealers to make deliveries or to facilitate customer short sales. Securities borrowed are accounted for as collateralized financings and are recorded at contract value, representing the amount of cash provided for securities borrowed transactions (generally in excess of market values). The adequacy of the collateral deposited, which is determined by comparing the market value of the securities borrowed to the cash loaned, is continuously monitored and is adjusted when considered necessary to minimize the risk associated with this activity.

As of December 31, 2020, the contract and collateral market values of borrowed securities were \$30.1 million and \$29.1 million, respectively. As of December 31, 2019, the contract and collateral market values of borrowed securities were \$17.7 million and \$17.2 million, respectively.

**Fixed Assets**

Internally developed software, leasehold improvements, computers and software and furniture and equipment are recorded at historical cost, net of accumulated depreciation and amortization. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets. The Company expenses software development costs as incurred during the preliminary project stage, while capitalizing costs at the point at which the conceptual formulation, design and testing of possible software project alternatives are complete and management authorizes and commits to funding the project. The costs of internally developed software that qualify for

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

capitalization are capitalized as fixed assets and subsequently amortized over the estimated useful life of the software, which is generally three years. The Company does not capitalize pilot projects or projects for which it believes that the future economic benefits are less than probable. Leasehold improvements are amortized over the lesser of their useful lives or the terms of the underlying leases. Computers and software, as well as furniture and equipment, are depreciated over a period of three to seven years. Land is not depreciated.

Management reviews fixed assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. No impairment occurred for the years ended December 31, 2020, 2019 or 2018.

#### **Acquisitions**

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

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

The Company also enters into asset acquisitions for single identifiable assets. Accounting for asset acquisitions requires the Company's management to make significant estimates and assumptions with respect to the useful life of the asset purchased. These assumptions are based in part on historical experience and market data.

Examples of critical estimates in valuing certain of the intangible assets the Company has acquired include, but are not limited to: (i) future expected cash flows; and (ii) discount rates.

#### **Goodwill and Other Intangible Assets**

Goodwill and other indefinite-lived intangible assets are tested annually for impairment in the fourth fiscal quarter and between annual tests if certain events occur indicating that the carrying amounts may be impaired. If a qualitative assessment is used and the Company determines that the fair value of a reporting unit or indefinite-lived intangible asset is more likely than not (i.e., a likelihood of more than 50%) less than its carrying amount, a quantitative impairment test will be performed. An impairment loss will be recognized if a reporting unit's carrying amount exceeds its fair value, to the extent that it does not exceed the total carrying amount of goodwill. No impairment of goodwill or other indefinite-lived intangible assets was recognized for the years ended December 31, 2020, 2019 or 2018.

Intangible assets that are deemed to have definite lives are amortized over their useful lives, generally ranging from 5 to 20 years. They are reviewed for impairment when there is evidence that events or changes in circumstances indicate that the carrying amount may not be recoverable. Recoverability of assets to be held and used is measured by comparing the carrying amount to the estimated undiscounted future cash flows expected to be generated. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the estimated fair value. There was no impairment of definite-lived intangible assets recognized for the years ended December 31, 2020, 2019 or 2018. See Note 9 - *Goodwill and Other Intangible Assets*, for additional information regarding the Company's goodwill and other intangible assets.

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

### **Debt Issuance Costs**

Debt issuance and amendment costs are capitalized and amortized as additional interest expense over the expected term of the related debt agreement. Debt issuance costs are presented as a direct deduction from the carrying amount of the related debt liability. Costs incurred while obtaining the revolving credit facility are included in other assets and subsequently amortized ratably over the term of the revolving credit facility, regardless of whether there are any outstanding borrowings on the revolving credit facility.

### **Fair Value of Financial Instruments**

The Company's financial assets and liabilities are carried at fair value or at amounts that, because of their short-term nature, approximate current fair value, with the exception of its held-to-maturity securities and indebtedness, which are carried at amortized cost. The Company measures the implied fair value of its debt instruments using trading levels obtained from a third-party service provider. Accordingly, the debt instruments qualify as Level 2 fair value measurements. See Note 5 - *Fair Value Measurements*, for additional information regarding the Company's fair value measurements. As of December 31, 2020, the carrying amount and fair value of the Company's indebtedness was approximately \$2,359.3 million and \$2,402.4 million, respectively. As of December 31, 2019, the carrying amount and fair value was approximately \$2,415.0 million and \$2,476.0 million, respectively.

### **Commitments and Contingencies**

The Company recognizes a liability for loss contingencies when it believes it is probable a liability has occurred and the amount can be reasonably estimated. If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, the Company accrues that amount. When no amount within the range is a better estimate than any other amount, however, the Company accrues the minimum amount in the range. The Company has established an accrual for those legal proceedings and regulatory matters for which a loss is both probable and the amount can be reasonably estimated.

The Company also accrues for losses at its Captive Insurance Subsidiary for those matters covered by self-insurance. The Captive Insurance Subsidiary records losses and loss reserve liabilities based on actuarially determined estimates of losses incurred, but not yet reported to the Company as well as specific reserves for proceedings and matters that are probable and estimable. The Captive Insurance Subsidiary is funded by payments from the Company's other subsidiaries and has cash reserves to cover losses. Assessing the probability of a loss occurring and the timing and amount of any loss related to a legal proceeding or regulatory matter is inherently difficult and requires management to make significant judgments. For additional information, see Note 14 - *Commitments and Contingencies* - "Legal & Regulatory Matters."

### **Leases**

Lease assets and lease liabilities are recognized based on the present value of the future lease payments over the lease term at the lease commencement date. The Company estimates its incremental borrowing rate based on information available at the commencement date in determining the present value of future payments. For additional information, see Note 12 - *Leases*.

### **Recently Issued Accounting Pronouncements**

There are no recently issued accounting pronouncements that would materially impact the Company's consolidated financial statements and related disclosures.

### **Recently Adopted Accounting Pronouncements**

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions and reasonable and supportable forecasts. ASU 2016-13 also requires additional disclosures regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The Company adopted the provisions of this guidance on January 1, 2020 using the modified retrospective method for all financial assets measured at amortized cost and recognized a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

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

Results for reporting periods beginning after January 1, 2020 are presented under Topic 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption had no material impact on the Company's recognition of credit losses.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 removes or modifies certain current disclosures, and requires additional disclosures. The changes are meant to provide more relevant information regarding valuation techniques and inputs used to arrive at measures of fair value, uncertainty in the fair value measurements and how changes in fair value measurements impact an entity's performance and cash flows. Certain disclosures in ASU 2018-13 will need to be applied on a retrospective basis and others on a prospective basis. The Company adopted the provisions of this guidance on January 1, 2020. The adoption had no material impact on the Company's related disclosures.

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other – Internal-Use Software (Topic 350): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*, which aligns the accounting for costs to implement a cloud computing arrangement that is a service with the guidance on capitalizing costs for developing or obtaining internal-use software. The Company prospectively adopted the provisions of this guidance on January 1, 2020. The adoption had no material impact on the Company's consolidated financial statements.

### **NOTE 3 - REVENUES**

Revenues are recognized when control of the promised services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those services. Revenues are analyzed to determine whether the Company is the principal (i.e., reports revenues on a gross basis) or agent (i.e., reports revenues on a net basis) in the contract. Principal or agent designations depend primarily on the control an entity has over the product or service before control is transferred to a customer. The indicators of which party exercises control include primary responsibility over performance obligations, inventory risk before the good or service is transferred and discretion in establishing the price.

#### ***Advisory***

Advisory revenues represent fees charged to advisors' clients' accounts on the Company's corporate advisory platform. The Company provides ongoing investment advice and acts as a custodian, providing brokerage and execution services on transactions, and performs administrative services for these accounts. This series of performance obligations transfers control of the services to the client over time as the services are performed. These revenues are recognized ratably over time to match the continued delivery of the performance obligations to the client over the life of the contract. The advisory revenues generated from the Company's corporate advisory platform are based on a percentage of the market value of the eligible assets in the clients' advisory accounts. As such, the consideration for these revenues are variable and an estimate of the variable consideration is constrained due to dependence on unpredictable market impacts on client portfolio values. The constraint is removed once the portfolio value can be determined.

The Company provides advisory services to clients on its corporate advisory platform through the advisor. The Company is the principal in these arrangements and recognizes advisory revenues on a gross basis, as the Company is responsible for satisfying the performance obligations and has control over determining the fees.

#### ***Commission***

Commission revenues represent sales commissions generated by advisors for their clients' purchases and sales of securities on exchanges and over-the-counter, as well as purchases of other investment products. The Company views the selling, distribution and marketing, or any combination thereof, of investment products to such clients as a single performance obligation to the product sponsors.

The Company is the principal for commission revenues, as it is responsible for the execution of the clients' purchases and sales, and maintains relationships with the product sponsors. Advisors assist the Company in performing its obligations. Accordingly, total commission revenues are reported on a gross basis.

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

The following table presents total commission revenues disaggregated by investment product category (in thousands):

	Years Ended December 31,		
	2020	2019	2018
<b>Commission revenues</b>			
Annuities	\$ 976,357	\$ 1,000,806	\$ 999,689
Mutual funds	590,074	589,411	616,445
Fixed income	88,714	102,391	98,091
Equities	126,920	79,446	84,823
Other	124,495	120,353	120,646
<b>Total commission revenues</b>	<b>\$ 1,906,560</b>	<b>\$ 1,892,407</b>	<b>\$ 1,919,694</b>

The Company generates two types of commission revenues: sales-based commissions that are recognized at the point of sale on the trade date and trailing commissions that are recognized over time as earned. Sales-based commission revenues vary by investment product and are based on a percentage of an investment product's current market value at the time of purchase. Trailing commission revenues are generally based on a percentage of the current market value of clients' investment holdings in trail-eligible assets, and are recognized over the period during which services, such as ongoing support, are performed. As trailing commission revenues are based on the market value of clients' investment holdings, the consideration is variable and an estimate of the variable consideration is constrained due to dependence on unpredictable market impacts. The constraint is removed once the investment holdings value can be determined.

The following table presents sales-based and trailing commission revenues disaggregated by product category (in thousands):

	Years Ended December 31,		
	2020	2019	2018
<b>Commission revenues</b>			
<b>Sales-based</b>			
Annuities	\$ 327,412	\$ 380,317	\$ 379,252
Mutual funds	145,836	146,695	141,597
Fixed income	88,714	102,391	98,091
Equities	126,920	79,446	84,823
Other	81,882	74,003	73,013
<b>Total sales-based revenues</b>	<b>\$ 770,764</b>	<b>\$ 782,852</b>	<b>\$ 776,776</b>
<b>Trailing</b>			
Annuities	\$ 648,945	\$ 620,489	\$ 620,437
Mutual funds	444,238	442,716	474,848
Other	42,613	46,350	47,633
<b>Total trailing revenues</b>	<b>\$ 1,135,796</b>	<b>\$ 1,109,555</b>	<b>\$ 1,142,918</b>
<b>Total commission revenues</b>	<b>\$ 1,906,560</b>	<b>\$ 1,892,407</b>	<b>\$ 1,919,694</b>

### Asset-Based

Asset-based revenues consist of fees from the Company's client cash programs, which consist of fees from its money market programs and insured bank sweep vehicles, sponsorship programs, and recordkeeping.

#### Client Cash Revenues

Client cash revenues are generated based on advisors' clients' cash balances in insured bank sweep accounts and money market programs. The Company receives fees based on account type and invested balances for administration and recordkeeping. These fees are paid and recognized over time.

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**Sponsorship Programs**

The Company receives fees from product sponsors, primarily mutual fund and annuity companies, for marketing support and sales force education and training efforts. Compensation for these performance obligations is either a fixed fee, a percentage of the average annual amount of product sponsor assets held in advisors' clients' accounts, a percentage of new sales or some combination. As the value of product sponsor assets held in advisors' clients' accounts is susceptible to unpredictable market changes, these revenues include variable consideration and are constrained until the date that the fees are determinable.

**Recordkeeping**

The Company generates revenues from fees it collects for providing recordkeeping, account maintenance, reporting and other related services to product sponsors. This includes revenues from omnibus processing in which the Company establishes and maintains sub-account records for its clients to reflect the purchase, exchange and redemption of mutual fund shares, and consolidates clients' trades within a mutual fund. Omnibus processing fees are paid to the Company by the mutual fund or its affiliates and are based on the value of mutual fund assets in accounts for which the Company provides omnibus processing services and the number of accounts in which the related mutual fund positions are held. Recordkeeping revenues also include revenues from networking recordkeeping services. Networking revenues on brokerage assets are correlated to the number of positions or value of assets that the Company administers and are paid by mutual fund and annuity product manufacturers. These recordkeeping revenues are recognized over time as the Company fulfills its performance obligations. As recordkeeping fees are susceptible to unpredictable market changes that influence market value and fund positions, these revenues include variable consideration and are constrained until the date that the fees are determinable.

Depending on the contract, the Company is either principal or agent for recordkeeping revenues. In instances in which the Company is providing services to financial product manufacturers on behalf of third parties and does not have ultimate control of the service before transfer to the customer, the Company is considered to be an agent and reports revenues on a net basis. In other cases, where the Company uses a sub-contractor to provide services and is responsible for unperformed services, the Company is considered principal and reports revenues on a gross basis.

The following table sets forth asset-based revenues at a disaggregated level (in thousands):

	Years Ended December 31,		
	2020	2019	2018
<b>Asset-based revenues</b>			
Client cash	\$ 481,388	\$ 652,793	\$ 500,418
Sponsorship programs	272,935	251,899	224,726
Recordkeeping	290,194	261,287	247,371
<b>Total asset-based revenues</b>	<b>\$ 1,044,517</b>	<b>\$ 1,165,979</b>	<b>\$ 972,515</b>

**Transaction and Fee**

Transaction revenues primarily include fees the Company charges to advisors and their clients for executing certain transactions in brokerage and fee-based advisory accounts. Transaction revenues are recognized at the point-in-time that a transaction is executed, which is generally the trade date. Fee revenues may be generated from advisors or their clients. Fee revenues primarily include IRA custodian fees, contract and licensing fees, and other client account fees. In addition, the Company hosts certain advisor conferences that serve as training, education, sales and marketing events, for which the Company collects a fee for attendance. Fee revenues are recognized when the Company satisfies its performance obligations. Recognition varies from point-in-time to over time depending on whether the service is provided once at an identifiable point-in-time or if the service is provided continually over the contract life.

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The following table sets forth transaction and fee revenues disaggregated by recognition pattern (in thousands):

	Years Ended December 31,		
	2020	2019	2018
<b>Transaction and fee revenues</b>			
Point-in-time <sup>(1)</sup>	\$ 228,744	\$ 215,234	\$ 221,265
Over time <sup>(2)</sup>	277,327	265,094	250,034
<b>Total transaction and fee revenues</b>	<b>\$ 506,071</b>	<b>\$ 480,328</b>	<b>\$ 471,299</b>

(1) Transaction and fee revenues recognized point-in-time include revenues such as transaction fees, IRA termination fees and technology fees.

(2) Transaction and fee revenues recognized over time include revenues such as error and omission insurance fees, IRA custodian fees and technology fees.

The Company is the principal and recognizes transaction and fee revenues on a gross basis as it is primarily responsible for delivering the respective services being provided, which is demonstrated by the Company's ability to control the fee amounts charged to customers.

#### **Interest Income, Net of Interest Expense**

The Company earns interest income from client margin accounts and cash equivalents, net of interest expense. Interest expense from operations for the years ended December 31, 2020, 2019 and 2018 was not material.

#### **Other**

Other revenues primarily include unrealized gains and losses on assets held by the Company for its advisor non-qualified deferred compensation plan and model research portfolios, marketing allowances received from certain financial product manufacturers, primarily those who offer alternative investments, such as non-traded real estate investment trusts and business development companies, and other miscellaneous revenues. These revenues are not generated from contracts with customers.

#### **Unearned Revenue**

The Company records unearned revenue when cash payments are received or due in advance of the Company's performance obligations, including amounts which are refundable. The increase in the unearned revenue balance for the year ended December 31, 2020 is primarily driven by cash payments received or due in advance of satisfying the Company's performance obligations, offset by \$82.8 million of revenues recognized that were included in the unearned revenue balance as of December 31, 2019.

The Company receives cash revenues for advisory services not yet performed and conferences not yet held. For advisory services, revenue is recognized as the Company provides the administration, brokerage and execution services over time to satisfy the performance obligations. For conference revenue, the Company recognizes revenue as the conferences are held.

#### **NOTE 4 - ACQUISITIONS**

On December 2, 2020, the Company entered into an agreement with Macquarie Management Holdings, Inc. ("Macquarie") to acquire the wealth management business of Waddell & Reed Financial, Inc. ("Waddell & Reed") for \$300.0 million upon completion of Macquarie's acquisition of all of the issued and outstanding common shares of Waddell & Reed. The transaction is expected to close in the middle of 2021, subject to satisfaction of closing conditions.

On October 26, 2020, the Company acquired Blaze Portfolio Systems LLC, a technology company that provides an advisor-facing trading and portfolio rebalancing platform. The Company paid \$11.6 million at closing and agreed to a potential contingent payment of up to \$4.0 million.

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On August 18, 2020, the Company acquired business relationships with advisors from E.K. Riley Investments, LLC (“E.K. Riley”) and Lucia Securities, LLC (“Lucia”), two unrelated broker-dealers and RIAs, for a combined \$18.4 million. Both transactions have potential contingent payments.

On August 1, 2019, the Company acquired Allen & Company, and under the transaction structure Allen & Company advisors and staff became employees of the Company. The Company paid approximately \$24.9 million at closing and made an additional contingent payment of \$10.0 million in February 2020.

On December 3, 2018, the Company acquired AdvisoryWorld, a technology company that provides proposal generation, investment analytics and portfolio modeling capabilities in the wealth management industry, for \$28.1 million.

#### **NOTE 5 - FAIR VALUE MEASUREMENTS**

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

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

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

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

There have been no transfers of assets or liabilities between these fair value measurement classifications during the years ended December 31, 2020 and 2019.

The Company's fair value measurements are evaluated within the fair value hierarchy, based on the nature of inputs used to determine the fair value at the measurement date. At December 31, 2020 and 2019, the Company had the following financial assets and liabilities that are measured at fair value on a recurring basis:

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

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

The Company uses prices obtained from independent third-party pricing services to measure the fair value of its trading securities. Prices received from the pricing services are validated using various methods including comparison to prices received from additional pricing services, comparison to available quoted market prices and review of other relevant market data including implied yields of major categories of securities. In general, these quoted prices are derived from active markets for identical assets or liabilities. When quoted prices in active markets for identical assets and liabilities are not available, the quoted prices are based on similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. For certificates of deposit and treasury securities, the Company utilizes market-based inputs, including observable market interest rates that correspond to the remaining maturities or the next interest reset dates. At December 31, 2020 and 2019, the Company did not adjust prices received from the independent third-party pricing services.

