

LPL Investment Holdings Inc.
Form 10-K
March 31, 2008

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2007

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

**For the transition period from _____ to _____
Commission file number 000-52609**

LPL Investment Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

20-3717839
(I.R.S. Employer
Identification No.)

One Beacon Street, Floor 22, Boston, MA 02108
(Address of principal executive offices including zip code)

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

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

Securities registered pursuant to Section 12(g) of the Act:
Bonus Credits to Purchase Common Stock, par value \$0.001 per share

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been

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subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

The aggregate market value of the registrant's voting stock held by non-affiliates is zero. The registrant is a privately held corporation.

The number of shares of common stock, par value \$0.001 per share, outstanding as of December 31, 2007 was 86,249,611.90.

DOCUMENTS INCORPORATED BY REFERENCE

None.

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Where You Can Find More Information

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

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

Special Note Regarding Forward-Looking Statements

This Annual Report on Form 10-K in Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and in other sections includes forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "intend" or "continue", the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include expectations as to our future financial performance, which in some cases may be based on our growth strategies and anticipated trends in our business. These statements are based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks outlined in Part I, Item 1A "Risk Factors" on page 21.

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

PART I

ITEM 1. BUSINESS

Our Business

We are a leading provider of technology and infrastructure services to independent financial advisors ("IFAs") and to financial institutions who employ financial advisors ("Financial Institutions") (collectively, IFAs and financial advisors employed at or otherwise affiliated with Financial Institutions are defined as "FAs"). As of December 31, 2007, we provided our services to over 11,000 licensed FAs in over 5,400 branch offices. In addition, our subsidiary, LPL Financial Corporation ("LPL"), has been ranked as the largest independent broker-dealer in the United States for each of the past 12 years based on total revenues by an industry publication. We provide access to a broad array of financial products and services for our FAs to market to their clients, as well as extensive training and a comprehensive technology and service platform to enable our FAs to more efficiently operate their business. Our strategy is to build long-term relationships with our IFAs and Financial Institutions by offering innovative technologies, training and high-quality services that will enable them to grow their client base.

We believe that our substantial scale enables us to offer our IFAs and Financial Institutions industry leading products and services together with attractive economics. In addition, unlike traditional brokerage firms which combine product distribution and product manufacturing within a single company, we operate on an open architecture product platform with independent research on a vast number of investments and no proprietary investment products. Through our research department, FAs have access to independent research on mutual funds, separate accounts, annuities, alternative investments, fixed-income securities, asset allocation strategies, financial markets and the economy. As a consequence, we believe IFAs and Financial Institutions are able to recommend products selected on the basis of their clients' financial needs and objectives, without being influenced by potential product manufacturing bias.

The core of our strategy is to build technologies that enable our IFAs and Financial Institutions to more profitably manage the complexity of their business. We view our IFAs and Financial Institutions as partners and work with them to best understand their operating environment. This approach, developed over more than 20 years of servicing, is integral to our culture and to our initiatives.

We provide our IFAs with access to a platform of non-proprietary, high-quality products for their clients ("Independent Advisor Services"). Our IFAs exclusively use our platform for all the brokerage and fee-based advisory services they offer. These IFAs are licensed with us, but they are independent contractors who maintain their own office and general support staff. Our IFAs generally have many years of industry experience and generally join us from other brokerage institutions, including wirehouses, regional broker-dealers, banks, insurance companies, and other independent broker-dealers.

On June 20, 2007 we acquired from Pacific Life Insurance Company all of the outstanding membership interests of Pacific Select Group, LLC and its wholly owned subsidiaries: Mutual Service Corporation ("MSC"), Associated Financial Group, Inc. ("AFG") and Waterstone Financial Group, Inc. ("WFG") (collectively, the "Affiliated Broker-Dealers"). In connection with the acquisition, Pacific Select Group, LLC changed its name to LPL Independent Advisor Services Group LLC ("IASG").

We believe we are one of the nation's largest providers of independent, non-proprietary, third-party investment services to banks and credit unions ("Institution Services"). We have provided investment programs to banks, thrift institutions and credit unions since the early 1990s.

On January 2, 2007, we acquired UVEST Financial Services Group, Inc. ("UVEST"). Headquartered in Charlotte, North Carolina, UVEST offers investment and insurance programs to

community and regional banks and credit unions. We believe that the combination of UVEST's service, expertise and experienced management, together with our scale and broad array of products and services, allows us to offer the most comprehensive third-party, non-proprietary financial advisory services and programs to our financial institution clients.

