

LPL Financial: Organizational Strength

The unprecedented events of 2008 and the ongoing market volatility of 2009 have raised serious questions about the stability of several well-known financial services organizations. At times like these, it is natural you might have concerns about the financial strength of the firm that supports our business, LPL Financial (LPL). Although this has been a difficult time for many in our industry, LPL remains financially sound and continues to maintain the strongest commitment to providing resources and support that helps us serve the needs of you, our clients. To help address a few of the questions you may have, we would like to share with you some information about the firm's business model, its financial performance and liquidity position, the steps LPL takes to help protect clients accounts, how we are regulated, and how LPL assesses risk from other parties with which it does business.

Business model

LPL provides our practice with technology, brokerage, and investment advisory services. We are their customers, and we, in turn, serve you as our client. LPL offers our practice access to a broad array of financial products and services to support us in providing financial advice and brokerage services to retail investors. Financial advisors and institutions are their only customers, and LPL does not market directly to investors.

Unlike traditional brokerage firms, which combine product distribution and product manufacturing, LPL operates on a conflict-free open architecture product platform with no proprietary investment products. Their research department provides financial advisors with objective analysis on financial products, asset allocation strategies, and economic conditions. As a result, we are able to recommend products selected on the basis of our clients' financial needs and objectives, without being influenced by any product manufacturing bias.

In addition, LPL does not engage in the business practices of investment banks or provide other alternative financial services. LPL also does not engage in market-making activities trading out of its own inventory, which means the firm does not hold any securities on its balance sheet that are open to market risk. It does not have exposure to mortgage-related investments or securities, nor does it provide loans to hedge funds or other speculators.

Financial performance and liquidity position

Based in part on the scalability of the LPL platform and the fact that the vast majority of the financial advisors supported by LPL are independent contractors, a significant portion of their operating expense is directly tied to revenue performance. As a result, since 1990, LPL has not posted a loss in earnings regardless of market conditions, remaining profitable since its formation 20 years ago. The firm's revenue is derived through over 7,000 business relationships, including relationships with financial advisors, banks, credit unions, investment companies, insurance carriers, and other financial institutions. No single business relationship accounts for more than 1.75% of LPL's revenue.

The Financial Industry Regulatory Authority (FINRA), our industry's regulatory body, mandates that all broker/dealers must maintain net capital equal to or in excess of the minimum regulatory requirement to provide a level of conform in the firm's ability to meet its financial

obligations and support its business. As of December 31, 2008, LPL was required to have a minimum net capital of \$10.6 mm. At year-end, it has \$108.7 mm in net capital, resulting in excess capital of \$98.1 mm, or 10 times the requirement.

Like many financial services firms, LPL carries debt on its balance sheet. LPL is currently in compliance with all of its lender debt covenants. In addition, due to the growth of the firm and decline in its credit risk since incurring the debt, LPL received two ratings upgrades in the last four months of 2008. Moody's upgraded the LPL debt rating on September 5, and Standard and Poor's raised its rating for LPL on November 4.

LPL has two operating lines of credit, which provide liquidity to the firm. This is in addition to cash held on the balance sheet. Therefore, LPL believes the total liquidity of the firm is sufficient for its capital needs. As a result, LPL has had no need for any capital infusions to maintain its business functions, and the firm has not participated in any federal relief programs related to recent financial events, including the Troubled Asset Relief Program (TARP).

Client account protection

LPL is a member firm of the Securities Investor Protection Corporation (SIPC). Membership provides account protection up to a maximum of \$500,000 per client, of which \$100,000 may be in cash. For an explanatory brochure, please visit www.sipc.org. Additionally, through Lloyds of London, LPL accounts have additional securities coverage to cover the net equity of client accounts up to an overall aggregate firm limit of \$750,000,000 subject to conditions and limitations. The account protection applies when a SIPC member firm fails financially and is unable to meet its obligations to securities clients, but it does not protect against losses from the rise and fall in the market value of investments. This extensive coverage reflects a strong commitment to serving your investment needs.

Regulation

The financial securities industry is subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges, as well as by non-government agencies, regulatory bodies, and securities exchanges. LPL takes an active leadership role in the development of the rules and regulations that govern our industry. Given the recent turmoil in the financial services industry, we anticipate continued heightened scrutiny and significant modifications in these rules and regulations, and we expect LPL to be at the forefront of this change. Throughout its history, LPL has invested heavily, with the benefit of its scale, in compliance capabilities to monitor our compliance with the numerous legal and regulatory requirements applicable to our business.

Counter- party risk assessment

LPL its enterprise risk management group to routinely examine the health of business partners with which LPL Financial has relationships in order to assess risk to both ourselves and our customers. This process includes reviewing forward-looking measures of counter-party risk. When necessary, steps are taken to limit potential risks.

We hope this information addresses any questions or concerns you may have about our broker/dealer organization. Thank you for the opportunity to serve your financial needs and as always, thank you for your business.

Dean, Jacobson Financial Services, LLC

Securities offered through LPL Financial, Member FINRA/SIPC.

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This statement includes certain forward-looking statements provided by LPL Financial with respect to the anticipated future performance of the Company. Such forward-looking statements reflect various assumptions of management concerning the future performance of the Company and are subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond the control of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as the date hereof. There can be no assurance that such forward-looking statements will be realized. The actual results may vary from the anticipated results and such variations may be material. No representations or warranties are made as to the accuracy or reasonableness of such assumptions or forward-looking statements based thereon.