**Other Assets** — The Company's other assets include: (1) deferred compensation plan assets that are invested in money market and other mutual funds, which are actively traded and valued based on quoted market prices; and (2) certain non-traded real estate investment trusts and auction rate notes, which are

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valued using quoted prices for identical or similar securities and other inputs that are observable or can be corroborated by observable market data.

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

**Level 3 Recurring Fair Value Measurements**

The Company determines the fair value for its contingent consideration obligations using a scenario-based approach whereby the Company assesses the expected number of future transactions. The contingent payment is estimated by applying a discount rate to the expected payment to calculate the fair value as of the valuation date. The Company's management evaluates the underlying projections and other related factors used in determining fair value each period and makes updates when there have been significant changes in management's expectations.

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at December 31, 2020 (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 6,205	\$ —	\$ —	\$ 6,205
Securities owned — trading:				
Money market funds	125	—	—	125
Mutual funds	9,137	—	—	9,137
Equity securities	492	—	—	492
U.S. treasury obligations	19,498	—	—	19,498
Total securities owned — trading	<u>29,252</u>	<u>—</u>	<u>—</u>	<u>29,252</u>
Other assets	371,202	8,953	—	380,155
<b>Total assets at fair value</b>	<b>\$ 406,659</b>	<b>\$ 8,953</b>	<b>\$ —</b>	<b>\$ 415,612</b>
<b>Liabilities</b>				
Securities sold, but not yet purchased:				
Equity securities	\$ 203	\$ —	\$ —	\$ 203
Debt securities	—	3	—	3
Total securities sold, but not yet purchased	<u>203</u>	<u>3</u>	<u>—</u>	<u>206</u>
Accounts payable and accrued liabilities	—	—	3,228	3,228
<b>Total liabilities at fair value</b>	<b>\$ 203</b>	<b>\$ 3</b>	<b>\$ 3,228</b>	<b>\$ 3,434</b>

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The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at December 31, 2019 (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Cash equivalents	\$ 17,426	\$ —	\$ —	\$ 17,426
Securities owned — trading:				
Money market funds	92	—	—	92
Mutual funds	25,202	—	—	25,202
Equity securities	556	—	—	556
Debt securities	—	151	—	151
U.S. treasury obligations	20,446	—	—	20,446
Total securities owned — trading	46,296	151	—	46,447
Other assets	267,740	10,393	—	278,133
Total assets at fair value	<u><u>\$ 331,462</u></u>	<u><u>\$ 10,544</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 342,006</u></u>
<b>Liabilities</b>				
Securities sold, but not yet purchased:				
Equity securities	\$ 153	\$ —	\$ —	\$ 153
Debt securities	—	23	—	23
Total securities sold, but not yet purchased	153	23	—	176
Accounts payable and accrued liabilities	—	—	10,000	10,000
Total liabilities at fair value	<u><u>\$ 153</u></u>	<u><u>\$ 23</u></u>	<u><u>\$ 10,000</u></u>	<u><u>\$ 10,176</u></u>

#### **NOTE 6 - HELD-TO-MATURITY SECURITIES**

The Company holds U.S. government notes, which are recorded at amortized cost because the Company has both the intent and the ability to hold these investments to maturity. Interest income is accrued as earned. Premiums and discounts are amortized using a method that approximates the effective yield method over the term of the security and are recorded as an adjustment to the investment yield.

The amortized cost, gross unrealized gain and fair value of held-to-maturity securities were as follows (in thousands):

	<b>December 31,</b>	
	<b>2020</b>	<b>2019</b>
Amortized cost	\$ 13,235	\$ 11,806
Gross unrealized gain	159	83
Fair value	<u><u>\$ 13,394</u></u>	<u><u>\$ 11,889</u></u>

At December 31, 2020, the held-to-maturity securities were scheduled to mature as follows (in thousands):

	<b>Within one year</b>	<b>After one but within five years</b>	<b>After five but within ten years</b>	<b>Total</b>
U.S. government notes — at amortized cost	\$ 4,995	\$ 8,240	\$ —	\$ 13,235
U.S. government notes — at fair value	<u><u>\$ 5,048</u></u>	<u><u>\$ 8,346</u></u>	<u><u>\$ —</u></u>	<u><u>\$ 13,394</u></u>

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**NOTE 7 - RECEIVABLES FROM PRODUCT SPONSORS, BROKER-DEALERS AND CLEARING ORGANIZATIONS AND PAYABLES TO BROKER-DEALERS AND CLEARING ORGANIZATIONS**

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

	December 31,	
	2020	2019
<b>Receivables:</b>		
Commissions receivable from product sponsors and others	\$ 135,991	\$ 138,258
Receivables from clearing organizations	89,794	28,140
Receivables from broker-dealers	2,550	1,020
Securities failed-to-deliver	4,857	10,236
Total receivables	\$ 233,192	\$ 177,654
<b>Payables:</b>		
Payables to clearing organizations	\$ 19,117	\$ 15,264
Payables to broker-dealers	50,528	58,130
Securities failed-to-receive	20,098	18,608
Total payables	\$ 89,743	\$ 92,002

**NOTE 8 - FIXED ASSETS**

The components of fixed assets were as follows at December 31, 2020 (in thousands):

	Gross Carrying Value	Accumulated Depreciation and Amortization	Net Carrying Value
Internally developed software	\$ 418,018	\$ (241,390)	\$ 176,628
Computers and software	195,800	(151,792)	44,008
Buildings	107,895	(7,753)	100,142
Leasehold improvements	88,135	(31,202)	56,933
Furniture and equipment	83,365	(57,860)	25,505
Land	4,678	—	4,678
Construction in progress <sup>(1)</sup>	174,974	—	174,974
Total fixed assets	\$ 1,072,865	\$ (489,997)	\$ 582,868

(1) Construction in progress includes internal software in development of \$161.3 million at December 31, 2020.

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The components of fixed assets were as follows at December 31, 2019 (in thousands):

	Gross Carrying Value	Accumulated Depreciation and Amortization	Net Carrying Value
Internally developed software	\$ 327,585	\$ (187,494)	\$ 140,091
Computers and software	171,099	(124,248)	46,851
Buildings	107,895	(3,877)	104,018
Leasehold improvements	83,543	(25,655)	57,888
Furniture and equipment	79,970	(47,081)	32,889
Land	4,678	—	4,678
Construction in progress <sup>(1)</sup>	146,629	—	146,629
Total fixed assets	<u>\$ 921,399</u>	<u>\$ (388,355)</u>	<u>\$ 533,044</u>

(1) Construction in progress includes internal software in development of \$133.3 million at December 31, 2019.

Depreciation and amortization was \$109.7 million, \$95.8 million and \$87.7 million for the years ended December 31, 2020, 2019 and 2018, respectively.

#### NOTE 9 - GOODWILL AND OTHER INTANGIBLE ASSETS

For the year ended December 31, 2020, the Company recorded \$10.2 million in goodwill in connection with the acquisition of Blaze and \$18.9 million in advisor relationships, \$1.4 million in client relationships, and \$3.5 million in technology in connection with the acquisitions of Blaze, E.K. Riley and Lucia.

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

Balance at December 31, 2018	\$ 1,490,247
Goodwill acquired	13,401
Balance at December 31, 2019	1,503,648
Goodwill acquired	10,218
Balance at December 31, 2020	<u>\$ 1,513,866</u>

The components of intangible assets were as follows at December 31, 2020 (dollars in thousands):

	Weighted- Average Life Remaining (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
<b>Definite-lived intangible assets:</b>				
Advisor and financial institution relationships	5.4	\$ 670,542	\$ (415,169)	\$ 255,373
Product sponsor relationships	5.1	234,086	(173,345)	60,741
Client relationships	7.9	44,810	(19,237)	25,573
Technology	7.3	19,040	(3,220)	15,820
Trade names	1.3	1,200	(1,040)	160
Total definite-lived intangible assets		<u>\$ 969,678</u>	<u>\$ (612,011)</u>	<u>\$ 357,667</u>
<b>Indefinite-lived intangible assets:</b>				
Trademark and trade name				39,819
Total intangible assets				<u>\$ 397,486</u>

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The components of intangible assets were as follows at December 31, 2019 (dollars in thousands):

	Weighted-Average Life Remaining (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
<b>Definite-lived intangible assets:</b>				
Advisor and financial institution relationships	6.1	\$ 651,642	\$ (365,470)	\$ 286,172
Product sponsor relationships	6.1	234,086	(161,435)	72,651
Client relationships	8.7	42,234	(15,277)	26,957
Technology	9.0	15,510	(1,551)	13,959
Trade names	2.3	1,200	(920)	280
Total definite-lived intangible assets		\$ 944,672	\$ (544,653)	\$ 400,019
<b>Indefinite-lived intangible assets:</b>				
Trademark and trade name				39,819
Total intangible assets				\$ 439,838

Total amortization of intangible assets was \$67.4 million, \$65.3 million and \$60.3 million for the years ended December 31, 2020, 2019 and 2018, respectively. Future amortization is estimated as follows (in thousands):

2021	\$ 69,090
2022	68,290
2023	64,194
2024	63,422
2025	55,049
Thereafter	37,622
<b>Total</b>	<b>\$ 357,667</b>

#### **NOTE 10 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

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

	December 31,	
	2020	2019
Advisor deferred compensation plan liability	\$ 372,395	\$ 269,289
Accrued compensation	104,069	77,202
Accounts payable	60,984	68,436
Other accrued liabilities	144,106	143,042
<b>Total accounts payable and accrued liabilities</b>	<b>\$ 681,554</b>	<b>\$ 557,969</b>

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**NOTE 11 - LONG-TERM AND OTHER BORROWINGS**

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

<b>Long-Term Borrowings</b>	<b>December 31, 2020</b>			<b>December 31, 2019</b>			
	<b>Balance</b>	<b>Applicable Margin</b>	<b>Interest Rate</b>	<b>Balance</b>	<b>Applicable Margin</b>	<b>Interest rate</b>	<b>Maturity</b>
Senior Secured Term Loan B <sup>(1)</sup>	\$ 1,059,300	LIBOR+175 bps	1.90 %	\$ 1,070,000	LIBOR+175 bps	3.54 %	11/12/2026
Senior Unsecured Notes <sup>(1)(2)</sup>	900,000	Fixed Rate	5.75 %	900,000	Fixed Rate	5.75 %	9/15/2025
Senior Unsecured Notes <sup>(1)(3)</sup>	400,000	Fixed Rate	4.63 %	400,000	Fixed Rate	4.63 %	11/15/2027
Total long-term borrowings	2,359,300			2,370,000			
Plus: Unamortized Premium	7,083			8,583			
Less: Unamortized Debt Issuance Cost	(20,969)			(24,765)			
<b>Net Carrying Value</b>	<b>\$ 2,345,414</b>			<b>\$ 2,353,818</b>			
<b>Other Borrowings</b>							
Revolving Credit Facility <sup>(4)</sup>	\$ —	ABR+25 bps	—	\$ 45,000	ABR+25 bps	5.00 %	11/12/2024
Broker-Dealer Revolving Credit Facility	—	FFR+125 bps	—	—	FFR+125 bps	—	7/31/2024
<b>Total borrowings</b>	<b>\$ 2,345,414</b>			<b>\$ 2,398,818</b>			

- (1) No leverage or interest coverage maintenance covenants.
- (2) The 2025 Notes were issued in two separate transactions: \$500.0 million in original notes were issued in March 2017 at par and \$400.0 million in additional notes were issued in September 2017 and priced at 103.0% of the aggregate principal amount.
- (3) The 2027 Notes were issued in November 2019 at par.
- (4) The alternate base rate (ABR) was the PRIME rate, and reflects the interest rate incurred on the senior secured revolving credit facility on the outstanding balances as of December 31, 2019.

*2019 Credit Agreement Amendment*

On November 12, 2019, LPLFH and LPLH entered into a fourth amendment agreement (the "Amendment") to the Company's amended and restated credit agreement ("Credit Agreement"), and repriced its senior secured Term Loan B facility ("Term Loan B"), increased the size of its senior secured revolving credit facility to \$750.0 million and extended the maturity dates applicable to its Term Loan B and its senior secured revolving credit facility. In connection with the execution of the Amendment, the Company incurred \$13.5 million in costs which are capitalized as debt issuance costs in the consolidated statements of financial condition and accelerated the recognition of \$3.2 million of unamortized debt issuance costs as a loss on extinguishment of debt in the consolidated statements of income. The Credit Agreement subjects the Company to certain financial and non-financial covenants. As of December 31, 2020, the Company was in compliance with such covenants.

*Issuance of 2027 Senior Notes*

LPLH raised \$400.0 million in aggregate principal amount of 4.625% senior notes on November 12, 2019, which were issued at par ("2027 Notes"). The 2027 Notes are unsecured obligations, governed by an indenture, that will mature on November 15, 2027, and bear interest at the rate of 4.625% per year, with interest payable semi-annually. The Company may redeem all or part of the 2027 Notes at any time prior to November 15, 2022 (subject to a customary "equity claw" redemption right) at 100% of the principal amount redeemed plus a "make-whole" premium. Thereafter, the Company may redeem all or part of the 2027 Notes at annually declining redemption premiums until November 15, 2024, at and after which date the redemption price will be equal to 100% of the principal amount redeemed plus any accrued and unpaid interest thereon.

*Issuance of 2025 Senior Notes*

LPLH issued \$500.0 million aggregate principal amount of 5.75% senior notes on March 10, 2017 and \$400.0 million aggregate principal amount of 5.75% senior notes on September 21, 2017 (together, the "2025 Notes"). The 2025 Notes are unsecured obligations, governed by an indenture, that will mature on September 15, 2025, and bear interest at the rate of 5.75% per year, with interest payable semi-annually. The Company may redeem all or part of the 2025 Notes at annually declining redemption premiums until March 15, 2023, at and after which date the redemption price will be equal to 100% of the principal amount redeemed.

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**Term Loan B**

Borrowings under the Term Loan B facility bear interest at a rate per annum of 175 basis points over the Eurodollar Rate or 75 basis points over the base rate (as defined in the Credit Agreement), and have no leverage or interest coverage maintenance covenants. The Eurodollar Rate option is the one-, two-, three-, or six-month LIBOR rate, as selected by LPLH, or, with the approval of the applicable lenders, twelve-month LIBOR rate or the LIBOR rate for another period acceptable to the Administrative Agent (including a shorter period). The LIBOR rate, on which the Eurodollar Rate is based, is expected to be discontinued by June 30, 2023. The Credit Agreement permits LPLH to agree with the administrative agent for the Credit Agreement on a replacement benchmark rate subject to certain conditions (including that a majority of the lenders do not object to such replacement rate within a specified period of time following notice thereof from the administrative agent).

The Company is required to make quarterly payments on the Term Loan B facility equal to 0.25% of the aggregate principal amount of the loans under the Term Loan B facility.

**Revolving Credit Facility**

Borrowings under the revolving credit facility bear interest at a rate per annum ranging from 125 to 175 basis points over the Eurodollar Rate or 25 to 75 basis points over the base rate, depending on the Consolidated Secured Debt to Consolidated EBITDA Ratio (as defined in the Credit Agreement).

**Broker-Dealer Revolving Credit Facility**

On July 31, 2019, LPL Financial, the Company's broker-dealer subsidiary, entered into a committed, unsecured revolving credit facility that matures on July 31, 2024 and allows for a maximum borrowing of up to \$300.0 million. LPL Financial incurred approximately \$1.5 million in debt issuance costs. Borrowings bear interest at a rate per annum ranging from 112.5 to 137.5 basis points over the Federal Funds Rate or Eurodollar Rate, depending on the Parent Leverage Ratio (each as defined in the broker-dealer credit agreement). The broker-dealer credit agreement subjects LPL Financial to certain financial and non-financial covenants. LPL Financial was in compliance with such covenants as of December 31, 2020.

The minimum calendar year payments and maturities of the long-term borrowings as of December 31, 2020 were as follows (in thousands):

2021	\$	10,700
2022		10,700
2023		10,700
2024		10,700
2025		910,700
Thereafter		1,405,800
<b>Total</b>	<b>\$</b>	<b>2,359,300</b>

**Other External Lines of Credit**

LPL Financial maintained six uncommitted lines of credit as of December 31, 2020. Two of the lines have unspecified limits, which are primarily dependent on their ability to provide sufficient collateral. The other four lines have a total limit of \$275.0 million, one of which allows for collateralized borrowings while the other three allow for uncollateralized borrowings. There were no balances outstanding as of December 31, 2020 or December 31, 2019.

**NOTE 12 - LEASES**

The Company determines if an arrangement is a lease or contains a lease at inception. The Company has operating and finance leases for corporate offices and equipment with remaining lease terms of 1 to 16 years, some of which include options to extend the lease for up to 20 years. For leases with renewal options, the lease term is extended to reflect renewal options the Company is reasonably certain to exercise.

Operating lease assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at the commencement date. As most of the Company's leases do not provide

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an implicit rate, the Company estimates its incremental borrowing rate based on information available at the commencement date in determining the present value of future payments. Lease expense for net present value of payments is recognized on a straight-line basis over the lease term.

Finance lease assets are included in fixed assets in the consolidated statements of financial condition and at December 31, 2020 were \$102.2 million.

The components of lease expense were as follows (in thousands):

	Years Ended December 31,	
	2020	2019
Operating lease cost	\$ 18,757	\$ 17,610
Finance lease cost:		
Amortization of right-of-use assets	\$ 5,141	\$ 4,786
Interest on lease liabilities	8,423	8,387
Total finance lease cost	\$ 13,564	\$ 13,173

Supplemental cash flow information related to leases was as follows (in thousands):

	Years Ended December 31,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 21,368	\$ 19,117
Operating cash flows from finance leases	8,423	8,387
Financing cash flows from finance leases	1,169	692

Supplemental weighted-average information related to leases was as follows:

	December 31,	
	2020	2019
Weighted-average remaining lease term (years):		
Finance leases	25.3	26.2
Operating leases	7.9	9.1
Weighted-average discount rate:		
Finance leases	7.82 %	7.75 %
Operating leases	7.07 %	7.27 %

Maturities of lease liabilities as of December 31, 2020 were as follows (in thousands):

	Operating Leases	Finance Leases
2021	\$ 22,025	\$ 9,735
2022	22,577	8,802
2023	22,222	8,577
2024	22,024	8,727
2025	21,724	8,879
Thereafter	75,333	224,760
Total lease payments	185,905	269,480
Less imputed interest	46,528	162,056
<b>Total</b>	<b>\$ 139,377</b>	<b>\$ 107,424</b>

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**NOTE 13 - INCOME TAXES**

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

	December 31,		
	2020	2019	2018
Current provision:			
Federal	\$ 137,360	\$ 156,378	\$ 120,211
State	39,757	44,192	34,721
Total current provision	<u>177,117</u>	<u>200,570</u>	<u>154,932</u>
Deferred expense (benefit):			
Federal	(17,991)	(13,971)	(1,874)
State	(5,693)	(4,644)	120
Total deferred benefit	<u>(23,684)</u>	<u>(18,615)</u>	<u>(1,754)</u>
Provision for income taxes	<u>\$ 153,433</u>	<u>\$ 181,955</u>	<u>\$ 153,178</u>

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

	Years Ended December 31,		
	2020	2019	2018
Federal statutory income tax rates	21.0 %	21.0 %	21.0 %
State income taxes, net of federal benefit	4.4	4.1	4.6
Non-deductible expenses	0.3	0.4	1.7
Share-based compensation	(1.0)	(1.4)	(1.4)
Research & development credits	(0.3)	(0.3)	(0.3)
Other	0.1	0.7	0.2
Effective income tax rates	<u>24.5 %</u>	<u>24.5 %</u>	<u>25.8 %</u>

The Company's effective income tax rate differs from the federal corporate tax rate of 21.0%, primarily as a result of state taxes, settlement contingencies, tax credits and other permanent differences in tax deductibility of certain expenses. These items resulted in effective tax rates of 24.5%, 24.5% and 25.8% for the years ended December 31, 2020, 2019 and 2018, respectively.