On November 7, 2007, we acquired IFMG Securities, Inc., Independent Financial Marketing Group, Inc. and LSC Insurance Agency of Arizona, Inc. (collectively "IFMG") from Sun Life Financial (U.S.) Holdings, Inc. This acquisition further expands our reach in offering financial services through banks, savings and loan institutions, and credit unions nationwide.

We recently expanded our services by offering clearing, custody and other services specifically to large financial institutions, including insurance companies ("Custom Clearing Services"). Our Custom Clearing Services include full service broker-dealer functions for an organization. We provide a state-of-the-art, fully integrated, and compliant front-middle-and back office technology platform designed with the specific institution's clearing needs in mind. Our Custom Clearing Services boast high touch service, objective research, and best-in-class training to allow institutions to increase financial advisor productivity, lower development and operating costs, and complement risk management procedures.

Overview of Support Services

We offer support for our business through Broker-Dealer Support Services, Corporate Shared Services and Business Technology Services.

Broker-Dealer Support Services

The Broker-Dealer Support Services ("BDSS") group is responsible for providing integrated operations and services support to our business. The BDSS group combines our operations, service center, trading, commission, and transition services group into a single enterprise support team. The BDSS teams are organized specific to the needs of our business segments and have dedicated management and staff to support the operational and service functions of our segments.

Corporate Shared Services

The Corporate Shared Services group serves the entire organization, providing a set of functions and support that bring consistency across our diverse business. This group includes organizational strategy, finance, legal, human capital, product development, risk management, research and corporate marketing.

Business Technology Services

The Business Technology Services group ("BTS") provides expertise in technology development and support for our entire organization. BTS is organized into six core service teams: branch products systems, home office systems, quality assurance, technology strategy, data center, and business technology services governance. Together, these teams ensure that we are using leading technology processes and standards to grow our business and meet the changing needs of FAs.

The six teams work jointly to deliver the following services:

Independent Advisor Financial Platform Development & Support. Our web-based platform provides a broad base of financial planning and management functionality, from full access to all account data and streamlining operations, to extensive research information and sales and prospecting presentations.

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Internal Business Applications Development & Support. We have numerous business applications which offer automation and information sharing to the LPL business partners in service center, operations, compliance, finance, research, corporate and product marketing, and branch development areas.

Project Administration & Management. While supporting the growth of LPL, BTS project planning and management offers firm-wide teamwork for executing and delivering projects on schedule and on budget.

Desktop Support & Telecommunications. BTS provides voice and conference services, work order support, and departmental relocation services to the entire organization.

Business Continuity/Disaster Recovery. BTS develops disaster-prevention and business contingency plans for the information systems that are a part of our mission-critical functions.

Technology & Process Standards. BTS maintains ongoing focus on process improvement and competitive market assessments to ensure best process practices and new technology standards and opportunities are incorporated into both the strategic planning and daily execution of the business.

A History of Creative Growth

Innovative Service

LPL has been offering innovative service, programs, and technology solutions to our IFAs and Financial Institutions for almost 20 years. In 1991, LPL launched Strategic Asset Management ("SAM"). This has been followed by other advisory platforms such as Manager Select, Optimum Market Portfolios and Personal Wealth Portfolios. As of December 31, 2007, the total assets in these programs exceeded \$74.62 billion, making us the eighth largest (based on assets) provider of advisory services in the financial service industry as of that date.

In 2000, LPL became self-clearing. The primary benefits of moving to self-clearing were to speed up processing, improve service, reduce costs and otherwise provide business efficiencies. Self-clearing has also enabled us to create increasingly robust investment advisory programs. For example, control over trade execution and access to trade data in our self-clearing environment allowed us to develop our asset allocation models used across a wide range of investment programs. Our investment advisory platforms incorporate mutual funds and separate accounts managed by leading third-party asset managers, individual securities and alternative asset classes. The comprehensive and automated nature of the platforms have made it attractive for many of our IFAs and Financial Institutions to "outsource" investment management to us allowing the IFAs and Financial Institutions to dedicate a majority of their time building relationships and helping clients meet their goals.

LPL's self-clearing capability also enables us to offer technology services to other financial service providers. Through our Custom Clearing Services we are able to tailor clearing services to the individual needs of financial service providers.

Technology Services

Throughout our history, we have believed that robust technology solutions are vital to our IFAs and Financial Institutions efficiency and productivity. To illustrate our belief, in 1997 LPL launched BranchNet, our proprietary branch-level processing and business management platform. BranchNet enables our IFAs and Financial Institutions to automate time consuming processes such as opening and managing accounts, executing transactions and rebalancing accounts. In addition to our basic BranchNet package, many of our IFAs and Financial Institutions subscribe to premium features such as performance reporting, financial planning and customized websites. We have continuously invested in

upgrading BranchNet. For example, in 2006 we added a new branch office document imaging capability. In 2007 we made several improvements to BranchNet including the addition of iDoc (which offers advisors imaging services for all business documents) and the OSJ Review Tool (which automates daily, weekly and monthly supervision and review tasks for branch managers and principals).

In addition to providing our IFAs and Financial Institutions with technology solutions, we have undertaken a long-term home office platform initiative to provide an innovative interface and work flow for our employees, including system transparency for all key business managers. We believe that creating a more flexible technological environment for our own employees will be a critical component in supporting our future growth.

Our Scalable Platform

We have invested significantly in the development of our core operating and technology platforms and intend to continue to do so in the future. We believe that we are well-positioned to enjoy the benefits of platform scalability, which will allow us to add IFAs and Financial Institutions without significant incremental costs. For example, we added a significant number of IFAs through our acquisition of the Affiliated Broker-Dealers. As a result, our revenue and earnings growth is driven primarily by the growth in total advisors and growth in the revenue and profitability of their practices. To the extent our scale enables us to reduce costs and incrementally increase profitability, we are in a position to share some of those benefits with FAs.

Our scale has allowed us to expand our research capabilities. The wide array of expert commentary, research and recommendations our research group provides to our IFAs and Financial Institutions allows FAs to reduce time and resources dedicated to implementing asset allocation strategies and to research.

Our scale also allows us to invest substantial resources in training programs in order to assist our IFAs and Financial Institutions to enhance their profitability. We offer extensive, nationwide training on topics including platforms, technology, marketing and practice management, among others. We also provide a comprehensive online library of training modules.

Our Competitive Strengths

Leading Market Position

LPL has been ranked as the largest independent broker-dealer in the United States for the past twelve years as measured by total revenues by an industry publication. As of December 31, 2007, LPL, UVEST, IFMG Securities, Inc. and the Affiliated Broker-Dealers (collectively the "Broker-Dealer Entities") had approximately 11,000 FAs and approximately \$183.4 billion in assets networked and under administration. Our scale has allowed us to invest substantial resources in our technology and service infrastructure, product platforms and compliance systems. As a result, we believe we offer a market leading value proposition that enables us to attract and retain experienced and productive FAs.

FA and Financial Institution Focused Culture

We believe that a key element of our success has been our unique corporate culture which focuses on improving the underlying businesses of our FAs and, in applicable circumstances, the Financial Institutions. While other brokerage firms also devote significant resources to their efforts in product manufacturing, investment banking or proprietary trading, our primary focus for over 20 years has been and continues to be our FAs and our Financial Institutions. As a result of this unconflicted focus on FAs and Financial Institutions, we believe our retention rates are among the highest in the industry.

We believe our Independent Advisor Services branch development staff is one of the most capable among all independent broker-dealers in the United States and recruits from a broader variety of

sources including wirehouses, regional broker-dealers, banks, insurance companies, and other independent broker-dealers than our competitors.

Attractive Value Proposition for IFAs

We believe the combination of our attractive payout structure with our market leading product and service platform enables our IFAs to earn more income per dollar of commissions and fees than IFAs with other firms. Like other independent broker-dealers, we pay a greater share of brokerage commissions and advisory fees to our IFAs than employee-based broker-dealers. While IFAs licensed through independent broker-dealers must pay for their own office expenses, we believe that for most IFAs, the higher payouts more than offset these incremental costs, enabling them to increase their take-home pay. In addition, unlike employees of wirehouses or regional broker-dealers, IFAs can build substantial equity value in their practices. We believe the combination of higher net payouts and the ability to build equity value make the independent model more attractive for many IFAs. Furthermore, among independent broker-dealers, we believe our comprehensive product and service platform enables our IFAs to operate their businesses at a lower cost. For example, BranchNet, our proprietary advisor software available for IFAs on our LPL clearing platform, enables our IFAs to automate time consuming processes such as opening and managing accounts, executing transactions, maintaining books and records and rebalancing accounts.