The decrease in the Company's effective income tax rate in 2019 compared to 2018 was due to decreases in non-deductible expenses.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

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

	December 31,	
	2020	2019
<b>Deferred tax assets:</b>		
Accrued liabilities	\$ 120,638	\$ 82,105
Share-based compensation	15,890	14,823
State taxes	5,537	6,932
Operating lease liabilities	37,632	37,580
Finance lease liabilities	28,519	28,350
Provision for bad debts	2,810	4,077
Forgivable loans	13,158	10,845
Other	2,024	1,773
Total deferred tax assets	226,208	186,485
<b>Deferred tax liabilities:</b>		
Amortization of intangible assets	(64,907)	(70,953)
Depreciation of fixed assets	(97,612)	(87,739)
Operating lease assets	(27,681)	(27,189)
Other	(11,896)	(2,702)
Total deferred tax liabilities	(202,096)	(188,583)
Deferred income taxes, net	\$ 24,112	\$ (2,098)

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

	December 31,		
	2020	2019	2018
Balance — Beginning of year	\$ 52,098	\$ 46,287	\$ 42,657
Increases for tax positions taken during the current year	8,053	9,314	10,042
Reductions as a result of a lapse of the applicable statute of limitations and decreases in prior-year tax positions	(5,716)	(3,503)	(6,412)
Balance — End of year	\$ 54,435	\$ 52,098	\$ 46,287

At December 31, 2020 and 2019, there were \$48.1 million and \$46.1 million, respectively, of unrecognized tax benefits that if recognized, would favorably affect the effective income tax rate in any future periods.

The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes within the consolidated statements of financial condition. At December 31, 2020 and 2019, the liability for unrecognized tax benefits included accrued interest of \$7.3 million and \$6.4 million, respectively, and penalties of \$4.4 million.

The Company and its subsidiaries file income tax returns in the federal jurisdiction, as well as most state jurisdictions, and are subject to routine examinations by the respective taxing authorities. The Company has concluded all federal income tax matters for years through 2011 and all state income tax matters for years through 2007.

The tax years of 2012 to 2019 remain open to examination in the federal jurisdiction. The tax years of 2008 to 2019 remain open to examination in the state jurisdictions. In the next 12 months, it is reasonably possible that the Company may realize a reduction in unrecognized tax benefits of \$2.7 million primarily related to the statute of limitations expiration in various state jurisdictions.

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## **NOTE 14 - COMMITMENTS AND CONTINGENCIES**

### ***Service and Development Contracts***

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

Future minimum payments under service, development and agency contracts, and other contractual obligations with initial terms greater than one year were as follows at December 31, 2020 (in thousands):

2021	\$ 47,187
2022	33,338
2023	11,417
2024	7,733
2025	5,525
Thereafter	328
<b>Total</b>	<b>\$ 105,528</b>

### ***Guarantees***

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

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

### ***Loan Commitments***

From time to time, LPL Financial makes loans to its advisors, primarily to newly recruited advisors to assist in the transition process, which may be forgivable. Due to timing differences, LPL Financial may make commitments to issue such loans prior to actually funding them. These commitments are generally contingent upon certain events occurring, including but not limited to the advisor joining LPL Financial. LPL Financial had no significant unfunded loan commitments at December 31, 2020.

### ***Legal and Regulatory Matters***

The Company is subject to extensive regulation and supervision by U.S. federal and state agencies and various self-regulatory organizations. The Company and its advisors periodically engage with such agencies and organizations, in the context of examinations or otherwise, to respond to inquiries, informational requests and investigations. From time to time, such engagements result in regulatory complaints or other matters, the resolution of which has in the past and may in the future include fines, customer restitution and other remediation. Assessing the probability of a loss occurring and the timing and amount of any loss related to a legal proceeding or regulatory matter is inherently difficult. While the Company exercises significant and complex judgments to make certain estimates presented in its consolidated financial statements, there are particular uncertainties and complexities involved when assessing the potential outcomes of legal proceedings and regulatory matters. The Company's assessment process considers a variety of factors and assumptions, which may include: the procedural status of the matter and any recent developments; prior experience and the experience of others in similar matters; the size and nature of potential exposures; available defenses; the progress of fact discovery; the opinions of counsel and experts; potential opportunities for settlement and the status of any settlement discussions; as well as the potential for insurance coverage and indemnification, if available. The Company monitors these factors and assumptions for

**LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES**  
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new developments and re-assesses the likelihood that a loss will occur and the estimated range or amount of loss, if those amounts can be reasonably determined. The Company has established an accrual for those legal proceedings and regulatory matters for which a loss is both probable and the amount can be reasonably estimated.

On May 1, 2018 the Company agreed to a settlement structure with the North American Securities Administrators Association that related to the Company's historical compliance with certain state "blue sky" laws and resulted in aggregate fines of approximately \$26.4 million, the majority of which were covered by the Captive Insurance Subsidiary's loss reserves. As part of the settlement structure, the Company engaged independent third party consultants to conduct a historical review of securities transactions and an operational review of the Company's systems for complying with blue sky securities registration requirements. The Company also agreed to offer customers remediation in the form of reimbursement for any actual losses, plus interest, and these costs were not material.

***Third-Party Insurance***

The Company maintains third-party insurance coverage for certain potential legal proceedings, including those involving certain client claims. With respect to such client claims, the estimated losses on many of the pending matters are less than the applicable deductibles of the insurance policies.

***Self-Insurance***

The Company has self-insurance for certain potential liabilities through the Captive Insurance Subsidiary. Liabilities associated with the risks that are retained by the Company are not discounted and are estimated by considering, in part, historical claims experience, severity factors, and other actuarial assumptions. The estimated accruals for these potential liabilities could be significantly affected if future occurrences and claims differ from such assumptions and historical trends, so there are particular complexities and uncertainties involved when assessing the adequacy of loss reserves for potential liabilities that are self-insured. As of December 31, 2020 and 2019, these self-insurance liabilities were \$51.5 million and \$40.1 million, respectively, and are included in accounts payable and accrued liabilities in the consolidated statements of financial condition. Self-insurance related charges are included in other expenses in the consolidated statements of income for the years ended December 31, 2020, 2019 and 2018.

***Other Commitments***

As of December 31, 2020, the Company had approximately \$338.5 million of client margin loans that were collateralized with securities having a fair value of approximately \$473.9 million that LPL Financial can repledge, loan or sell. Of these securities, approximately \$69.9 million were client-owned securities pledged to the Options Clearing Corporation as collateral to secure client obligations related to options positions. As of December 31, 2020, there were no restrictions that materially limited the Company's ability to repledge, loan or sell the remaining \$404.0 million of client collateral.

Securities owned, trading, on the consolidated statements of financial condition includes \$4.5 million and \$5.5 million pledged to the Options Clearing Corporation at December 31, 2020 and 2019, respectively, and \$15.0 million pledged to the National Securities Clearing Corporation at December 31, 2020 and 2019.

**LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES**  
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**NOTE 15 - STOCKHOLDERS' EQUITY**

***Dividends***

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

	2020		2019		2018	
	Dividend per Share	Total Cash Dividend	Dividend per Share	Total Cash Dividend	Dividend per Share	Total Cash Dividend
First quarter	\$ 0.25	\$ 19.7	\$ 0.25	\$ 21.1	\$ 0.25	\$ 22.6
Second quarter	\$ 0.25	\$ 19.7	\$ 0.25	\$ 20.8	\$ 0.25	\$ 22.3
Third quarter	\$ 0.25	\$ 19.8	\$ 0.25	\$ 20.5	\$ 0.25	\$ 21.9
Fourth quarter	\$ 0.25	\$ 19.8	\$ 0.25	\$ 20.2	\$ 0.25	\$ 21.5

***Share Repurchases***

The Company engages in share repurchase programs, which are approved by the Board of Directors, pursuant to which the Company may repurchase its issued and outstanding shares of common stock from time to time. Repurchased shares are included in treasury stock on the consolidated statements of financial condition.

On November 13, 2018, the Board of Directors authorized an increase to the Company's existing share repurchase program, enabling the Company to repurchase its issued and outstanding common stock from time to time. As of December 31, 2020, the Company had \$349.8 million remaining under the existing share repurchase program. Future share repurchases may be effected in open market or privately negotiated transactions, including transactions with affiliates, with the timing of purchases and the amount of stock purchased generally determined at the discretion of the Company within the constraints of the Credit Agreement, the indentures, and the Company's general working capital needs. During the first quarter of 2020, the Company repurchased 1.8 million shares of common stock at a weighted-average price of \$82.91 for a total of \$150.0 million. The Company suspended share repurchases in early 2020 in light of the business and financial uncertainties created by the COVID-19 pandemic.

**NOTE 16 - SHARE-BASED COMPENSATION**

Certain employees, advisors, institutions, officers and directors of the Company participate in various long-term incentive plans, which provide for granting stock options, warrants, restricted stock awards, restricted stock units, deferred stock units and performance stock units.

In November 2010, the Company adopted the 2010 Omnibus Equity Incentive Plan (as amended and restated in May 2015, the "2010 Plan"), which provides for the granting of stock options, warrants, restricted stock awards, restricted stock units, deferred stock units, performance stock units and other equity-based compensation. Since its adoption, awards have been and are only made out of the 2010 Plan.

As of December 31, 2020, there were 20,055,945 shares authorized for grant and 3,531,003 shares remaining available for future issuance.

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**Stock Options and Warrants**

The Company did not grant stock options or warrants during the year ended December 31, 2020. The following table presents the weighted-average assumptions used in the Black-Scholes valuation model by the Company in calculating the fair value of its employee and officer stock options that have been granted:

	Years Ended December 31,	
	2019	2018
Expected life (in years)	5.43	5.43
Expected stock price volatility	35.80 %	34.80 %
Expected dividend yield	1.49 %	1.71 %
Risk-free interest rate	2.47 %	2.66 %
Fair value of options	\$ 24.41	\$ 19.86

The following table summarizes the Company's stock option and warrant activity as of and for the year ended December 31, 2020:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding — December 31, 2019	2,705,241	\$ 43.81		
Granted	—	\$ —		
Exercised	(664,644)	\$ 37.24		
Forfeited and Expired	(40,214)	\$ 64.47		
Outstanding — December 31, 2020	<u>2,000,383</u>	<u>\$ 45.57</u>	<u>5.28</u>	<u>\$ 117,315</u>
Exercisable — December 31, 2020	<u>1,651,036</u>	<u>\$ 39.61</u>	<u>4.74</u>	<u>\$ 106,676</u>
Exercisable and expected to vest — December 31, 2020	<u>1,989,975</u>	<u>\$ 45.41</u>	<u>5.27</u>	<u>\$ 117,026</u>

The following table summarizes information about outstanding stock options and warrants as of December 31, 2020:

Range of Exercise Prices	Outstanding			Exercisable	
	Total Number of Shares	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
\$19.85 - \$25.00	409,909	5.09	\$ 19.85	409,909	\$ 19.85
\$25.01 - \$35.00	346,442	1.39	\$ 30.31	346,442	\$ 30.31
\$35.01 - \$45.00	372,146	6.07	\$ 39.64	372,146	\$ 39.64
\$45.01 - \$65.00	216,835	3.73	\$ 48.89	216,835	\$ 48.89
\$65.01 - \$75.00	300,689	6.97	\$ 65.52	190,759	\$ 65.50
\$75.01 - \$80.00	354,362	8.01	\$ 77.53	114,945	\$ 77.53
	<u>2,000,383</u>	<u>5.28</u>	<u>\$ 45.57</u>	<u>1,651,036</u>	<u>\$ 39.61</u>

The Company recognized share-based compensation related to the vesting of stock options awarded to employees and officers of \$4.4 million, \$9.8 million and \$8.1 million during the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, total unrecognized compensation cost related to non-vested stock options granted to employees and officers was \$2.8 million, which is expected to be recognized over a weighted-average period of 1.07 years.

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**Restricted Stock and Stock Units**

The following summarizes the Company's activity in its restricted stock awards and stock units, which include restricted stock units, deferred stock units and performance stock units, for the year ended December 31, 2020:

	Restricted Stock Awards			Stock Units		
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value		
Outstanding — December 31, 2019	8,296	\$ 81.99	792,185	\$ 66.40		
Granted	9,865	\$ 64.74	567,335	\$ 77.32		
Vested	(12,601)	\$ 76.10	(417,227)	\$ 55.29		
Forfeited	—	\$ —	(37,848)	\$ 77.62		
Nonvested — December 31, 2020	5,560	\$ 64.74	904,445 <sup>(1)</sup>	\$ 77.90		
Expected to vest — December 31, 2020	5,560	\$ 64.74	806,479	\$ 79.38		

(1) Includes 53,055 vested and undistributed deferred stock units.

The Company grants restricted stock awards and deferred stock units to its directors and restricted stock units and performance stock units to its employees and officers. Restricted stock awards and stock units must vest or are subject to forfeiture; however, restricted stock awards are included in shares outstanding upon grant and have the same dividend and voting rights as the Company's common stock. The Company recognized \$25.1 million, \$18.2 million and \$13.8 million of share-based compensation related to the vesting of these restricted stock awards and stock units during the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, total unrecognized compensation cost for restricted stock awards and stock units was \$32.7 million, which is expected to be recognized over a weighted-average remaining period of 1.92 years.

The Company also grants restricted stock units to its advisors and to financial institutions. The Company recognized share-based compensation of \$2.3 million, \$3.0 million and \$6.1 million related to the vesting of these awards during the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, total unrecognized compensation cost for restricted stock units granted to advisors and financial institutions was \$4.7 million, which is expected to be recognized over a weighted-average remaining period of 2.18 years.

**NOTE 17 - EARNINGS PER SHARE**

Basic earnings per share is computed by dividing net income available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. The computation of diluted earnings per share is similar to the computation of basic earnings per share, except that the denominator is increased to include the number of additional shares of common stock that would have been outstanding if dilutive potential shares of common stock had been issued. The calculation of basic and diluted earnings per share for the years noted was as follows (in thousands, except per share data):

	Years Ended December 31,		
	2020	2019	2018
Net income	\$ 472,640	\$ 559,880	\$ 439,459
Basic weighted-average number of shares outstanding	79,244	82,552	88,119
Dilutive common share equivalents	1,458	2,072	2,500
Diluted weighted-average number of shares outstanding	80,702	84,624	90,619
Basic earnings per share	\$ 5.96	\$ 6.78	\$ 4.99
Diluted earnings per share	\$ 5.86	\$ 6.62	\$ 4.85

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The computation of diluted earnings per share excludes stock options, warrants and stock units that are anti-dilutive. For the years ended December 31, 2020, 2019 and 2018, stock options, warrants and stock units representing common share equivalents of 376,598 shares, 407,059 shares and 391,632 shares, respectively, were anti-dilutive.

#### **NOTE 18 - EMPLOYEE AND ADVISOR BENEFIT PLANS**

The Company participates in a 401(k) defined contribution plan sponsored by LPL Financial. All employees meeting minimum age and length of service requirements are eligible to participate. The Company has an employer matching program whereby employer contributions are made to the 401(k) plan, and employees are eligible for matching contributions after completing six months of service. For eligible employees, the Company matches up to 75% of the first 8% of an employee's designated deferral of their eligible compensation. The Company's total cost related to the 401(k) plan was \$18.8 million, \$16.2 million and \$13.1 million for the years ended December 31, 2020, 2019 and 2018, respectively, which is classified as compensation and benefits expense in the consolidated statements of income.

The Company established the 2012 Employee Stock Purchase Plan (the "ESPP") as a benefit to enable eligible employees to purchase common stock of LPLFH at a discount from the market price through payroll deductions, subject to limitations. The ESPP provides for a 15% discount on the market value of the stock at the lower of the grant date price (first day of the offering period) and the purchase date price (last day of the offering period).

The Company maintains a non-qualified deferred compensation plan for the purpose of attracting and retaining advisors who operate, for tax purposes, as independent contractors, by providing an opportunity for participating advisors to defer receipt of a portion of their gross commissions generated primarily from commissions earned on the sale of various products. The deferred compensation plan has been fully funded to date by participant contributions. Plan assets are invested in mutual funds, which are held by the Company in a Rabbi Trust. The liability for benefits accrued under the non-qualified deferred compensation plan totaled \$372.4 million at December 31, 2020, which is included in accounts payable and accrued liabilities in the consolidated statements of financial condition. The cash values of the related trust assets was \$361.1 million at December 31, 2020, which is measured at fair value and included in other assets in the consolidated statements of financial condition.

Certain employees of the Company participate in a non-qualified deferred compensation plan that permits participants to defer portions of their compensation and earn interest on the deferred amounts. Plan assets are held by the Company in a Rabbi Trust and accounted for in the manner described above. As of December 31, 2020, the Company has recorded assets of \$10.1 million and liabilities of \$10.1 million, which are included in other assets and accounts payable and accrued liabilities, respectively, in the consolidated statements of financial condition.

#### **NOTE 19 - RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Company has related party transactions with beneficial owners of more than ten percent of the Company's outstanding common stock. Additionally, through its subsidiary LPL Financial, the Company provides services and charitable contributions to the LPL Financial Foundation, an organization that provides volunteer and financial support within the Company's local communities.

The Company recognized revenues for services provided to these related parties of \$4.8 million, \$4.1 million and \$3.5 million, during the years ended December 31, 2020, 2019 and 2018, respectively. The Company incurred expenses for the services provided by these related parties of \$3.8 million, \$3.2 million and \$2.9 million, during the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020 and 2019, receivables from and payables to related parties were not material.

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**NOTE 20 - NET CAPITAL AND REGULATORY REQUIREMENTS**

The Company's registered broker-dealer, LPL Financial, is subject to the SEC's Net Capital Rule (Rule 15c3-1 under the Exchange Act), which requires the maintenance of minimum net capital. The net capital rules also provide that the broker-dealer's capital may not be withdrawn if the resulting net capital would be less than minimum requirements. Additionally, certain withdrawals require the approval of the SEC and FINRA to the extent they exceed defined levels, even though such withdrawals would not cause net capital to be less than minimum requirements. Net capital and the related net capital requirement may fluctuate on a daily basis. LPL Financial is a clearing broker-dealer and, as of December 31, 2020, had net capital of \$119.0 million with a minimum net capital requirement of \$11.1 million.