In addition to offering attractive economics to our IFAs, we believe we enable our IFAs to more effectively serve their clients. For example, our open architecture platform and research offering enable our IFAs to make unbiased, informed recommendations to their clients across a broad array of products and services. We also offer our IFAs the largest fee-based advisory platform among all independent broker-dealers (as measured by assets), an offering that addresses increasing client demand for fee-based advisory services.

Attractive Value Proposition for Financial Institutions

In addition to having access to many of the products, services and research that is available to the IFAs, we believe that we are able to provide additional value to Financial Institutions that have elected to use us as their service provider. We offer Financial Institutions the flexibility to either have their trades cleared through LPL or through a certain third-party clearing firm. We believe that we can offer Financial Institutions industry-leading training, marketing materials, compliance expertise, and platform program management. We also offer specific Financial Institution-only conferences throughout the year to provide our Financial Institutions with in-person training, recognition, and the opportunity to consult with their peers. We believe we were able to increase our expertise in this area through the acquisition of UVEST on January 2, 2007 and Independent Financial Marketing Group, Inc. on November 7, 2007. Both broker-dealers are focused exclusively on the financial institutions marketplace and have increased the number of financial institutions that LPL services to 850.

Diverse, Stable and Profitable Business

Diversified Revenue

As of December 31, 2007, no single IFA or branch office accounted for more than 1% of our revenues. In addition, we have a geographically diverse national presence with IFAs in all 50 states and the District of Columbia.

In addition, our Institution Services and Custom Clearing Services have created opportunities for us to garner significant revenue from servicing other broker-dealers under a wide range of business models. These opportunities exist along a spectrum that runs from providing complete investment programs to smaller financial institutions to providing some combination of front-end processing and back office technology to larger financial services firms.

Business Stability

Our recurring revenues include, among others, advisory fees charged to clients, asset-based fees, 12b-1 fees, fees related to our cash sweep programs, interest earned on margin accounts, and technology and service fees charged to our IFAs. We believe these revenue sources are more stable and less dependent on market conditions than transaction-related commissions. The proportion of our total revenue that is recurring has grown significantly, from approximately 46.0% for the year ended December 31, 2000 to 59.4% for the year ended December 31, 2007.

In addition, the stability of our business is further enhanced by our limited reliance on margin lending. For the year ended December 31, 2007, interest from margin lending represented only 1.0% of our total revenue.

Controllable and Scaleable Cost Structure

In contrast to a traditional employee-based model, our IFAs are independent contractors who bear their own office and related expenses. As a result, we manage a flexible and controllable cost structure in which 74.2% of our costs are production-related (commissions and advisory fees and brokerage, clearing and exchange costs) expenses (substantially all of which are variable) and 9.9% of the remaining costs are personnel related (compensation and benefits) as measured for the year ended December 31, 2007. As a result, we have been able to profitably manage our business through challenging market conditions in the past.

In addition, we have invested significantly in the development of our core operating and technology platforms and intend to continue to invest in and enhance our platforms in the future. We believe that we are well-positioned to enjoy the benefits of platform scalability, which will allow us to add IFAs and financial institutions without significant incremental costs.

Strong Growth Model

We have a long history of successfully growing our business. From the year ended December 31, 1997 through the year ended December 31, 2007, we grew our revenue at a compound annual growth rate ("CAGR") of 22.3%.

Sales Growth from Newly Recruited IFAs and Mature IFAs

We typically recruit experienced IFAs who were previously licensed with other broker-dealers and have established client bases of their own. As a result, newly recruited IFAs are initially focused on transitioning client assets from their prior firms to us. We expect newly recruited IFAs to return to the approximate production levels they achieved with their prior firms within three years of joining us. As a result, a significant portion of our near term revenue growth in a given year is driven by the size of the recruiting classes and the growth in mature practices. One way we measure the growth of our IFAs is through our definition of mature advisor growth ("MAG"). Mature advisors are those that have been with us for at least three years and who are still active at the end of the calendar year. MAG is a measure of this subset of IFAs' year-over-year change in total production. For the year ended December 31, 2007, MAG was approximately 21.9% over the previous year ended December 31, 2006.

We have also been able to increase the number of our IFAs through acquisitions, such as our acquisition of the Affiliated Broker-Dealers on June 20, 2007.

A substantial portion of our long-term growth is driven by our ability to recruit and retain new IFAs. We have made a strong organizational commitment to the recruitment process. On December 31, 2007, the number of IFAs licensed with us had grown to 11,089, a 58.3% increase over 2006. In addition, we have been successful at retaining our most productive IFAs.

Sales Growth from Institution Services

We provide our product and service platform to financial advisors associated with over 850 independent financial service providers nationwide, including within banks, thrift institutions and credit unions. We work with independent financial service providers under three basic platforms one in which financial advisors are employed by Financial Institutions, one in which IFAs operate independent practices located on the premises of financial institutions, and one in which the financial advisors are employees of LPL and are located on the premises of financial institutions. We have dedicated compliance and legal resources to address the various sales practice and regulatory issues that are associated with operating non-deposit investment programs on-site at independent financial service providers. For the year ended December 31, 2007, approximately 15.4% of our commission and advisory revenue was generated from the IFAs associated with independent financial service providers.

On January 2, 2007, we acquired all of the outstanding capital stock of UVEST, which provides independent third-party brokerage services to financial institutions.

On November 7, 2007 we acquired IFMG from Sun Life Financial (U.S.) Holdings, Inc., which expands our reach in offering financial services through banks, savings and loan institutions, and credit unions nationwide.

The FA market remains large, fragmented and growing. We believe there is a large addressable pool of FAs from which we can recruit. We expect to capitalize on this market opportunity by leveraging our strong reputation and recruiting infrastructure to continue to grow our recruiting classes. Given the scale of our operations, we have historically been able to add new FAs at an attractive return on capital. We also believe that with the expertise gained through the UVEST and IFMG transactions we will be able to continue to recruit Financial Institutions.

Sales Growth from Custom Clearing Services

We believe that our Custom Clearing Services will provide us with an additional source of revenue. Through our Custom Clearing Services, we provide full service broker-dealer services to select institutions. For example, in 2006, we entered into agreements with a large, global insurance company pursuant to which we agreed to (1) provide brokerage, clearing and custody services on a fully disclosed basis; (2) offer our investment advisory programs and platforms; and (3) provide technology and additional processing and related services to its financial advisors and customers.

Experienced and Committed Management Team

Our senior management team has an average of approximately 10 years of experience with us and extensive experience in the industry. The management team and our IFAs currently own approximately 27% of our company on a fully diluted basis.

Our Business Strategies

Increase the Number of our IFAs and Financial Institutions Who Employ Financial Advisors

Recruiting and retaining IFAs and Financial Institutions is critical to achieving our growth objectives. We believe our recruiting staff is one of the most capable among independent broker-dealers, and that our geographically diverse, hands-on recruiting capabilities are unparalleled. We have built a strong reputation among IFAs and Financial Institutions in the United States, ensuring that FAs who contemplate a migration to the independent model strongly consider us. We continue to leverage our strong market position to identify, screen, and add experienced and productive FAs.

We continue to improve our attractive value proposition to IFAs and Financial Institutions to maintain our strong track record in retaining FAs.

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In addition to our recruiting efforts, we also increase our IFAs through strategic acquisitions, such as our acquisition of the Affiliated Broker-Dealers.

Continue To Improve Our Service Infrastructure to Enable Our IFAs and Financial Institutions to Continue to Grow Their Businesses

We focus on further developing infrastructure and services to enable our IFAs and Financial Institutions to capitalize on market opportunities and deepen their existing client relationships. For instance, we have expanded our initial service capabilities to provide insurance and trust services. We believe our service offering is now among the broadest in the industry and should allow our IFAs and Financial Institutions to capture a greater share of their existing clients' business and attract new clients.

We believe that our technology and service platform, including BranchNet, our proprietary advisor software system, provides us with a significant competitive advantage because it enables our FAs to efficiently manage their practices. We continue to enhance the functionality of BranchNet and other related technologies. For example, we recently have started to offer our IFAs an integrated software application that will enable them to electronically image branch office records, thereby reducing record retention costs and improving access to records.

Leverage Scale and Market Leadership

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

We also expect our scale to create additional opportunities to provide our product and service platform to IFAs associated with selected institutions that maintain their own broker-dealer. As a result of our scale, we anticipate the opportunity to increase the number of FAs to whom we provide services, whether indirectly through institutions who employ them or directly through acquisitions.

Continue to Expand Institution Services

We believe we have opportunities for further revenue growth by leveraging both our clearing capability and BranchNet, our state-of-the-art proprietary business processing technology. We expect to offer services, including full service investment programs, front-end processing technology in addition to clearing services, and front-end processing as an add-on to incumbent clearing platforms, to financial service providers. We believe that our proprietary BranchNet processing technology and our automated investment platforms, that will automatically re-allocate assets across a wide range of best-in-class managers, are key components of our value proposition as we seek to develop this business.