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

As of December 31, 2020 and 2019, LPL Financial and PTC met all capital adequacy requirements to which they were subject.

**NOTE 21 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET CREDIT RISK  
AND CONCENTRATIONS OF CREDIT RISK**

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

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

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

**NOTE 22 - SUBSEQUENT EVENT**

On February 1, 2021, the Board of Directors declared a cash dividend of \$0.25 per share on the Company's outstanding common stock to be paid on March 30, 2021 to all stockholders of record on March 16, 2021.

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

None.

**Item 9B. Other Information**

None.

**Item 9A. Controls and Procedures**

**Evaluation of Disclosure Controls and Procedures**

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

**Change in Internal Control over Financial Reporting**

There were no changes in our internal control over financial reporting that occurred during the fourth quarter ended December 31, 2020, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Management's Annual Report on Internal Control Over Financial Reporting**

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

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

As of December 31, 2020, management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in *Internal Control – Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that our internal control over financial reporting as of December 31, 2020 was effective.

Deloitte & Touche LLP, our independent registered public accounting firm, has issued an audit report appearing on the following page on the effectiveness of our internal control over financial reporting as of December 31, 2020.

## **REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

To the stockholders and the Board of Directors of  
LPL Financial Holdings Inc.  
San Diego, California

### **Opinion on Internal Control over Financial Reporting**

We have audited the internal control over financial reporting of LPL Financial Holdings Inc. and subsidiaries (the "Company") as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements as of and for the year ended December 31, 2020, of the Company and our report dated February 23, 2021, expressed an unqualified opinion on those financial statements.

### **Basis for Opinion**

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management's annual report on internal control over financial reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

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

### **Definition and Limitations of Internal Control over Financial Reporting**

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

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

/s/ DELOITTE & TOUCHE LLP

San Diego, California

February 23, 2021

### PART III

#### **Item 10. Directors, Executive Officers and Corporate Governance**

Other than the information relating to our executive officers provided in Part I of this Annual Report on Form 10-K, the information required to be furnished pursuant to this item is incorporated by reference to the Company's definitive proxy statement for the 2021 Annual Meeting of Stockholders.

#### **Items 11, 12, 13 and 14.**

The information required by Items 11, 12, 13 and 14 is incorporated by reference from the Company's definitive proxy statement for the 2021 Annual Meeting of Stockholders, which the Company intends to file with the SEC within 120 days of the end of the fiscal year end to which this report relates.

**PART IV****Item 15. Exhibits and Financial Statement Schedules****(a) Consolidated Financial Statements and Schedules**

Our consolidated financial statements are included in "Item 8. Financial Statements and Supplementary Data" of this Annual Report on Form 10-K. Other financial statement schedules have been omitted because they are not applicable, not material, or the information is otherwise included.

**(b) Exhibits**

<b><u>Exhibit No.</u></b>	<b><u>Description of Exhibit</u></b>
3.1	Amended and Restated Certificate of Incorporation of LPL Investment Holdings Inc., dated November 23, 2010 (incorporated by reference to Amendment No. 2 to the Registration Statement on Form S-1 filed on July 9, 2010, File No. 333-167325).
3.2	Certificate of Ownership and Merger Merging LPL Financial Holdings Inc. with and into LPL Investment Holdings Inc., dated June 14, 2012 (incorporated by reference to the Form 8-K filed on June 19, 2012, File No. 001-34963).
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of LPL Financial Holdings Inc., dated May 8, 2014 (incorporated by reference to the Form 8-K filed on May 9, 2014, File No. 001-34963).
3.4	Fifth Amended and Restated Bylaws of LPL Financial Holdings Inc. (incorporated by reference to the Form 8-K filed on March 12, 2014, File No. 001-34963).
4.1	Indenture, dated as of March 10, 2017, by and among LPL Holdings, Inc., the Guarantors listed thereto and U.S. Bank National Association, as Trustee (incorporated by reference to the Form 8-K filed on March 10, 2017, File No. 001-34963).
4.2	First Supplemental Indenture, dated as of September 21, 2017, among LPL Holdings, Inc., certain subsidiaries of the Company as Guarantors and U.S. Bank National Association, as Trustee (incorporated by reference to the Form 8-K filed on September 21, 2017, File No. 001-34963).
4.3	Indenture, dated as of November 12, 2019, among LPL Holdings, U.S. Bank National Association, as trustee, and certain subsidiaries of LPL Holdings, as guarantors (incorporated by reference to the Form 8-K filed on November 12, 2019, File No. 001-34963).
4.4	Description of Registrant's Securities (incorporated by reference to the Form 10-K filed on February 21, 2020 File No. 001-34963).
10.1	Form of Indemnification Agreement (incorporated by reference to Amendment No. 2 to the Registration Statement on Form S-1 filed on July 9, 2010, File No. 333-167325).
10.2	LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan (incorporated by reference to Amendment No. 2 to the Registration Statement on Form S-1 filed on July 9, 2010, File No. 333-167325).
10.3	Form of Senior Management Stock Option Award granted under the LPL Investment Holdings Inc. 2010 Omnibus Equity Incentive Plan (incorporated by reference to the Form 10-K filed on February 26, 2013, File No. 001-34963).
10.4	Form of Employee Stock Option Award granted under the LPL Financial Holdings Inc. Amended and Restated 2010 Omnibus Equity Incentive Plan (incorporated by reference to the Form 10-K filed on February 24, 2017, File No. 001-34963).
10.5	Form of Employee Restricted Stock Unit Award granted under the LPL Financial Holdings Inc. Amended and Restated 2010 Omnibus Equity Incentive Plan (incorporated by reference to the Form 10-K filed on February 24, 2017, File No. 001-34963).
10.6	Form of Employee Performance Stock Unit Award granted under the LPL Financial Holdings Inc. Amended and Restated 2010 Omnibus Equity Incentive Plan (incorporated by reference to the Form 10-K filed on February 24, 2017, File No. 001-34963).
10.7	Form of Employee Stock Option Award granted under the LPL Financial Holdings Inc. Amended and Restated 2010 Omnibus Equity Incentive Plan (incorporated by reference to the Form 10-K filed on February 26, 2014, File No. 001-34963).
10.8	Form of Employee Restricted Stock Unit Award granted under the LPL Financial Holdings Inc. Amended and Restated 2010 Omnibus Equity Incentive Plan (incorporated by reference to the Form 10-K filed on February 26, 2014, File No. 001-34963).

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.9	Form of Advisor Restricted Stock Unit Award granted under the LPL Financial Holdings Inc. 2010 Omnibus Equity Incentive Plan (incorporated by reference to the Form 10-K filed on February 26, 2014, File No. 001-34963).
10.10	Form of Financial Institution Restricted Stock Unit Award granted under the LPL Financial Holdings Inc. 2010 Omnibus Equity Incentive Plan (incorporated by reference to the Form 10-K filed on February 26, 2014, File No. 001-34963).
10.11	Amended and Restated LPL Financial Holdings Inc. 2010 Omnibus Equity Incentive Plan (incorporated by reference to the Form 8-K filed on May 15, 2015, File No. 001-34963).
10.12	LPL Financial LLC Executive Severance Plan, amended and restated as of February 23, 2017 (incorporated by reference to the Form 10-K filed on February 24, 2017, File No. 001-34963).
10.13	LPL Financial Holdings Inc. Non-Employee Director Compensation Policy (incorporated by reference to the Form 10-K filed on February 21, 2020 File No. 001-34963).
10.14	LPL Financial Holdings Inc. Non-Employee Director Deferred Compensation Plan (incorporated by reference to the Form 10-K filed on February 25, 2016, File No. 001-34963).
10.15	Credit Agreement, dated as of March 29, 2012, by and among LPL Investment Holdings Inc., LPL Holdings, Inc., the several lenders from time to time party thereto, and Bank of America, N.A. as Administrative Agent Collateral Agent, Letter of Credit Issuer, and Swingline Lender (incorporated by reference to the Form 8-K filed on April 2, 2012, File No. 001-34963).
10.16	First Amendment and Incremental Assumption Agreement, dated as of May 13, 2013, by and among LPL Financial Holdings Inc., LPL Holdings, Inc., certain subsidiaries of the Company, as Guarantors, the several lenders from time to time party thereto, and Bank of America, N.A. as Administrative Agent (incorporated by reference to the Form 8-K filed on May 13, 2013, File No. 001-34963).
10.17	Second Amendment, Extension and Incremental Assumption Agreement, dated as of October 1, 2014, by and among LPL Financial Holdings Inc., LPL Holdings, Inc., certain subsidiaries of the Company as Guarantors, the lenders and additional lenders party thereto, Bank of America, N.A. as Administrative Agent and Current Agent and JP Morgan Chase Bank, N.A., as Future Agent (incorporated by reference to the Form 10-Q filed on October 30, 2014, File No. 001-34963).
10.18	Third Amendment, Extension, and Incremental Assumption Agreement, dated as of November 20, 2015 by and among LPL Financial Holdings Inc., LPL Holdings, Inc., certain subsidiaries of the Company, as Guarantors, the lenders and additional lenders party thereto, and JPMorgan Chase Bank, N.A. as Administrative Agent (incorporated by reference to the Form 10-K filed on February 25, 2016, File No. 001-34963).
10.19	Fourth Amendment Agreement, dated as of March 10, 2017, among LPL Financial Holdings Inc., LPL Holdings, Inc., certain subsidiaries of the Company, as Guarantors, the lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., JPMorgan Chase bank, N.A. and Morgan Stanley Bank, N.A., as Letter of Credit Issuers and JPMorgan Chase Bank, N.A. and Morgan Stanley Bank, N.A., as Swingline Lenders (incorporated by reference to the Form 8-K filed on March 10, 2017, File No. 001-34963).
10.20	Amendment Agreement, dated June 20, 2017, among LPL Holdings, Inc., LPL Financial Holdings Inc. and JPMorgan Chase Bank, N.A. as Administrative Agent (incorporated by reference to the Form 10-Q filed on August 1, 2017, File No. 001-34963).
10.21	Second Amendment, dated as of September 21, 2017, among LPL Financial Holdings Inc., LPL Holdings Inc., certain subsidiaries of the Company, as Guarantors, the incremental lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., JPMorgan Chase bank, N.A. and Morgan Stanley Bank, N.A., as Letter of Credit Issuers and JPMorgan Chase Bank, N.A., Morgan Stanley Bank, N.A. and Goldman Sachs Bank USA, as Swingline Lenders (incorporated by reference to the Form 8-K filed on September 21, 2017, File No. 001-34963).
10.22	Third Amendment, dated as of April 25, 2019, among LPL Financial Holdings Inc., LPL Holdings Inc., certain subsidiaries of the Company, as Guarantors, the incremental lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., JPMorgan Chase Bank, N.A. and Morgan Stanley Bank, N.A., as Letter of Credit Issuers and JPMorgan Chase Bank, N.A., Morgan Stanley Bank, N.A. and Goldman Sachs Bank USA, as Swingline Lenders (incorporated by reference to the Form 10-Q filed on July 30, 2019, File No. 001-34963).
10.23	Fourth Amendment, dated as of November 12, 2019, among LPL Financial Holdings Inc., LPL Holdings Inc., certain subsidiaries of the Company, as Guarantors, the incremental lenders party thereto, JPMorgan Chase Bank, N.A., as Administrative Agent, Bank of America, N.A., JPMorgan Chase Bank, N.A. and Morgan Stanley Bank, N.A., as Letter of Credit Issuers and JPMorgan Chase Bank, N.A., Morgan Stanley Bank, N.A. and Goldman Sachs Bank USA, as Swingline Lenders (incorporated by reference to the Form 8-K filed on November 12, 2019, File No. 001-34963).

<u>Exhibit No.</u>	<u>Description of Exhibit</u>
10.24	BETAHost Master Subscription Agreement dated as of January 5, 2009 between LPL Financial Corporation and Refinitiv US LLC (f/k/a Thomson Financial LLC), as amended. (incorporated by reference to the Form 10-K filed on February 23, 2021 File No. 001-34963).*
10.25	LPL Financial Holdings Inc. 2012 Employee Stock Purchase Plan, as amended and restated, effective as of October 29, 2019.*
21.1	List of Subsidiaries of LPL Financial Holdings Inc.*
23.1	Consent of Deloitte & Touche LLP, independent registered public accounting firm.*
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.SCH	Inline XBRL Taxonomy Extension Schema*
101.CAL	Inline XBRL Taxonomy Extension Calculation*
101.DEF	Inline XBRL Taxonomy Extension Definition*
101.LAB	Inline XBRL Taxonomy Extension Label*
101.PRE	Inline XBRL Taxonomy Extension Presentation*
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101)

\* Filed herewith.

\*\* Furnished herewith.

† Pursuant to 17 C.F.R. §§230.406 and 230.83, the confidential portions of this exhibit have been omitted and are marked accordingly.

#### Item 16. Form 10-K Summary

None.

### SIGNATURES

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

#### LPL Financial Holdings Inc.

By: /s/ Dan H. Arnold  
Dan H. Arnold  
President and Chief Executive Officer

Dated: February 23, 2021

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Dan H. Arnold</u> Dan H. Arnold	President, Chief Executive Officer, and Director (Principal Executive Officer)	February 23, 2021
<u>/s/ Matthew J. Audette</u> Matthew J. Audette	Chief Financial Officer (Principal Financial Officer)	February 23, 2021
<u>/s/ Brent B. Simonich</u> Brent B. Simonich	Chief Accounting Officer (Principal Accounting Officer)	February 23, 2021
<u>/s/ Edward Bernard</u> Edward Bernard	Director	February 23, 2021
<u>/s/ Paulett Eberhart</u> Paulett Eberhart	Director	February 23, 2021
<u>/s/ William F. Glavin Jr.</u> William F. Glavin Jr.	Director	February 23, 2021
<u>/s/ Allison Mnookin</u> Allison Mnookin	Director	February 23, 2021
<u>/s/ Anne M. Mulcahy</u> Anne M. Mulcahy	Director	February 23, 2021
<u>/s/ James S. Putnam</u> James S. Putnam	Director	February 23, 2021
<u>/s/ Richard P. Schifter</u> Richard P. Schifter	Director	February 23, 2021
<u>/s/ Corey E. Thomas</u> Corey E. Thomas	Director	February 23, 2021

**CERTAIN CONFIDENTIAL INFORMATION CONTAINED IN THIS DOCUMENT, MARKED BY [\*\*], HAS BEEN OMITTED BECAUSE IT IS NOT MATERIAL AND WOULD LIKELY CAUSE COMPETITIVE HARM TO LPL FINANCIAL HOLDINGS INC. IF PUBLICLY DISCLOSED**

**Thomson Transaction Services**

**MASTER SUBSCRIPTION AGREEMENT**

This Master Subscription Agreement (this "Agreement") is entered into by and between Thomson Transaction Services ("TTS"), a division of Thomson Financial LLC, a Thomson Reuters company, 350 North Sunny Slope Road, Brookfield, WI 53005, and LPL Financial Corporation ("Subscriber"), 9785 Towne Centre Drive, San Diego, CA 92121, this \_\_\_\_\_ day of \_\_\_\_\_, 2008.

WHEREAS, TTS owns the following proprietary computer programs:

TTS Host™ - provides back office processing support for securities brokerage firms

TTS Link™ - provides complete front-office integration with TTS Host

BL Server™ - provides electronic access to TTS Link core applications

TTS Access™ - provides data delivery of mainframe data

XT Server - provides ability to receive real-time TTS Host transaction messages

(collectively, "the TTS System")

WHEREAS, Subscriber desires to subscribe to this data processing service called the TTS System offered by TTS, and to have the TTS System installed at certain offices of Subscriber;

NOW, THEREFORE, in consideration of the mutual promises and covenants exchanged herein, TTS and Subscriber agree as follows:

1. Purpose of Agreement. The purpose of this Agreement is to set forth the terms and conditions governing the mutual rights, duties and obligations of the parties hereto.
2. Services Provided.
  - (a) TTS will provide Subscriber with the TTS System services which are set forth, together with their charges, on Schedule A attached hereto and incorporated herein by reference.
  - (b) TTS Host and TTS Link service provided hereunder shall be available on each day that the New York Stock Exchange is open for trading. On such days TTS shall make reasonable efforts to provide all TTS Host and TTS Link service hereunder from 6:00 a.m. to 8:00 p.m., CST, and limited inquiry functions from 8:00 p.m. to 11:30 p.m., CST. TTS shall also make reasonable efforts to provide limited inquiry functions on Saturdays from 6:00 a.m. to 6:00 p.m., CST, except that TTS reserves the right to limit or curtail holiday or weekend availability when necessary for system upgrades, adjustments, maintenance, or other operational considerations.

BL Server service provided hereunder shall be available on each day that the New York Stock Exchange is open for trading. On such days, TTS shall make reasonable efforts to provide BL Server service hereunder from 6:00 a.m. to 6:00 p.m. CT and inquiry and order entry functions from 6:15 p.m. to 6:00 a.m. CT. TTS shall also make reasonable efforts to provide inquiry and order entry functions on weekends except for 8:00 p.m. CT Saturday evening until 6:00 a.m. CT Sunday morning during which time TTS will be performing maintenance on its mainframe computer systems.

- (c) General enhancements to existing TTS Host service provided hereunder shall be made available to Subscriber at no additional cost, but any new features or services that may be developed by TTS during the term of this Agreement may, at TTS's option, and subject to Subscribers' acceptance, be made available to Subscriber at TTS's then-current prices for such new features or services, and upon such other terms as TTS may reasonably deem appropriate. Enhancements to existing TTS Host services requested by Subscriber and which benefit less than a majority of TTS's Subscribers at the time such enhancements are put into service may, at TTS option, be billed to such benefiting Subscribers at TTS standard rates for programming after discussion with Subscriber. All enhancements to the TTS Host service, and any new features or services introduced by TTS, shall remain the exclusive proprietary property of TTS.
3. Equipment and Hardware. Subscriber shall be responsible for obtaining, installing at its premises, and maintaining all equipment and hardware, including telecommunications equipment, necessary for using the TTS System. TTS will assist Subscriber in developing an acceptable equipment list, and Subscriber shall, prior to installation, submit its equipment configuration to TTS for approval, which shall not be unreasonably withheld. TTS shall also provide reasonable prior written notice to Subscriber of any scheduled enhancements or modifications to hardware, software, databases, network protocols, security recovery efforts, and similar items that impact Subscriber or its users use of the products or services. TTS shall also provide to Subscriber, upon Subscriber's request, a copy of TTS's change control process document.
4. Subscriber Data.
- (a) Subscriber will timely supply TTS, in a form acceptable to TTS, with all data necessary for TTS to perform the ongoing services to be provided hereunder. It is the sole responsibility of Subscriber to insure the completeness and accuracy of such data.
  - (b) TTS acknowledges that all records, data, files and other input material relating to Subscriber are confidential and shall take reasonable steps to protect the confidentiality of such records, data, files and other materials. TTS will provide reasonable security safeguards to limit access to Subscriber's files and records to Subscriber and other authorized parties.
  - (c) TTS will take reasonable steps to protect against the loss or alteration of Subscriber's files, records and data retained by TTS, but Subscriber recognizes that events beyond the control of TTS may cause such loss or alteration. TTS will

maintain backup file(s) containing all of the data, files and records related to Subscriber in accordance with the terms of TTS's Disaster Recovery arrangement. Subscriber's file(s), records and data shall be released to Subscriber upon termination of this Agreement or in the event of an occurrence that renders TTS unable to perform hereunder.

- (d) TTS acknowledges that all records, data, files and other input material relating to Subscriber are the exclusive property of the Subscriber.

## 5. Charges and Payments.

- (a) **General.** In addition to reimbursements required elsewhere in this Agreement, Subscriber shall pay for services in accordance with Schedule A attached hereto and as may be adjusted as provided herein. Charges for any partial month of service shall be prorated on the basis of a 30-day month. Upon each twelve (12) month anniversary of this Agreement, TTS may adjust its fees for trade charges, charges for non-trade services and the TTS Host and TTS Fixed Income monthly services minimums in accordance with the cumulative net change in the consumer price index over the prior year. TTS agrees that it will continue to offer to and maintain for Subscriber the HOLD module as currently utilized by Subscriber through October 15, 2011 at the same fees as contained in this Agreement.
- (b) **Billing.** TTS shall invoice Subscriber monthly for all applicable charges. If payment is not received by TTS within forty-five (45) days of the invoice date, Subscriber agrees to pay TTS interest on the unpaid balance at the rate of 8% per annum from the date of the invoice until paid in full. If payment in full is not received within ninety (90) days of the date of the invoice, TTS may, at its option, terminate this Agreement upon thirty (30) days written notice. If Subscriber disputes all or a portion of an invoice in good faith, Subscriber may withhold the disputed portion of the payment pending resolution of the disputed amount pursuant to Paragraph 13 of this Agreement.
- (c) **Taxes.** Utilities and Exclusions. All charges shall be exclusive of any federal, state or local sales, use, excise, ad valorem or personal property taxes levied, or any fines, forfeitures or penalties assessed in connection therewith, as a result of this Agreement or the installation or use of TTS Host hereunder. Any such taxes which may be applicable will be paid by Subscriber or by TTS for Subscriber's account, in which case Subscriber shall reimburse TTS for amounts so paid. All electrical utility service necessary to operate TTS Host at Subscriber's offices shall be maintained in Subscriber's own account with such utility or service, and all charges for such services, including installation charges in connection therewith, shall be paid by Subscriber. TTS shall arrange for the installation of all telecommunications services necessary for Subscriber's use of the TTS System, which will be maintained in TTS's account for Subscriber's exclusive use. Subscriber shall promptly remit payment to TTS, at TTS standard rates, for all charges in connection with such installation and Subscriber's use thereof.

6. Term of Agreement.

- (a) This Agreement will be effective in the month following the month of execution and will terminate sixty (60) months from January 1, 2009. TTS or Subscriber shall give the other party twelve (12) months written notice of its intent not to renew this Agreement upon its expiration. If such notice is given less than six (6) months prior to the expiration date, then this Agreement shall remain in effect for twelve (12) months from the giving of such notice.
- (b) Unless TTS or Subscriber shall have given notice of non-renewal as provided in Paragraph 7(a), in the event that no renewal, continuation or successor agreement is signed by the parties prior to the expiration of this Agreement, this Agreement may be extended automatically for successive periods of six (6) months until a successor, renewal or continuation agreement is signed by the parties or until Subscriber, upon six (6) months written notice to TTS, or TTS, upon six (6) months written notice to Subscriber, elects to terminate this Agreement. During any period of extension described in this subparagraph 7(b), the charge for the services provided to Subscriber hereunder may, at TTS's option, be 105% of TTS's then-current non-discounted rates.

7. Termination.

- (a) If Subscriber cancels this Agreement after the effective date and prior to the end of the term, Subscriber will pay a termination fee as set forth in Schedule A equal to the monthly minimum per month times by the remaining months to end of term. Such termination fee will be paid in one lump sum payment
- (b) In addition to termination rights as provided elsewhere herein, either party may terminate this Agreement in the event that the other party commits a material breach of any provision of this Agreement, provided the breaching party fails to cure such material breach within sixty (60) days of its receipt of written notification thereof from the other party.
- (c) Subscriber shall have the right to terminate this Agreement for a "Chronic Service Failure" as set forth in Schedule 5 of the SLA, in which event all fees for early termination of this Agreement will be waived, TTS will assist the Subscriber in identifying any deconversion data files that are required, and TTS will deliver those data files electronically without charge to Subscriber.:.

8. Representations and Warranties

- (a) Title and Non-Infringement.
  - (i) TTS hereby represents, warrants and covenants to Subscriber that it has and at all times will have the full legal right to provide the TTS System and all TTS Services provided by under this Agreement, and TTS has no knowledge of any claim, litigation or proceeding pending or threatened against TTS with respect to such TTS Services or the TTS System, or any component thereof, alleging infringement of any patent or copyright or violation of any trade secret or any other proprietary right of any person.

- (ii) Subscriber hereby represents, warrants and covenants to TTS that it has and at all times will have the full legal right to provide the data to TTS as contemplated herein and Subscriber has no knowledge of any claim, litigation or proceeding pending or threatened against Subscriber with respect to data, alleging infringement of any patent or copyright or violation of any trade secret or any other proprietary right of any person.
- (b) Compliance with Law.
  - (i) TTS hereby represents, warrants and covenants to Subscriber that in performing its obligations and exercising its rights under this Agreement, TTS will comply (and shall require all of its personnel providing Services hereunder or otherwise involved in TTS's performance under this Agreement to comply) with all applicable Laws (and all changes in Laws) applicable to TTS and the Services it provides hereunder, and that TTS will obtain and maintain all permits, licenses, and consents required in connection therewith. For the purposes of this Agreement, "Law" shall mean a declaration, decree, directive, legislative enactment, statute, order, ordinance, regulation, rule or other binding action of or by an Federal, state, municipal, local, territorial or other government department, regulatory authority, judicial or administrative body.
  - (ii) Subscriber hereby represents warrants and covenants to TTS that Subscriber is in compliance with all Laws applicable to it and will obtain and maintain all permits, licenses, and consents required in connection with its obligations under this Agreement.
- (c) Business Continuation. TTS hereby represents, warrants and covenants to Subscriber that it has and shall maintain a disaster recovery plan (including designating specific protocols for declaring a disaster) and business continuation plan (including recovery time objectives) that shall enable TTS to provide the Services and the System in accordance with this Agreement and that it shall test the operability of such plan at least once every 12 months and revise such plan as necessary to ensure continued operability. TTS shall permit Subscriber to participate in such testing and shall provide the results of such annual testing to Subscriber. TTS's agrees that its business continuation plan shall be reviewed and approved by the TTS senior management team annually. Subscriber may request a summary of TTS's disaster recovery plan on a quarterly basis. Twice per year Subscriber may review at TTS a current copy of the full TTS disaster recovery plan which includes confidential information and which may not be removed from the premises.
- (d) Audit. Controls. Security. All passwords and all Subscriber Confidential Information stored, cached, or otherwise maintained on TTS's laptops or other portable media shall be stored in an encrypted format. At any time during the term of this Agreement, but no more than once per year, Subscriber may request copies of Privacy and Security Policies and Procedures, and SAS-70, including a Type II SAS-70. Subscriber may recommend to TTS additional reasonable controls to be added to the SAS-70. TTS shall use its best efforts to deliver to Subscriber the

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SAS-70 by December 15 of each year of the term of this Agreement. If TTS agrees with such recommendations and its other subscribers consent, TTS will implement the recommendations. TTS shall annually complete Subscriber's Standardized Information Gathering Questionnaire. TTS agrees that it shall perform periodic penetration testing of all internet facing applications.

## 9. Confidentiality

- (a) **Confidentiality Obligation**. Each party (in such capacity the "Receiving Party") shall hold the Confidential Information (as defined below) of the other party (in such capacity the "Disclosing Party") in strict confidence. The Receiving Party shall have the limited right to use the Confidential Information only for the purposes of fulfilling its commitments and obligations to the Disclosing Party under this Agreement and for no other purpose. Except as permitted in the foregoing sentence or by prior written consent of the Disclosing Party, the Receiving Party shall not use, disclose or distribute to any person, firm or entity any Confidential Information and shall not permit any person, firm or entity to use, disclose or distribute any Confidential Information; provided that the Receiving Party may disclose or distribute such Confidential Information to the following: (i) its officers, employees and directors who have a business need to know such Confidential Information; and (ii) its attorneys, accountants, consultants, agents, independent contractors or professional advisors (the "Receiving Party Agents") who (x) have a business need to know such Confidential Information and (y) are subject to fiduciary, professional or written obligations of confidentiality substantially similar to, and no less restrictive than, the obligations set forth herein. The Receiving Party shall be responsible for ensuring that the Receiving Party Agents comply with the terms of this Agreement and shall remain ultimately responsible for the use, disclosure or distribution of Confidential Information by the Receiving Party Agents. Any failure by the Receiving Party Agents to comply with the terms hereof shall constitute a material breach of this Agreement by the Receiving Party. Except in connection with the purposes identified above, the Receiving Party shall not copy or otherwise reproduce, or permit to be copied or otherwise reproduced, all or any part of Confidential Information without the prior written consent of the Disclosing Party.

TTS agrees that all information related to Subscriber's customers that it becomes aware of as a result of this Agreement is confidential and proprietary in nature, that by law this information must be protected and kept confidential, and that said information shall not be divulged by TTS to any third parties (except as may be required by Law or pursuant to an order of any court or administrative body in accordance with the proviso set forth in Section 9(c) below) or used in any manner other than in connection with the terms of this Agreement. Vendor shall (1) establish procedures to protect the security and confidentiality of this information, (2) protect against any anticipated threats or hazards to the security or integrity of the customer information, (3) protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to customers; and (4) otherwise comply with Laws applicable to TTS and the Services it provides hereunder.

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- (b) **Confidential Information.** As used in this Agreement, “Confidential Information” shall mean (i) the subject and terms of any and all potential or binding business transactions between the parties, and (ii) all oral or written information, of whatever kind and in whatever form, and whether or not marked as “confidential,” of the Disclosing Party, its employees, suppliers, or customers, including the identities thereof, that may be obtained from any source as a result of or in connection with this Agreement, as well as all such other information designated by the Disclosing Party as confidential including past, present or future business and business activities, financial or technical information; products, services, research and development; processes, techniques; designs; financial planning practices; client information (including clients’ identities and any client related data or information); and marketing plans.
- (c) **Exceptions.** As used in this Agreement, the term “Confidential Information” shall not include any information which the Receiving Party can demonstrate (i) is in the public domain through no fault or breach of confidentiality by such Receiving Party, (ii) was known by the Receiving Party prior to its disclosure by the Disclosing Party and was not obtained in such circumstances subject to a requirement of confidentiality, or (iii) was developed independently of, and without the use of or access to, any Confidential Information exchanged pursuant to this Agreement. Despite the obligations of this Section 9, the Receiving Party may disclose the Confidential Information of the Disclosing Party to the limited extent such Confidential Information is required to be disclosed by the Receiving Party by Law or pursuant to an order of any court or administrative body; provided that the Receiving Party (i) shall provide the Disclosing Party with prompt notice of such request or order, including copies of subpoenas or orders requesting such Confidential Information, (ii) shall cooperate reasonably with the Disclosing Party in resisting the disclosure of such Confidential Information via a protective order or other appropriate legal action, and (iii) shall not make disclosure pursuant thereto until the Disclosing Party has had a reasonable opportunity to resist such disclosure, unless the Receiving Party is ordered otherwise. Notwithstanding the foregoing, TTS may review and use Confidential Information internally on an aggregated anonymous basis to improve the System and its Services.
- (d) **Ownership.** All Confidential Information shall be and remain the sole and exclusive property of the Disclosing Party or its employees, suppliers or customers, as the case may be. Except as otherwise set forth in this Agreement, neither Party acquires any Intellectual Property Rights, including any rights to create derivative works of any Confidential Information, under this Agreement, except the limited right to use such Confidential Information in accordance with this Agreement. For the purposes of this Agreement, “Intellectual Property” shall mean a party’s patents, trade marks, service marks, trade and service names, copyrights, database rights and design rights (whether or not any of them are registered and including applications for registration of any of them), rights in know-how, moral rights, trade secrets and all rights or forms of protection of a similar nature or having similar or equivalent effect to any of them which may subsist anywhere in the world now existing or hereafter arising. Except as expressly provided herein, without Subscriber’s prior written approval (in its sole discretion), Subscriber Confidential Information shall not be (i) used by TTS other than is necessary for TTS’s performance of its

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obligations under this Agreement, (ii) disclosed, sold, assigned, leased or otherwise provided to third parties by TTS, or (iii) commercially exploited by or on behalf of TTS.

- (e) **Unauthorized Disclosure.** The Receiving Party shall (i) promptly notify the Disclosing Party's Chief Security Officer if the Receiving Party discovers or is notified of an unauthorized disclosure or release of, or access to, the Disclosing Party's Confidential Information (each, an "Unauthorized Disclosure") to or by any person obtaining or reasonably believed to have obtained such Confidential Information, or access to such Confidential Information, from or through the Receiving Party, (ii) reasonably assist the Disclosing Party in any action taken against the person(s) responsible for such Unauthorized Disclosure, and (iii) take immediate corrective action to cease the existing Unauthorized Disclosure and prevent any other or future Unauthorized Disclosures. In the event of a breach of confidentiality under this Section 9, TTS and Licensee will negotiate appropriate remediation efforts in good faith.
- (f) **Return of Confidential Information.** Upon written request by the Disclosing Party at any time, the Receiving Party shall: (i) turn over to the Disclosing Party all Confidential Information, all documents or media containing the Confidential Information, and any and all copies or extracts thereof, or (ii) destroy the Confidential Information, and any and all copies or extracts thereof, and provide the Disclosing Party with written certification of such destruction signed by an authorized representative of the Receiving Party. Notwithstanding the foregoing, each Party acknowledges that the Receiving Party shall not be required to comply with the foregoing to the extent that (i) the Confidential Information resides on the Receiving Party's backup, disaster recovery or business continuity systems, or (ii) the Receiving Party is obligated by applicable Law or industry or governmental regulations to retain such Confidential Information, or (iii) with respect to Subscriber, any such Confidential Information is licensed to Subscriber. In addition, upon termination or expiration of this Agreement, TTS shall (i) shred all documents containing Customer Data prior to disposal and (ii) destroy all copies of the Customer Data and certify in writing to Subscriber that TTS has complied with the requirements contained herein.
- (g) **Trademarks.** Trade Names, and Publicity. Except as is reasonably necessary to provide or utilize the Services hereunder, TTS agrees not to use the name(s), trademarks, trade names, service marks, and other marks (collectively, "Marks") of Subscriber, whether registered or not, in publicity releases or advertising or in any other manner, including company lists, marketing lists or client lists, without securing the prior written approval of a managing director or higher ranking officer of Subscriber. Further, TTS shall not provide any Subscriber contact or key person information to any Affiliate of TTS or any third party, unless Subscriber has approved such in advance. For the purposes of this Agreement, "Affiliate" means (i) any entity that, from time to time, directly or indirectly controls, is controlled by, or is under common control with either TTS or Subscriber, or that is a successor (whether by change of name, dissolution, merger, consolidation, reorganization, sale or other disposition) to any such entity or its business and assets; or Thomson Reuters Corporation, Thomson Reuters PLC and any of their current parent entities

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or subsidiaries from time to time. An entity will be deemed to control another entity if it has the power to direct or cause the direction of the management or policies of such entity, whether through the ownership of voting securities, by contract, or otherwise.

- (h) **Additional Remedies.** The Receiving Party acknowledges and agrees that due to the unique nature of the Confidential Information and the Marks, there may be no adequate remedy at Law for a breach by the Receiving Party of its obligations under this Section 9 and that such breach may cause irreparable harm to the Disclosing Party. Therefore, upon any such breach or any threat thereof, the Disclosing Party shall be entitled to seek appropriate equitable relief in addition to whatever remedies it may have at Law.

## 10. Indemnification

- (a) **Obligation to Defend and Indemnify.** TTS shall defend Subscriber, its Affiliates, and their respective directors, officers, employees, agents, contractors, successors, and assigns (each, an “Indemnified Party”) from and against any and all claims, demands, investigations, and causes of actions by third parties (each, a “Claim”) to the extent such Claims are based on or arise from (i) any allegations that any of the System or the Services infringes upon or misappropriates the Intellectual Property Rights of a third party, (ii) any bodily injury (including death) or damage to or loss of any tangible personal or real property caused by the actions or omissions of TTS, its Affiliates, or any of their respective directors, officers, employees, agents, contractors, successors, or assigns, (iii) any allegation that any of TTS’s personnel is an employee of Subscriber by virtue of performing any Services under this Agreement or otherwise, or (iv) any expenses, including any taxes, which were the responsibility of TTS hereunder. In addition, TTS shall indemnify and hold each Indemnified Party harmless from and against any and all damages, losses, fines, penalties, costs, and other amounts (including reasonable attorney’s fees and expenses) incurred or suffered by any such Indemnified Party in connection with any such Claims. Notwithstanding the foregoing TTS shall not be liable nor have any obligation to indemnify if such Claims were caused by Subscriber.
- (b) **Additional Remedy.** If Subscriber is enjoined or otherwise prohibited, or is reasonably likely in the opinion of Subscriber’s counsel to be enjoined or otherwise prohibited, from using any of the System, the Services or any portion thereof, based on a Claim covered by TTS’s indemnification obligations under Section 10(a) above, then TTS shall, at its sole expense and option and in addition to fulfilling its obligations under Section 10(a): (i) obtain for Subscriber the right to use the infringing portion(s) of the System or affected Services (as applicable), (ii) modify the infringing portion(s) of the System or affected Services so as to render them non-infringing without substantially diminishing or impairing their functionality, (iii) replace the infringing portion of the System or affected Services with non-infringing items of substantially similar functionality, or (d) promptly refund to Subscriber an equitable amount paid by
- (c) **Subscriber’s Indemnity Obligation.** Subscriber shall defend TTS, its Affiliates, and their respective directors, officers, employees, agents, contractors, successors, and

assigns (each, an “Indemnified Party”) from and against any and all Claims to the extent such Claims are based on or arise from (i) any allegations that any of any Subscriber tools or services provided by Subscriber to TTS infringes upon or misappropriates the Intellectual Property Rights of a third party, (ii) any bodily injury (including death) or damage to or loss of any tangible personal or real property caused by the actions or omissions of Subscriber, its Affiliates or any of their respective directors, officers, employees, agents, contractors, successors, or assigns, (iii) any allegation that any of Subscriber’s personnel is an employee of TTS by virtue of receiving any Services under this Agreement or otherwise, or (iv) any expenses, including any taxes, which were the responsibility of Subscriber hereunder. In addition, Subscriber shall indemnify and hold each Indemnified Party harmless from and against any and all damages, losses, fines, penalties, costs, and other amounts (including reasonable attorney’s fees and expenses) incurred or suffered by any such Indemnified Party in connection with any such Claims. Notwithstanding the foregoing, Subscriber shall not be liable nor have any obligation to indemnify if such Claims were caused by TTS.