Further Develop Custom Clearing Services as a Source of Revenue

We believe our Custom Clearing Services provide us opportunities to leverage our technology offerings, our robust risk management services and our regulatory oversight expertise. Customers using our Custom Clearing Services also have access to our advisory products and services.

In 2006, we began to offer large institutions in the insurance industry with customized access to our clearing services and proprietary processing and business management technology. We intend to offer these services to additional financial institutions.

Our IFAs

Our IFAs are either independent financial advisors or financial advisors associated with an independent financial service provider. Our IFAs who are not associated with an independent financial service provider exclusively use our platform for all the brokerage and fee-based advisory services they offer. These IFAs are licensed with us, but they are independent contractors who maintain their own branch office and general support staff. These IFAs generally have many years of industry experience and generally join us from other brokerage institutions, including wirehouses, regional broker-dealers, banks, insurance companies, and other independent broker-dealers. They focus primarily on clients in the growing mass affluent market, defined as households with income above \$50,000 and investable assets between \$100,000 and \$1,000,000. We believe that traditional brokerage firms typically focus on higher net worth individuals, and, as a result, the mass affluent market is currently under-served. Therefore, we believe that the demand for the services of IFAs who target the mass affluent will continue to grow rapidly. We believe that our IFAs are well positioned to capitalize on this industry growth, particularly as the baby boomer generation approaches retirement and increasingly demands financial advice. Through our recruiting efforts and strategic acquisitions, we have grown the number of our IFAs at a CAGR of more than 20.3% over the past five years from approximately 4,000 IFAs at year-end 2002 to approximately 11,000 at year-end 2007.

We believe that our strong commitment to our IFAs is core to our success and our corporate culture is distinguished by its focus on improving the business of our IFAs. Our primary focus for over 20 years has been and continues to be our IFAs, which drives our innovative and customer-oriented approach. We believe our IFA retention rates are among the highest in the industry.

Recruiting and Training

Recruiting

We believe that our branch development staff is one of the most capable among all independent broker-dealers in the United States and recruits from a broader variety of sources than our competitors. We recruit FAs nationally through multiple channels, including wirehouses, regional broker-dealers, banks, insurance companies, and other independent broker-dealers.

The FA market remains large, fragmented and growing. We believe there is a large addressable pool of IFAs from which we can recruit. We seek to capitalize on this market opportunity by leveraging our strong reputation and recruiting infrastructure to continue to add experienced and productive FAs. Given the strength and scale of our operations, we have historically been able to add new FAs profitably.

We seek to recruit FAs who are business leaders with strong industry experience and a track record of regulatory compliance. We screen all potential FAs through background and credit checks as well as a detailed review of a FA's historical product sales, disciplinary records, employment history and outside business activities.

Finally, to further facilitate our recruiting efforts, our Transition Services Group provides assistance to our IFAs on establishing their independent practices and migrating their client accounts to our platform. Once an IFA has joined us, our Business Development Group helps that IFA run its business as efficiently as possible.

We also believe that we have one of the most capable recruiting forces focused on institutions. We recruit Financial Institutions nationally, and generally seek to recruit Financial Institutions that have an existing investment program (although we also provide services to several start-up programs). In addition to recruiting entire Financial Institution programs, we work with existing Financial Institution programs to help them locate and recruit qualified financial advisors to service their customers and enhance their programs. Once a Financial Institution has made a decision to move its investment

program to LPL, we have a dedicated Financial Institution program conversion staff to work with Financial Institution management and financial advisors to help convert a Financial Institution from its current broker/dealer to LPL.

Training

We invest substantial resources in our training programs in order to achieve the following goals:

- to enhance IFA performance and satisfaction;
- to help our IFAs use our technology and services more effectively;
- to enhance the competitiveness of our IFAs in the marketplace;
- to educate our IFAs about our product and service platforms; and
- to help our IFAs with regulatory compliance procedures.

Our IFAs can access our training programs in a variety of ways, including regional and national sales and training events, live web casts and online training modules. As an example, we annually host a national sales and education conference, the largest of its kind among independent broker-dealers. This conference offers our IFAs opportunities to expand their industry and product knowledge, earn continuing education credits, understand recent changes in compliance regulations, and participate in hands-on training for newly offered technologies.

In addition to the training that is offered to IFAs, we offer training to Financial Institution management and investment program managers to help them efficiently and effectively manage the financial advisors involved in their programs.

Products and Services

Independent Financial Advisor Products and Services

Our Independent Advisor Services provide our IFAs access to a platform of non-proprietary, high-quality products for their clients, including fixed and variable annuities, mutual funds and alternative investments, as well as full-service stock and bond trading. We also provide our IFAs with a fee-based advisory platform that enables them to build comprehensive customized portfolios of investments for their clients. Our Independent Advisor Services also include access to our insured cash account program ("ICA Program"), which is a bank deposit sweep program for eligible taxable accounts held at LPL. Unlike other brokerage firms which combine product distribution and product manufacturing within a single company, we operate on an open architecture product platform with no proprietary investment products. Our IFAs are able to recommend products selected on the basis of their clients' financial needs and objectives without being influenced by potential product manufacturing biases. To help our IFAs meet their clients' needs with suitable options, we have developed relationships with many industry leading providers of investment and insurance products.

Commission-Based Products

Commission-based products are those for which we and our IFAs receive an up-front commission and, for certain products, a trail commission. Our brokerage offerings include fixed and variable annuities, mutual funds, general securities, alternative investments and insurance.

Variable and Fixed Annuities. We provide to our IFAs access to a wide variety of variable annuity products, including products that feature guaranteed levels of income, accumulation and death benefits. We also provide our IFAs with a broad suite of fixed annuity products, including immediate and deferred annuities.

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Mutual Funds. We provide to our IFAs access to a broad set of mutual fund products across a diverse range of investment styles.

General Securities. We provide to our IFAs transaction execution services to their clients for securities such as equities, options and fixed income securities.

Alternative Investments. We provide to our IFAs access to non-traded REITs, managed futures, fund of hedge funds, limited partnerships, 1031s, private equity, oil and gas, equipment leasing and exchange funds.

Fee-Based Advisory Platform

In addition to commission-based products, we provide a fee-based advisory platform. In our fee-based advisory platform, we and our IFAs receive an annual fee based on a percentage of client assets under management. We believe that increasing industry demand for fee-based services, as well as our IFAs' commitment to building the fee-based portion of their business, has enabled us to rapidly grow this business. We believe that the migration towards our fee-based advisory platform encourages higher value-added interactions between our IFAs and their clients.

We have multiple programs for our IFAs and their clients to choose from, including:

Strategic Asset Management (SAM). Introduced in 1991, Strategic Asset Management is a fee-based investment program that allows the creation of comprehensive, customized client portfolios managed individually by our IFAs. The SAM platform provides access to no-load/load-waived mutual funds, stocks, bonds, conservative option strategies, UITs and a no-load, multi-manager variable annuity. Our research department provides model portfolio allocations, mutual fund and fixed income recommendations and access to third-party equity research to assist the IFA using the SAM platform. The SAM assets under management were \$55.21 billion as of December 31, 2007.

Manager Select. Introduced in 1996, Manager Select is a fee-based separately managed account program that provides high net-worth clients the ability to access leading institutional money managers. Separate accounts provide for benefits such as the direct ownership of securities, portfolio customization, improved tax efficiency and cost transparency. Our research department provides money manager oversight and recommendations, as well as asset allocation guidelines for clients with a range of investment objectives. The Manager Select assets under management were \$4.36 billion as of December 31, 2007.

Optimum Market Portfolios (OMP). Introduced in 2003, the Optimum Market Portfolios program utilizes the Optimum family of mutual funds which are sub-advised by leading money managers. Our research department has created a range of asset allocation models with the flexibility to meet the financial goals of a large range of clients. We provide automated portfolio rebalancing to our IFAs and their clients for all OMP accounts. The OMP assets were \$2.37 billion as of December 31, 2007.

Personal Wealth Portfolios (PWP). Introduced in July 2005, the Personal Wealth Portfolios program is a research-driven open architecture program that combines multiple investment styles using mutual funds and institutional separate account money managers in a single account. Our research department provides manager monitoring and oversight and asset allocation models. We also provide rebalancing, tax management capabilities and enhanced reporting. The program was expanded in November 2007 to provide additional asset classes, models, and managers which will enable advisors to offer a more competitive and diversified mix of investments to their affluent clients. The PWP assets under management were \$1.17 billion as of December 31, 2007.