11. Disclaimer of Warranties and Limitations of Liability.

- (a) Disclaimer of Warranty. EXCEPT AS SPECIFICALLY PROVIDED HEREIN, THERE ARE NO, AND TTS SYSTEMS EXPRESSLY DENIES, REJECTS AND DISCLAIMS ANY, WARRANTIES, EXPRESSED OR IMPLIED, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR WARRANTIES OF THE CORRECTNESS, ACCURACY, PRECISION, TIMELINESS OR COMPLETENESS OF ANY INFORMATION OR SERVICES PROVIDED THROUGH THE TTS SYSTEM.
- (b) Limitation of Liability. TTS SYSTEMS, ITS AFFILIATES, EMPLOYEES, OFFICERS AND AGENTS SHALL NOT BE LIABLE TO SUBSCRIBER OR TO ANY THIRD PARTY FOR ANY LOSS OR DAMAGE, WHETHER DIRECT OR INDIRECT, RESULTING FROM DELAYS OR INTERRUPTIONS OF SERVICE DUE TO MECHANICAL, ELECTRICAL OR WIRE DEFECTS OR DIFFICULTIES, STORMS, STRIKES, WALK-OUTS, EQUIPMENT OR SYSTEMS FAILURES, OR OTHER CAUSES OVER WHICH TTS SYSTEMS, ITS AFFILIATES, EMPLOYEES, OFFICERS, OR AGENTS AGAINST WHOM LIABILITY IS SOUGHT, HAVE NO REASONABLE CONTROL, OR FOR LOSS OR DAMAGE, DIRECT OR INDIRECT, RESULTING FROM INACCURACIES, ERRONEOUS STATEMENTS, ERRORS OF FACT, OMISSIONS, OR ERRORS IN THE TRANSMISSION OR DELIVERY OF THE TTS SYSTEM, OR ANY DATA PROVIDED AS A PART OF THE TTS SYSTEM PURSUANT TO THIS AGREEMENT. IN ALL OTHER CASES, THE LIABILITY OF TTS SYSTEMS SHALL BE LIMITED TO, AND SUBSCRIBER AGREES NOT TO MAKE ANY CLAIM EXCEEDING, TTS SYSTEMS’ ACTUAL CHARGE TO SUBSCRIBER FOR THE PARTICULAR TRANSACTION OR TRANSACTIONS FOR WHICH ANY CLAIM OF DAMAGE IS BEING MADE. IN NO EVENT, SHALL EITHER PARTY SHALL BE LIABLE TO THE OTHER PARTY FOR ANY SPECIAL, INDIRECT, INCIDENTAL, CONSEQUENTIAL, EXEMPLARY, OR PUNITIVE DAMAGES

(INCLUDING, WITHOUT LIMITATION, LOST PROFITS, LOST SAVINGS, OR LOSS OF GOOD WILL) ARISING UNDER OR IN CONNECTION WITH A BREACH OR ALLEGED BREACH OF THIS AGREEMENT, EVEN IF SUCH OTHER PARTY HAS BEEN ADVISED OF THE POSSIBILITY OF SUCH DAMAGES.

- (c) Time for Making Claims. ANY SUIT OR ACTION BY SUBSCRIBER AGAINST TTS SYSTEMS, IT AFFILIATES, OFFICERS, DIRECTORS, AGENTS, EMPLOYEES, SUCCESSORS OR ASSIGNS, BASED UPON ANY ACT OR OMISSION ARISING OUT OF OR RELATING TO THIS AGREEMENT, OR SERVICES PERFORMED HEREUNDER, OR ANY ALLEGED BREACH THEREOF, SHALL BE COMMENCED WITHIN ONE (1) YEAR OF THE FIRST OCCURRENCE GIVING RISE TO SUCH CLAIM OR BE FOREVER BARRED. THIS PROVISION DOES NOT MODIFY OR OTHERWISE AFFECT THE LIMITATION OF TTS SYSTEMS' LIABILITY SET FORTH IN PARAGRAPH 11(b) OR ELSEWHERE IN THIS AGREEMENT.

## 12. Use of the TTS System.

- (a) Subscriber acknowledges that the software systems utilized by TTS hereunder, including all enhancements thereto, and all screens and formats used in connection therewith, are the exclusive proprietary property of TTS, and Subscriber shall not publish, disclose, display, provide access to or otherwise make available any of the TTS Systems' software or products thereof, or any screens, formats, reports or printouts used, provided, produced or supplied from or in connection therewith, to any person or entity other than an employees or consultants or vendors of Subscriber without the prior written consent of, and on terms acceptable to, TTS, which consent shall not be unreasonably withheld; provided, however, that Subscriber may disclose to a governmental or regulatory agency or to customers of Subscriber any information expressly prepared and acknowledged in writing by TTS as having been prepared for disclosure to such governmental or regulatory agency or to such customers. Neither party shall disclose Subscriber's use of the TTS System in any advertising or promotional materials without the prior written consent to such use, and approval of such materials, by the other. For so long as TTS operates the TTS System for Subscriber, all methods of data access to, or interactive or batch file transfer of, data on TTS System's mainframe computer must be authorized by TTS, and any unauthorized interactive or batch file transfer of data on TTS System's mainframe computer via a program automated workstation or computer is explicitly prohibited.
- (b) Subscriber agrees that it will use the services provided hereunder only in connection with its own or its Affiliates brokerage business and it will not, without the express written permission of TTS, sell, lease, or otherwise provide or make available the TTS System to any third party. For purposes of the foregoing, Subscriber's "own brokerage business" shall include Subscriber's bona fide correspondents.
- (c) The obligations of this Paragraph 12 shall survive termination of this Agreement. Subscriber understands that the unauthorized publication or disclosure of any of TTS's software or copies thereof, or the unauthorized use of the TTS System would

cause irreparable harm to TTS for which there is no adequate remedy at law. Subscriber therefore agrees that in the event of such unauthorized disclosure or use, TTS may, at its discretion and at Subscriber's expense, terminate this Agreement, obtain immediate injunctive relief in a court of competent jurisdiction, or take such other steps as it deems necessary to protect its rights. If TTS, in its reasonable, good faith judgment, determines that there is a material risk of such unauthorized disclosure or use, it may demand immediate assurances, satisfactory to TTS, that there will be no such unauthorized disclosure or use. In the absence of such assurance, TTS may immediately terminate this Agreement and take such other steps as it deems necessary. The rights of TTS hereunder are in addition to any other remedies provided by law.

13. **Dispute Resolution.** The parties shall initially attempt to resolve informally any dispute arising out of or relating to this Agreement, including with respect to the interpretation of any provision of this Agreement and with respect to the performance by TTS hereunder, in accordance with this Section.

- (a) Upon the written notice by a party to the other party of a dispute hereunder ("Dispute Date"), each party shall appoint a designated representative with authority to resolve the dispute (who, if the parties so mutually agree, does not devote substantially all of his or her time to performance under this Agreement), whose task it will be to meet for the purpose of endeavoring to resolve such dispute.
  - (i) The designated representatives shall meet as often as the parties reasonably deem necessary in order to gather and furnish to the other party all information with respect to the dispute which information the parties believe to be appropriate and germane in connection with its resolution. The representatives shall discuss the problem and attempt to resolve the dispute without the necessity of any formal proceeding. The specific format for the discussions shall be left to the discretion of the designated representatives. During the course of discussion, all reasonable requests made by a party to the other party for non-legally privileged information reasonably related to this Agreement shall be honored in order that a party may be fully advised of the other party's position.
  - (ii) If the parties are unable to resolve a dispute informally within sixty (60) days of the applicable Dispute Date, either party may commence any litigation in accordance with the terms of paragraph 14(a).

14. **Applicable Law, Venue and Severability.**

- (a) This Agreement shall be construed and enforced in accordance with the law of the State of New York without giving effect to any choice of law or conflict of law provisions. Any disputes arising under this Agreement will be brought and heard in the appropriate Federal or state court located in New York County in the State of New York and each of the parties hereby irrevocably consents to the jurisdiction of such courts.

15. In the event that any court having competent jurisdiction over the interpretation of this Agreement shall determine that one or more of the provisions contained in this Agreement shall be unenforceable in any respect, then such provision shall be deemed limited and restricted to the extent that such court shall deem it to be enforceable, and, as so limited or restricted, shall remain in full force and effect. In the event that any such provision or provisions shall be deemed wholly unenforceable, such provision shall be deemed deleted from this Agreement, and the remaining provisions shall remain in full force and effect. Any such judicial interpretation requiring limitation or deletion of a provision shall be valid only in the jurisdiction in which such interpretation is made.

16. General.

- (a) Waiver of Breach. The fact that one (1) party excuses or overlooks a breach of any provision of this Agreement by the other party does not mean that that party excuses any other breach or waives its right to remedy any other breach by the other party.
- (b) TTS shall not assign this Agreement (by operation of law or otherwise), or any of its rights or obligations hereunder, without the prior written consent of Subscriber, provided that, notwithstanding the foregoing, upon prior written notice, TTS may assign this Agreement to an Affiliate. In addition, TTS shall not delegate or subcontract any of its rights or obligations hereunder to a third party without the prior written consent of Subscriber. In the event such delegation or subcontracting is consented to by Subscriber, the third party to which such rights or obligations are delegated or subcontracted shall be bound by the terms and conditions of this Agreement applicable to TTS (including, but not limited to, the terms of Section 9, Confidentiality, hereof), and any failure by such third party to comply with the terms hereof shall constitute a breach of this Agreement by TTS. TTS shall also be solely responsible for all payments due to such third party. Any assignment, transfer, delegation or subcontracting of rights or obligations hereunder in contravention of this Section 16(b) shall be null and void. All terms and conditions of this Agreement shall be binding upon and shall inure to the benefit of and be enforceable by the parties hereto and their respective successors and permitted assigns.
- (c) Any notice required to be given under this Agreement shall be in writing and shall be deemed to have been given if served personally, or if sent by certified mail, postage prepaid, to the parties at the address shown below, or such other address as either party may hereafter designate by notice to the other.

To TTS, a division of Thomson Financial, LLC:  
Thomson Transaction Services

350 North Sunny Slope Road

Brookfield, Wisconsin 53005

Attn: Mr. Jeffrey D. Vorpahl

To Subscriber:

LPL Financial Corporation  
One Beacon Street, 22nd Floor  
Boston, Massachusetts 02108  
Attn: Stephanie L. Brown  
Managing Director General Counsel

- (d) Contact information for the Subscriber's Chief Security Officer is set forth below for the purposes of Section 9(e) of this Agreement:

Marc Loewenthal  
SVP, Chief Security Officer  
9785 Towne Centre Drive  
San Diego, CA 92121

[marc.loewenthal@Jpl.com](mailto:marc.loewenthal@Jpl.com)

858-450-9606

- (e) The headings in this Agreement are for convenience only and shall not be used to alter or limit the interpretation of any provision hereof.
- (f) This Agreement, together with all Schedules, Exhibits and amendments hereto, constitute the entire agreement of the parties and supersede all prior discussion and correspondence between them with respect to the subject matter hereof. No modification of this Agreement shall be effective unless the same is in writing and signed by both parties.
- (g) This Agreement, all schedules attached hereto, and all terms and conditions herein, are confidential and shall not be disclosed by Subscriber except as required by law.

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**SIGNATURE PAGE FOLLOWS**

IN WITNESS WHEREOF, we have set our hand as of the date first noted above.

**THOMSON TRANSACTION SERVICES, a division of Thomson Financial LLC, a Thomson Reuters company**

By: /s/ Gordon J. Fox Date: 1/5/09

Title: Managing Director

Name: Gordon J. Fox

By: /s/ Jeffrey Vorpahl Date: 1/5/09

Title: CFO

Name: Jeffrey Vorpahl

**LPL Financial Corporation**

By: /s/ Stephanie L. Brown Date: 1/5/09

Title: Managing Director, General Counsel

Name: Stephanie L. Brown

**FIRST AMENDMENT  
TO  
MASTER SUBSCRIPTION AGREEMENT**

THIS FIRST AMENDMENT (the "Amendment"), made effective this 1st day of December, 2013 to that certain BETAHost Master Subscription Agreement by and between Thomson Reuters BETA Systems ("BETA"), a division of Thomson Financial LLC, a Thomson Reuters company, and LPL Financial LLC (formerly, LPL Financial Corporation and hereinafter "Subscriber") dated December 30, 2008 (the "Agreement").

**WITNESSETH THAT:**

WHEREAS, the parties hereto have entered into the Agreement for BETA to provide to Subscriber, a data processing service called BETAHost; and,

WHEREAS, BETA and Subscriber desire to amend the Agreement to provide a revised processing charge schedule and other related revisions;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

Paragraph 2 (b) of the Agreement will be deleted in its entirety and replaced with the following: "Provided Subscriber adheres to BETA'S reasonable recommendations regarding system use and equipment configuration, BETA will provide the Services in accordance with the service level standards (each, a "Performance Standard") as set forth in Service Level Agreement schedule of the Agreement."

Paragraph 5 (a) of the Agreement will be deleted in its entirety and replaced with the following; "General. In addition to reimbursements required elsewhere in this Agreement, Subscriber shall pay for services in accordance Schedule A attached hereto and as may be adjusted as provided herein. Charges for any partial month of service shall be prorated on the basis of a 30-day month."

The first sentence of paragraph 6 (a) of the Agreement will be deleted and replaced with the following: "This Agreement will be effective in the month executed and will terminate five (5) years from that date."

Paragraph 6 (b) will be deleted in its entirety and replaced with the following: "Unless notice of non-renewal has been provided, this Agreement shall be extended automatically for successive periods of one year until a successor agreement is signed by the parties or until the Agreement, upon 180 days prior written notice, is terminated. During any period of extension the charges for services provided shall be equal to those in effect in the last year of the term or the immediately preceding extension period, whichever is applicable, plus 5%."

The following will be added as Paragraph 12 (d) of the Agreement:

"Third party providers whose information is included in the Services may impose additional restrictions on usage of their information or materials and those restrictions may change from time to time. These restrictions may include prohibiting certain types of usage or requiring Subscriber to report its usage to obtain agreement from, or pay additional fees either through BETA or directly to, the relevant third party provider. Subscriber can view restrictions that third party providers have supplied to BETA at [www.thomsonreuters.com/3ptvterms](http://www.thomsonreuters.com/3ptvterms) (the "Third Party Terms Site"), or alternatively, in some cases, within the relevant Service. BETA will use commercially reasonable efforts to ensure that the Third Party Terms Site or the Service (as relevant) is maintained with the latest policies of each relevant third party provider. Changes to the Third Party Terms Site will be published on the Thomson Reuters Customer Portal quarterly, where BETA will endeavor to provide Subscriber 30 days' notice before a change goes into effect, but may not be able to do so if BETA does not receive sufficient prior notice from such third parties.

These restrictions are binding on Subscriber in the same way as any other provision in this Agreement. Third party providers may have the right to require that BETA restrict, suspend or terminate Subscriber's access to that third Party provider's information or materials., if BETA takes any such action, it will use reasonable efforts to provide Subscriber with prior notice and not be liable for any resulting damages Subscriber may suffer. BETA may provide third party providers with details of Subscriber's usage of and any suspected breach of this Agreement relating to, that third party provider's information or materials."

Schedule A to the Agreement will be deleted in its entirety and replaced with the attached Schedule A.

Schedule B to the Agreement will be deleted in its entirety.

Made and executed this 30th day of December, 2013.

**Thomson Reuters BETA Systems**

By: /s/ Jeffrey Vorpahl

Name: Jeffrey Vorpahl

Title: CFO

**LPL Financial LLC**

By: /s/ Steve Morrison

Name: Steve Morrison

Title: Senior Vice President

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**SECOND AMENDMENT****TO****MASTER SUBSCRIPTION AGREEMENT**

THIS SECOND AMENDMENT (the "Amendment"), made effective this 1st day of January, 2016 to that certain BETAHost Master Subscription Agreement by and between Thomson Reuters BETA Systems (""), a division of Thomson Financial LLC (and now known as Thomson Reuters (Markets) LLC ("TR"), and LPL Financial Corporation ("Subscriber") dated December 30, 2008 (the "Agreement").

WITNESSETH THAT:

WHEREAS, the parties hereto have entered into the Agreement for TR to provide to Subscriber, a data processing service called BETAHost; and,

WHEREAS, TR and Subscriber desire to amend the Agreement to provide a revised processing charge schedule and other related revisions;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. All references to BETA Systems, a division of Thomson Financial LLC ("BETA") shall hereinafter be referred to as Thomson Reuters (Markets) LLC. All references to the BETAHost Services shall mean the services provided to Subscriber by TR.
2. Schedule A, [\*\*], is amended by adding the following: [\*\*]
3. Schedule A, [\*\*], is amended by adding the following: [\*\*]
4. Schedule A, [\*\*], is amended by adding the following: [\*\*]
5. Except as expressly amended hereby, the Agreement shall continue in full force and effect in accordance with its terms. All references in the Agreement to the "Agreement" shall be deemed to be references to the Agreement as amended hereby.
6. This Amendment may be executed in any number of counterparts and/or by facsimile, each of which shall be deemed to be an original agreement but such counterparts shall together constitute one and the same instrument.

Made and executed this 19th day of January, 2016.

**Thomson Reuters (Markets) LLC**

By: /s/ David P. Akellian

Name: David P. Akellian

Title: Managing Director

**LPL Financial Corporation**

By: /s/ Gregory M. Woods

Name: Gregory M. Woods

Title: Executive Vice President, Deputy General Counsel

**THIRD AMENDMENT  
TO  
MASTER SUBSCRIPTION AGREEMENT**

THIS THIRD AMENDMENT (the "Amendment") is made by and between Thomson Reuters (Markets) LLC ("BETA") and LPL Financial LLC ("Subscriber") effective this 1st day of March, 2018 to that certain BETAHost Master Subscription Agreement dated December 30, 2008 (the "Agreement").

WITNESSETH THAT:

WHEREAS, the parties hereto have entered into the Agreement for BETA to provide to Subscriber, a data processing service called BETAHost; and,

WHEREAS, BETA and Subscriber desire to amend the Agreement to provide an additional service called BETA ODS;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. Schedule A, [\*\*], is amended by adding the following to [\*\*]: [\*\*]

The parties have made and executed this Third Amendment this \_\_\_\_ day of March, 2018.

**Thomson Reuters (Markets) LLC**

By: /s/ Tim Rutka

Name: Tim Rutka

Title: Head of Technology & Ops - WM

**LPL Financial LLC**

By: /s/ Peggy Ho

Name: Peggy Ho

Title: EVP Chief of Staff

**SECOND AMENDMENT  
TO  
MASTER SUBSCRIPTION AGREEMENT**

THIS SECOND AMENDMENT (the "Amendment"), made effective this 8<sup>th</sup> day of October, 2018 to that certain BETAHost Master Subscription Agreement by and between Thomson Reuters (Markets) LLC ("TR"), at 350 North Sunny Slope Road, Brookfield, WI 53005, and LPL Financial LLC ("Subscriber"), at 75 State Street, 22nd Floor, Boston, MA 02109 dated December 30, 2008 (the "Agreement").

WITNESSETH THAT:

WHEREAS, the parties hereto have entered into the Agreement for TR to provide to Subscriber a data processing service called BETAHost; and

WHEREAS, TR and Subscriber desire to extend the terms of the Agreement through March 30, 2019, to enable the parties to negotiate a new Agreement and new set of schedules with an extended term and other revised terms and conditions;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. The term of the Agreement shall continue and remain in effect through March 30, 2019 without a change in Fees.
2. Provided that the parties renew the Agreement for a period mutually agreed upon between the Parties on or before March 30, 2019. TR hereby waives its right to auto extend the Agreement to November 30, 2019, at charges equal to 105% of the current charges now in effect, in accordance with Paragraph 6(b) of the Agreement, as revised by the First Amendment to the Agreement dated December 1, 2013, and executed on December 30, 2013 (the "First Amendment").

If the parties do not enter into such extension by or before March 30, 2019, (i) the waiver set forth in the prior paragraph shall be void, (ii) the Agreement shall continue in accordance with Paragraph 6(b) of the Agreement, as revised by the First Amendment, without regard to this Amendment, and (iii) as of April 1, 2019, Subscriber shall be obligated to pay the contractually required charges (105% of current charges as of November 30, 2018) for the period between December 1, 2018, and March 30, 2019, and thereafter in accordance with the Agreement.

3. As amended hereby, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first noted above.

Made and executed this \_\_\_\_ day of October, 2018.

**Thomson Reuters (Markets) LLC**

By: /s/ Tim Rutka

Name: Tim Rutka

Title: Head of Technology & Ops - WM

**LPL Financial LLC**

By: /s/ Peggy Ho

Name: Peggy Ho

Title: EVP, Government Relations

**FIFTH AMENDMENT  
TO  
MASTER SUBSCRIPTION AGREEMENT**

THIS FIFTH AMENDMENT (the "Amendment"), made effective this 22nd day of January, 2019 to that certain BETAHost Master Subscription Agreement by and between Thomson Reuters (Markets) LLC ("TR"), at 350 North Sunny Slope Road, Brookfield, WI 53005, and LPL Financial LLC ("Subscriber"), at 75 State Street, 22nd Floor, Boston, MA 02109 dated December 30, 2008 (the "Agreement").

WITNESSETH THAT:

WHEREAS, the parties hereto have entered into the Agreement for TR to provide to Subscriber a data processing service called BETAHost; and

WHEREAS, the parties desire to amend the Agreement to modify previous amendment numbers;

WHEREAS, TR and Subscriber desire to extend the terms of the Agreement through June 30, 2019, to enable the parties to negotiate a new Agreement and new set of schedules with an extended term and other revised terms and conditions,

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. The parties agree that the previous Second Amendment with effective date October 8, 2018 should have been labeled as follows:

- FOURTH AMENDMENT with effective date October 8, 2018
- 2. The term of the Agreement shall continue and remain in effect through June 30, 2019, without a change in Fees.

3. Provided that the parties renew the Agreement for a period mutually agreed upon between the Parties on or before June 30, 2019, TR hereby waives its right to auto extend the Agreement to November 30, 2019, at charges equal to 105% of the current charges now in effect, in accordance with Paragraph 6(b) of the Agreement, as revised by the First Amendment to the Agreement dated December 1, 2013, and executed on December 30, 2013 (the "First Amendment").

If the parties do not enter into such extension by or before June 30, 2019, (i) the waiver set forth in the prior paragraph shall be void, (ii) the Agreement shall continue in accordance with Paragraph 6(b) of the Agreement, as revised by the First Amendment, without regard to this Amendment, and (iii) as of July 1, 2019, Subscriber shall be obligated to pay the contractually required charges (105% of current charges as of November 30, 2018) for the period between December 1, 2018, and June 30, 2019, and thereafter in accordance with the Agreement.

4. As amended hereby, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first noted above.

Made and executed this \_\_\_\_ day of January, 2019.

**Thomson Reuters (Markets) LLC**

By: /s/ Tim Rutka

Name: Tim Rutka

Title: Head of BETA

**LPL Financial LLC**

By: /s/ Peggy Ho

Name: Peggy Ho

Title: EVP Chief of Staff

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**SIXTH AMENDMENT  
TO  
MASTER SUBSCRIPTION AGREEMENT**

THIS SIXTH AMENDMENT (the "Amendment"), made effective this 31st day of May, 2019 to that certain BETAHost Master Subscription Agreement by and between Thomson Reuters (Markets) LLC ("TR"), at 350 North Sunny Slope Road, Brookfield, WI 53005, and LPL Financial LLC ("Subscriber"), at 75 State Street, 22nd Floor, Boston, MA 02109 dated December 30, 2008 (the "Agreement").

WITNESSETH THAT:

WHEREAS, the parties hereto have entered into the Agreement for TR to provide to Subscriber a data processing service called BETAHost; and

WHEREAS, TR and Subscriber desire to extend the terms of the Agreement through September 30, 2019, to enable the parties to negotiate a new Agreement and new set of schedules with an extended term and other revised terms and conditions;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. The term of the Agreement shall continue and remain in effect through September 30, 2019, without a change in Fees.
2. Provided that the parties renew the Agreement for a period mutually agreed upon between the Parties on or before September 30, 2019, TR hereby waives its right to auto extend the Agreement to November 30, 2019, at charges equal to 105% of the current charges now in effect, in accordance with Paragraph 6(b) of the Agreement, as revised by the First Amendment to the Agreement dated December 1, 2013, and executed on December 30, 2013 (the "First Amendment").

If the parties do not enter into such extension by or before September 30, 2019, (i) the waiver set forth in the prior paragraph shall be void, (ii) the Agreement shall continue in accordance with Paragraph 6(b) of the Agreement, as revised by the First Amendment, without regard to this Amendment, and (iii) as of October 1, 2019, Subscriber shall be obligated to pay the contractually required charges (105% of current charges as of November 30, 2018) for the period between December 1, 2018, and September 30, 2019, and thereafter in accordance with the Agreement.

3. As amended hereby, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first noted above.

Made and executed this \_\_\_\_ day of May, 2019.

**Thomson Reuters (Markets) LLC**

By: /s/ Tim Rutka

Name: Tim Rutka

Title: Head of BETA

**LPL Financial LLC**

By: /s/ Peggy Ho

Name: Peggy Ho

Title: EVP Chief of Staff

**SEVENTH AMENDMENT  
TO  
MASTER SUBSCRIPTION AGREEMENT**

THIS SEVENTH AMENDMENT (the “Amendment”), effective as of this 27th day of September, 2019 is made by LPL Financial LLC (“Subscriber”), at 75 State Street, 22nd Floor, Boston, MA 02109 and Refinitiv US LLC (“Refinitiv”), at 3 Times Square, New York, NY 10036 to that certain BETAHost Master Subscription Agreement by and between the parties dated December 30, 2008, (as amended, the “Agreement”).

WITNESSETH THAT:

WHEREAS, the parties entered into the Agreement for Refinitiv to provide to Subscriber a data processing service called BETAHost; and

WHEREAS, Refinitiv and Subscriber desire to extend the terms of the Agreement through November 29, 2019, to enable the parties to negotiate a new Agreement and new set of schedules with an extended term and other revised terms and conditions;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. The term of the Agreement shall continue and remain in effect through November 29, 2019, without a change in Fees. Provided that the parties renew the Agreement for a period mutually agreed upon between the Parties on or before November 29, 2019, TR hereby waives its right to auto extend the Agreement from December 1, 2018 to November 30, 2019, at charges equal to 105% of the current charges now in effect, in accordance with the Agreement.

If the parties do not enter into such extension by or before November 29, 2019, (i) the waiver set forth in the prior paragraph shall be void, (ii) the Agreement shall continue without regard to this Amendment, and (iii) as of November 30, 2019, Subscriber shall be obligated to pay the contractually required charges (105% of current charges as of November 30, 2018) for the period between December 1, 2018, and November 29, 2019, and thereafter in accordance with the Agreement.

2. As amended hereby, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first noted above.

Made and executed this \_\_\_\_ day of September 2019.

**Refinitiv US LLC**

By: /s/ Tim Rutka

Name: Tim Rutka

Title: Head of BETA

**LPL Financial LLC**

By: /s/ Peggy Ho

Name: Peggy Ho

Title: EVP Chief of Staff

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**EIGHTH AMENDMENT  
TO  
MASTER SUBSCRIPTION AGREEMENT**

THIS EIGHTH AMENDMENT (the “Amendment”), effective as of this 19th day of November, 2019 is made by LPL Financial LLC (“Subscriber”), at 75 State Street, 22nd Floor, Boston, MA 02109 and Refinitiv US LLC (“Refinitiv”), at 3 Times Square, New York, NY 10036 to that certain BETAHost Master Subscription Agreement by and between the parties dated December 30, 2008, (as amended, the “Agreement”).

WITNESSETH THAT:

WHEREAS, the parties entered into the Agreement for Refinitiv to provide to Subscriber a data processing service called BETAHost; and

WHEREAS, Refinitiv and Subscriber desire to extend the terms of the Agreement through March 31, 2020, to enable the parties to negotiate a new Agreement and new set of schedules with an extended term and other revised terms and conditions;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. The term of the Agreement shall continue and remain in effect through March 31, 2020, without a change in Fees.
2. Provided that the parties renew the Agreement for a period mutually agreed upon between the Parties on or before March 31, 2020, Refinitiv hereby waives its right to auto extend the Agreement from December 1, 2018 to March 31, 2020, at charges equal to 105% of the current charges now in effect, in accordance with the Agreement.

If the parties do not enter into such extension by or before March 31, 2020, (i) the waiver set forth in the prior paragraph shall be void, (ii) the Agreement shall continue without regard to this Amendment, and (iii) as of March 31, 2020, Subscriber shall be obligated to pay the contractually required charges (105% of current charges as of November 30, 2018) for the period between December 1, 2018, and March 31, 2020, and thereafter in accordance with the Agreement.

3. As amended hereby, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first noted above.

Made and executed this \_\_\_\_ day of \_\_\_\_\_

**Refinitiv US LLC**

By: /s/ Tim Rutka

Name: Tim Rutka

Title: Head of BETA

**LPL Financial LLC**

By: /s/ Peggy Ho

Name: Peggy Ho

Title: EVP Chief of Staff

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**NINTH AMENDMENT  
TO  
MASTER SUBSCRIPTION AGREEMENT**

THIS NINTH AMENDMENT (the “Amendment”), effective as of this 24th day of March, 2020 is made by LPL Financial LLC (“Subscriber”), at 75 State Street, 22nd Floor, Boston, MA 02109 and Refinitiv US LLC (“Refinitiv”), at 3 Times Square, New York, NY 10036 to that certain BETAHost Master Subscription Agreement by and between the parties dated December 30, 2008, ( as amended, the “Agreement”).

WITNESSETH THAT:

WHEREAS, the parties entered into the Agreement for Refinitiv to provide to Subscriber a data processing service called BETAHost; and

WHEREAS, Refinitiv and Subscriber desire to extend the terms of the Agreement through September 30, 2020, to enable the parties to negotiate a new Agreement and new set of schedules with an extended term and other revised terms and conditions;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. The term of the Agreement shall continue and remain in effect through September 30, 2020, without a change in Fees.
2. Provided that the parties renew the Agreement for a period mutually agreed upon between the Parties on or before September 30, 2020, Refinitiv hereby waives its right to auto extend the Agreement from December 1, 2018 to September 30, 2020, at charges equal to 105% of the current charges now in effect, in accordance with the Agreement.

If the parties do not enter into such extension by or before September 30, 2020, (i) the waiver set forth in the prior paragraph shall be void, (ii) the Agreement shall continue without regard to this Amendment, and (iii) as of September 30, 2020, Subscriber shall be obligated to pay the contractually required charges (105% of current charges as of November 30, 2018) for the period between December 1, 2018, and September 30, 2020, and thereafter in accordance with the Agreement.

3. As amended hereby, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first noted above.

Made and executed this \_\_\_\_ day of \_\_\_\_

**Refinitiv US LLC**

By: /s/ Tim Rutka

Name: Tim Rutka

Title: Head of BETA Platform

**LPL Financial LLC**

By: /s/ Peggy Ho

Name: Peggy Ho

Title: EVP Chief of Staff

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**TENTH AMENDMENT  
TO  
MASTER SUBSCRIPTION AGREEMENT**

THIS TENTH AMENDMENT (the "Amendment"), effective as of this 18th day of September, 2020 is made by LPL Financial LLC ("Subscriber"), at 75 State Street, 22nd Floor, Boston, MA 02109 and Refinitiv US LLC ("Refinitiv"), at 3 Times Square, New York, NY 10036 to that certain BETAHost Master Subscription Agreement by and between the parties dated December 30, 2008, ( as amended, the "Agreement").

WITNESSETH THAT:

WHEREAS, the parties entered into the Agreement for Refinitiv to provide to Subscriber a data processing service called BETAHost; and

WHEREAS, Refinitiv and Subscriber desire to extend the terms of the Agreement through December 31, 2020, to enable the parties to negotiate a new Agreement and new set of schedules with an extended term and other revised terms and conditions;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. The term of the Agreement shall continue and remain in effect through December 31, 2020, without a change in Fees.
2. Provided that the parties renew the Agreement for a period mutually agreed upon between the Parties on or before December 31, 2020, Refinitiv hereby waives its right to auto extend the Agreement from December 1, 2018 to December 31, 2020, at charges equal to 105% of the current charges now in effect, in accordance with the Agreement.

If the parties do not enter into such extension by or before December 31, 2020, (i) the waiver set forth in the prior paragraph shall be void, (ii) the Agreement shall continue without regard to this Amendment, and (iii) as of December 31, 2020, Subscriber shall be obligated to pay the contractually required charges (105% of current charges as of November 30, 2018) for the period between December 1, 2018, and December 31, 2020, and thereafter in accordance with the Agreement.

3. As amended hereby, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first noted above.

Made and executed this \_\_\_\_ day of \_\_\_\_\_

**Refinitiv US LLC**

By: /s/ Tim Rutka

Name: Tim Rutka

Title: Head of BETA

**LPL Financial LLC**

By: /s/ Peggy Ho

Name: Peggy Ho

Title: EVP Chief of Staff

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**ELEVENTH AMENDMENT  
TO  
MASTER SUBSCRIPTION AGREEMENT**

THIS ELEVENTH AMENDMENT (the “Amendment”), effective as of this 22th day of December, 2020 is made by LPL Financial LLC (“Subscriber”), at 75 State Street, 22nd Floor, Boston, MA 02109 and Refinitiv US LLC (“Refinitiv”), at 3 Times Square, New York, NY 10036 to that certain BETAHost Master Subscription Agreement by and between the parties dated December 30, 2008, ( as amended, the “Agreement”).

WITNESSETH THAT:

WHEREAS, the parties entered into the Agreement for Refinitiv to provide to Subscriber a data processing service called BETAHost; and

WHEREAS, Refinitiv and Subscriber desire to extend the terms of the Agreement through March 1<sup>st</sup>, 2021, to enable the parties to negotiate a new Agreement and new set of schedules with an extended term and other revised terms and conditions;

NOW THEREFORE, in consideration of the mutual covenants hereinafter set forth, and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereto agree to amend the Agreement as follows:

1. The term of the Agreement shall continue and remain in effect through March 1<sup>st</sup>, 2021, without a change in Fees.
2. Provided that the parties renew the Agreement for a period mutually agreed upon between the Parties on or before March 1<sup>st</sup>, 2021, Refinitiv hereby waives its right to auto extend the Agreement from December 1, 2018 to March 1<sup>st</sup>, 2021, at charges equal to 105% of the current charges now in effect, in accordance with the Agreement.

If the parties do not enter into such extension by or before March 1<sup>st</sup>, 2021, (i) the waiver set forth in the prior paragraph shall be void, (ii) the Agreement shall continue without regard to this Amendment, and (iii) as of March 1<sup>st</sup>, 2021, Subscriber shall be obligated to pay the contractually required charges (105% of current charges as of November 30, 2018) for the period between December 1, 2018, and March 1<sup>st</sup>, 2021, and thereafter in accordance with the Agreement.

3. As amended hereby, the Agreement remains in full force and effect.

IN WITNESS WHEREOF, the parties have executed this Amendment as of the date first noted above.

Made and executed this \_\_\_\_ day of \_\_\_\_\_

**Refinitiv US LLC**

By: /s/ Tim Rutka

Name: Tim Rutka

Title: Head of BETA

**LPL Financial LLC**

By: /s/ Amy Evins

Name: Amy Evins

Title: Evp

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**LPL FINANCIAL HOLDINGS INC.  
2012 EMPLOYEE STOCK PURCHASE PLAN  
(as amended and restated effective as of October 29, 2019)**

#### **Section 1. Defined Terms**

Exhibit A, which is incorporated by reference, defines the terms used in the Plan and sets forth certain operational rules related to those terms.

#### **Section 2. Purpose of Plan**

The Plan is intended to enable Eligible Employees of LPL and its Subsidiaries to use payroll deductions to purchase shares of Stock, and thereby acquire an interest in the future of LPL. The Plan is intended to qualify under Code Section 423 and to be exempt from the application and requirements of Code Section 409A, and is to be construed accordingly.

#### **Section 3. Options to Purchase Stock**

Subject to adjustment pursuant to Section 15 of this Plan, the maximum aggregate number of shares of Stock available for sale pursuant to the exercise of Options granted under the Plan to Eligible Employees shall be 1,000,000 shares of Stock, increased annually by a number of shares of Stock equal to the lesser of (a) 200,000 shares of Stock or (b) a number determined by the Board. Subject to the terms of the Plan, any amendments made to the Plan, or termination of the Plan by the Board, such annual increases shall occur automatically on January 1 of each year the Plan is in effect, beginning in 2013 and ending in 2021.

The shares of Stock to be delivered upon exercise of Options under the Plan may be either shares of authorized but unissued Stock, Treasury Stock, or Stock acquired in an open-market transaction, all as the Board may determine. If any Option granted under the Plan shall expire or terminate for any reason without having been exercised in full or shall cease for any reason to be exercisable in whole or in part, the unpurchased shares of Stock subject to such Option shall again be available for sale pursuant to the exercise of Options under the Plan.

#### **Section 4. Eligibility**

Subject to Section 12, and any exceptions and limitations set forth in (a) and (b) below, or as may be provided elsewhere in the Plan, each Employee who is employed by the Company as of the first day of an Enrollment Period will be eligible to participate in the Plan; *provided*, that no Employee will be eligible to participate in the Plan if:

- (a) Such Employee's regular earnings (*i.e.*, base salary) from the Company for the prior year exceeded \$200,000 (or, if higher, the "compensation" taken into account for purposes of determining that the Employee is a highly compensated employee under Code Section 414(q)); or
- (b) Such Employee is subject to the disclosure requirements of Section 16(a) of the Exchange Act.

#### **Section 5. Method of Participation**

The Plan shall generally be implemented by a series of "Offering Periods." Unless otherwise determined by the Administrator, the Offering Periods shall be three (3) month periods and will commence on the first day of the payroll period occurring on or near February 10, May 19, August 11 and November 3 of each year *provided*, that the Initial Offering Period under the Plan may commence on some other date, as the Administrator may specify, and *provided further*, that the next Offering Period following the Initial Offering Period will commence on such date as the Administrator may specify, and may or may not follow immediately after the Initial Offering Period ends. Each Offering Period will have only one Purchase Date, which will occur on the payroll date that occurs after last day of each Offering Period.

Preceding each Offering Period there will be an Enrollment Period specified by the Administrator, during which Eligible Employees (determined as of the first date of an Enrollment Period) may elect to become a Participant in the Plan by executing and delivering a payroll deduction authorization in accordance with Section 7 by the last day of an Enrollment Period (the "Enrollment Deadline"). Any Eligible Employee who so elects will thereby become a Participant on the first day of such Offering Period and shall remain a Participant with respect to subsequent Offering Periods until his or her participation is terminated as provided in the Plan.

The Administrator may change the Offering Periods, Purchase Dates, Purchase Price, and Enrollment Periods and may change the duration of any Offering Periods or Enrollment Periods without shareholder approval.

## **Section 6. Option Grant**

Each person who is a Participant on the first day of an Offering Period will automatically be granted as of such day and for such Offering Period an Option entitling the Participant to acquire that number of shares of Stock (which number may include a fractional share) that equals the aggregate amount of his or her withholding account at the end of an Offering Period divided by the Purchase Price, but not more than one hundred (100) shares of Stock (or such other number as the Administrator may prescribe); *provided*, that:

(a) No Participant shall be granted an Option under the Plan who, immediately after the Option is granted would own (or pursuant to Code Section 424(d) would be deemed to own) stock possessing five percent (5%) or more of the total combined voting power or value of all classes of stock of LPL or of its Parent or Subsidiaries, if any; and

(b) No Participant shall be granted an Option under the Plan that would permit his or her rights to purchase shares of Stock under all employee stock purchase plans of LPL and its Parent and Subsidiaries, if any, to accrue at a rate that exceeds \$25,000 (or such other maximum as may be prescribed from time to time by the Code) of the Fair Market Value of such shares of Stock for each calendar year during which any such Option granted to such Participant is outstanding at any time, as determined in accordance with Code Section 423(b)(8).

The Administrator will reduce, on a substantially proportionate basis, the number of shares of Stock purchasable by each Participant upon exercise of his or her Option for an Offering Period in the event that the number of shares of Stock then available under the Plan is insufficient.

## **Section 7. Method of Payment**

Participants must pay for shares of Stock purchased upon exercise of an Option through regular payroll deductions. Each payroll deduction authorization will request withholding at a specified dollar amount per payroll period, subject to such minimum and maximum amounts determined by the Administrator in a manner consistent with the requirements of Section 423(b)(5) of the Code relating to rights and privileges. Withholding will be accomplished by means of payroll deductions from payroll dates relating to payroll periods occurring in the Offering Period. A payroll deduction authorization will remain in effect for subsequent Offering Periods until it is changed or revoked in accordance with this Section 7 or Section 12, as the case may be. A Participant may change his or her withholding rate for subsequent Offering Periods by filing a new payroll deduction authorization with the Administrator during the Enrollment Period for the Offering Period for which the change is to be effective. A Participant may, at any time up to fifteen (15) days prior to the applicable Purchase Date, reduce his or her withholding rate for future payroll periods during an ongoing Offering Period by filing a new payroll deduction authorization with the Administrator; *provided*, such authorization will become effective for the next payroll period beginning after such request as soon as administratively possible after the deduction authorization is received.

All payroll deductions made pursuant to this Section 7 will be credited to a withholding account maintained in the Participant's name on the books of the Company or maintained by the Administrator. Amounts credited to the withholding account will not be required to be set aside in trust or otherwise segregated from the Company's general assets.

## **Section 8. Exercise of Options**

Subject to the limitations set forth below in this Section 8, each Employee who is a Participant in the Plan on the Purchase Date for an Offering Period shall be deemed to have exercised the Option granted to him or her during that Offering Period on the Purchase Date for such Offering Period. Upon such exercise, the Company (or the Administrator) will apply the balance of the Participant's withholding account to the purchase of the number of shares of Stock determined under Section 6 and as soon as practicable thereafter will evidence the transfer of shares of Stock in book-entry.

Any amounts contributed by a Participant or withheld from the Participant's compensation that are not used for the purchase of shares of Stock, whether because of such Participant's withdrawal from participation in an Offering Period or for any other reason, shall be repaid without interest to the Participant or his or her designated beneficiary or legal representative, as applicable, within a reasonable time thereafter.

Notwithstanding any provision of the Plan to the contrary, no Option may be exercised after twenty-seven (27) months from its grant date.

#### **Section 9. Restrictions on Transfer**

By electing to participate in the Plan, each Participant agrees to be subject to the transfer restrictions set forth in this Section 9.

All shares of Stock purchased under the Plan will be subject to a restriction prohibiting the transfer of such shares of Stock from the account where such shares of Stock are initially held until such shares are sold through the Plan's custodian and record keeper. For the avoidance of doubt, this restriction will remain in effect following the termination of a Participant's employment with the Company.

#### **Section 10. Interest**

No interest shall be payable on withholding accounts.

#### **Section 11. Taxes**

Payroll deductions shall be made on an after-tax basis. The Administrator shall have the right, as a condition to exercising an Option, to make such provision as it deems necessary to satisfy its obligations to withhold federal, state, local income or other taxes incurred by reason of the purchase or disposition of shares of Stock under the Plan. In the Administrator's discretion and subject to applicable law, such tax obligations may be paid in whole or in part by delivery of shares of Stock to the Company, including shares of Stock purchased under the Plan, valued at Fair Market Value. The Administrator may, to the extent permitted by law, deduct any tax obligations from any payment of any kind due to the Participant.

#### **Section 12. Cancellation and Withdrawal**

A Participant who holds an Option under the Plan may, at any time up to fifteen (15) days prior to the applicable Purchase Date, cancel all (but not less than all) of his or her Option by written notice delivered to the Administrator. Upon such cancellation, the balance in the Participant's withholding account shall be returned to the Participant without interest.

A Participant may terminate his or her payroll deduction authorization in accordance with Section 7. Any Participant who voluntarily terminates his or her payroll deduction authorization at any time up to fifteen (15) days prior to the applicable Purchase Date will be deemed to have canceled his or her Option; *provided*, that a Participant who reduces his or her withholding rate for future payroll periods to zero pursuant to Section 7, but does not elect to revoke his or her payroll deduction authorization, will not be deemed to have canceled his or her Option.

A Participant who makes a hardship withdrawal from a 401(k) Plan will be deemed to have terminated his or her payroll deduction authorization for subsequent payroll dates relating to the then current Offering Period as of the date of such hardship withdrawal.

#### **Section 13. Termination of Employment; Death of Participant**

Upon the termination of a Participant's employment with the Company for any reason or the death of a Participant during an Offering Period prior to a Purchase Date, the Participant will cease to be a Participant, any Option held by him or her under the Plan will be deemed canceled, the balance of his or her withholding account will be returned to the Participant (or his or her estate or designated beneficiary in the event of the Participant's death) without interest, and he or she will have no further rights under the Plan.

#### **Section 14. Equal Rights; Participant's Rights Not Transferable**

All Participants granted Options under the Plan shall have the same rights and privileges. Any Option granted under the Plan will be exercisable during the Participant's lifetime only by him or her and may not be sold, pledged, assigned, or transferred in any manner. In the event any Participant violates or attempts to violate the terms of this Section 14, as determined by the Company in its sole discretion, any Options held by him or her may be terminated by the Company and, upon return to the Participant of the balance of his or her withholding account without interest, all of the Participant's rights under the Plan will terminate.

#### **Section 15. Change in Capitalization; Merger**

In the event of any change in the outstanding Stock by reason of a stock dividend, split-up, recapitalization, merger, consolidation, reorganization, or other capital change, the aggregate number and type of shares of Stock available under the Plan, the number and type of shares of Stock under any Options granted but not exercised, the maximum number and type of shares of Stock purchasable under an Option, and the Purchase Price will be appropriately adjusted; *provided*, that no such adjustment shall be made unless the Company is satisfied that it will not constitute a modification of the rights granted under the Plan or otherwise disqualify the Plan as an employee stock purchase plan under the provisions of Code Section 423 and any regulations thereunder.

In the event of a sale of all or substantially all of the Stock or a sale of all or substantially all of the assets of LPL, or a merger or similar transaction in which LPL is not the surviving corporation or which results in the acquisition of LPL by another person, the Administrator may, in its discretion, (a) if LPL is merged with or acquired by another corporation, provide that each outstanding Option will be assumed or a substitute Option granted by the acquiror or successor corporation or a parent or subsidiary of the acquiror or successor corporation, (b) cancel each Option and return the balances in Participants' withholding accounts to the Participants, and/or (c) pursuant to Section 17, end the Offering Period on or before the date of the proposed sale or merger.

#### **Section 16. Administration of Plan**

The Plan will be administered by the Administrator, which will have the right to determine any questions which may arise regarding the interpretation and application of the provisions of the Plan and to make, administer, and interpret such rules and regulations as it will deem necessary or advisable.

The Administrator may specify the manner in which Employees are to provide notices and payroll deduction authorizations. Notwithstanding any requirement of "written notice" herein, the Administrator may permit Employees to provide notices and payroll deduction authorizations electronically.

#### **Section 17. Amendment and Termination of Plan**

LPL reserves the right at any time or times to amend the Plan to any extent and in any manner it may deem advisable, by action of the Board; *provided*, that any amendment that would be treated as the adoption of a new plan for purposes of Code Section 423 and the regulations thereunder will have no force or effect unless approved by the shareholders of LPL within twelve (12) months before or after its adoption.

The Plan may be suspended or terminated at any time by LPL, by action of the Board. In connection therewith, the Board may provide, in its sole discretion, either that outstanding Options will be exercisable either at the Purchase Date for the applicable Offering Period or on such earlier date as the Board may specify (in which case such earlier date will be treated as the Purchase Date for the applicable Offering Period), or that the balance of each Participant's withholding account shall be returned to the Participant without interest.

#### **Section 18. Approvals**

Shareholder approval of the Plan, as originally adopted by the Board on July 30, 2012, was obtained on May 8, 2013.

Notwithstanding anything herein to the contrary, LPL's obligation to issue and deliver shares of Stock under the Plan will be subject to the approval required of any governmental authority in connection with the authorization, issuance, sale or transfer of said shares of Stock, to any requirements of any national securities exchange applicable thereto, and to compliance by the Company with other applicable legal requirements in effect from time to time.

**Section 19. Participants' Rights as Shareholders and Employees**

A Participant shall have no rights or privileges as a shareholder of LPL and shall not receive any dividends in respect of any shares of Stock covered by an Option granted hereunder until such Option has been exercised, full payment has been made for such shares of Stock, and the shares of Stock have been issued.

Nothing contained in the provisions of the Plan will be construed as giving to any Employee the right to be retained in the employ of the Company or as interfering with the right of the Company to discharge, promote, demote or otherwise re-assign any Employee from one position to another within the Company at any time.

**Section 20. Governing Law**

Subject to overriding federal law, the Plan shall be governed by and interpreted consistently with the laws of the State of Delaware.

**Section 21. Effective Date and Term**

This Plan originally became effective on July 30, 2012. This Plan, as amended and restated, became effective as of July 26, 2019.

No rights shall be granted hereunder after the earliest to occur of (a) the Plan's termination by LPL, (b) the issuance of all shares of Stock available for issuance under the Plan or (c) the day before the ten year anniversary of the date the Board approves the Plan.

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**EXHIBIT A**  
**Definition of Terms**

The following terms, when used in the Plan, will have the meanings and be subject to the provisions set forth below:

**“401(k) Plan”:** A savings plan qualifying under Code Section 401(k) that is sponsored by the Company for the benefit of its employees.

**“Account Shares”:** Shares of Stock (including fractional shares) acquired in accordance with the terms of the Plan, which are held in an account maintained by the Plan’s custodian and record keeper.

**“Administrator”:** The Compensation and Human Resources Committee of the Board and its delegates, except that the Committee may delegate its authority under the Plan to a sub-committee comprised of one or more of its members, members of the Board, or officers or employees of the Company. In each case references herein to the Administrator shall refer, as applicable, to such persons or groups so delegated to the extent of such delegation.

**“Board”:** The Board of Directors of LPL.

**“Code”:** The U.S. Internal Revenue Code of 1986 as from time to time amended and in effect, or any successor statute as from time to time in effect.

**“Company”:** LPL Financial Holdings Inc. and any of its Subsidiaries that have been designated by the Board to participate in the Plan.

**“Effective Date”:** The date set forth in Section 21 of the Plan.

**“Eligible Employee”:** Any Employee who meets the eligibility requirements set forth in Section 4 of the Plan.

**“Employee”:** Any person who is employed by the Company. For the avoidance of doubt, independent consultants and independent contractors are not “Employees.”

**“Enrollment Deadline”:** The last day of an Enrollment Period.

**“Enrollment Period”:** The period preceding each Offering Period, as specified by the Administrator, during which an Eligible Employee for such Offering Period may elect to participate in the Plan.

**“Exchange Act”:** The Securities Exchange Act of 1934, as from time to time amended and in effect, or any successor statute as from time to time in effect.

**“Fair Market Value”:**

(a) If the Stock is readily traded on an established national exchange or trading system (including the Nasdaq Global Market), the closing price of the Stock as reported by the principal exchange on which such Stock is traded for; *provided*, that if such day is not a trading day, Fair Market Value will mean the reported closing price of the Stock for the next preceding day which is a trading day.

(b) If the Stock is not traded on an established national exchange or trading system, the average of the bid and ask prices for such Stock where the bid and ask prices are quoted.

(c) If the Stock cannot be valued pursuant to clauses (a) or (b), the value as determined in good faith by the Board in its sole discretion.

**“Initial Offering Period”:** The first Offering Period after the Effective Date, commencing on a date to be specified by the Administrator.

**“LPL”:** LPL Financial Holdings Inc.

**“Option”:** An option granted pursuant to the Plan entitling the holder to acquire shares of Stock upon payment of the Purchase Price.

**“Offering Period”:** An offering period established in accordance with Section 5.

**“Parent”:** As defined in Code Section 424(e).

**“Participant”:** An Eligible Employee who elects to enroll in the Plan.

**“Plan”:** The LPL Financial Holdings Inc. 2012 Employee Stock Purchase Plan as from time to time amended and in effect.

**“Purchase Date”:** The date designated by the Administrator with respect to a particular Offering Period on which a Participant shall be deemed to have exercised the Option granted to him or her for such Offering Period.

**“Purchase Price”:** The lower of (a) the Fair Market Value of a share of Stock on the date on which the Option was granted pursuant to Section 6 and (b) the Fair Market Value of a share of Stock on the date on which the Option is deemed exercised pursuant to Section 8, in each case multiplied by a specified discount. The initial specified discount shall be fifteen percent (15%) and may be changed from time to time by the Administrator, provided the specified discount may never be greater than fifteen percent (15%).

**“Stock”:** Common Stock of LPL, par value \$0.001 per share.

**“Subsidiary”:** Any corporation that would be treated as a subsidiary of LPL under Section 424(f) of the Code.

**Subsidiaries of Registrant**

<b>Subsidiary</b>	<b>Entity Name</b>	<b>Jurisdiction of Incorporation</b>	<b>Name Under Which the Subsidiary Does Business</b>
1.	LPL Holdings, Inc.**	Massachusetts	LPL
2.	PTC Holdings, Inc.**	Ohio	PTC
3.	The Private Trust Company, N.A.	Ohio	PTC
4.	LPL Financial LLC	California	LPL, LPL Financial
5.	LPL Insurance Associates, Inc.	Delaware	LPL, LPL Financial
6.	Fortigent Holdings Company, Inc.**	Maryland	Fortigent, LPL, LPL Financial
7.	Fortigent, LLC	Maryland	Fortigent, LPL, LPL Financial
8.	AW Subsidiary, Inc.**	Delaware	AW Subsidiary
9.	AdvisoryWorld	California	AdvisoryWorld
10.	LPL Employee Services, LLC**	Delaware	LPL Employee Services
11.	Allen & Company of Florida, LLC	Delaware	Allen & Company of Florida
12.	Blaze Portfolio Systems LLC	Illinois	Blaze

\* All subsidiaries are wholly owned, directly or indirectly, by the Registrant.

\*\* Holding companies.

**2020 CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-151437, 333-172866, 333-183541 and 333-209730 on Form S-8 of our reports dated February 23, 2021, relating to the consolidated financial statements of LPL Financial Holdings Inc. and subsidiaries, and the effectiveness of LPL Financial Holdings Inc. and subsidiaries internal control over financial reporting, appearing in this Annual Report on Form 10-K of LPL Financial Holdings Inc. for the year ended December 31, 2020.

/s/ DELOITTE & TOUCHE LLP

San Diego, California  
February 23, 2021

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER**

I, Dan H. Arnold, certify that:

1. I have reviewed this Annual Report on Form 10-K of LPL Financial Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2021

/s/ Dan H. Arnold

Dan H. Arnold

*President and Chief Executive Officer  
(principal executive officer)*

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER**

I, Matthew J. Audette, certify that:

1. I have reviewed this Annual Report on Form 10-K of LPL Financial Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 23, 2021

/s/ Matthew J. Audette

Matthew J. Audette  
*Chief Financial Officer  
(principal financial officer)*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of LPL Financial Holdings Inc. (the "Company") for the period ending December 31, 2020 as filed with the Securities and Exchange Commission ("SEC") on the date hereof (the "Report"), I, Dan H. Arnold, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: February 23, 2021

/s/ Dan H. Arnold

Dan H. Arnold  
*President and Chief Executive Officer*

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K of LPL Financial Holdings Inc. (the "Company") for the period ending December 31, 2020 as filed with the Securities and Exchange Commission ("SEC") on the date hereof (the "Report"), I, Matthew J. Audette, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

- 1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: February 23, 2021

/s/ Matthew J. Audette

Matthew J. Audette  
*Chief Financial Officer*