ICA Program

Our ICA Program is a bank deposit sweep program for eligible taxable accounts held with us. Under the ICA Program, available cash balances (from securities transactions, dividend and interest payments, and other activities) in eligible accounts are automatically deposited into interest bearing Federal Deposit Insurance Corporation ("FDIC") insured deposit accounts at one or more banks or other depository institutions. The deposit accounts at each bank are eligible for insurance by the FDIC for up to \$100,000 in principal and accrued interest per depositor (and up to \$250,000 for an individual retirement account and certain other retirement accounts). Our ICA Program offers available banks into which funds are deposited for up to \$1 million for individual accounts (\$2 million for joint accounts) with FDIC insurance coverage of these amounts.

Other Products and Services

We have selectively expanded our services to include insurance services and trust services to enable our IFAs to provide a comprehensive array of products and services to address their clients' needs. We have expanded these services both organically and through select acquisitions, as described below.

Financial data and commentary on recent financial results for all of our reporting segments is provided in Note 19 to our consolidated financial statements.

Trust Services

PTC Holdings Inc. ("PTC Holdings") and its wholly owned subsidiary, The Private Trust Company, N.A., ("PTC"), a non-depository national banking association, enable our IFAs to assist their clients with management of intergenerational wealth transfers. In addition, PTC also provides retirement account custodial services. Our IFAs and their clients work directly with PTC and their staff who have backgrounds in law, accounting, banking, investment management, tax and business.

Mortgage Services

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

On December 31, 2007 we ceased the operations of Innovex.

Insurance Services

Linsco/Private Ledger Insurance Services, Inc. (formerly known as W.S. Griffith Associates, Inc.) is a brokerage general agency which provides access to a broad range of life, disability and long-term care products, advance case design, point of sale service and product support. Linsco/Private Ledger Insurance Services, Inc. works closely with leading insurance carriers to enable our IFAs to meet a broad range of their clients' insurance needs.

Affiliated Advisory Services

Our subsidiary, Independent Advisors Group, Inc. ("IAG"), offers a private labeled investment advisory platform for customers of FAs working for other financial service providers.

Our Value Proposition to IFAs

Through strategic investments in our technology platform, we have automated most of our IFAs' operational functions, allowing them to transact and monitor their business more efficiently and lowering the cost of execution for both us and our IFAs. Our IFAs use our resources daily for their practices. Our systems enable our IFAs to seamlessly interface with our back office, thereby efficiently providing them with the necessary tools with which to serve their clients. We also provide our IFAs with independent research on investment products and asset allocation models. We provide a strong compliance infrastructure and licensing assistance to our IFAs. We believe our proprietary technology and service platform provides us with a significant competitive advantage.

Software

The foundation of our IFA software is BranchNet, a proprietary platform in which we have made significant investments over the past 15 years. BranchNet provides our IFAs with tools to manage and grow their practices. For example, it enables our IFAs to automate time consuming processes such as opening and managing accounts, executing transactions and rebalancing accounts. In addition to our basic BranchNet package, many of our IFAs subscribe to premium features such as performance reporting, financial planning, and customized websites. We intend to continue our development of the BranchNet platform and other related technologies that will increase our IFAs' efficiency and related profitability. We recently started to offer our IFAs an integrated software application that will enable them to electronically image branch office records, thereby reducing record retention costs and improving access to records. Recent developments in 2007 include, among others, the release of online order entry for variable annuity transaction processing.

Clearing Services

Our brokerage and trading platforms provide comprehensive transaction processing and account administration for mutual funds, equities, fixed income securities, options and other securities. LPL launched its self-clearing platform in 2000, utilizing Thomson's Beta Systems for our books and records system, which addresses all important facets of securities transaction processing, including order routing, trading support, execution and clearing, position keeping, regulatory and tax compliance and reporting, and investment accounting and recordkeeping.

LPL's decision to become a self-clearing broker-dealer has allowed us to manage our cost structure, and service levels more effectively. LPL's self-clearing platform has enabled us to have better control of data and to facilitate platform development, allowing us to further enhance the quality of services we provide to our IFAs. In addition, we believe self-clearing provides LPL's IFAs with efficient and reliable trade processing and financial reporting, enabling them to focus their efforts on serving their clients. We also provide certain FAs access to our third-party clearing platform.

Service Center

Our San Diego and Charlotte based service centers field inbound questions from our FAs, providing them with a single, centralized source to obtain assistance with their clients' brokerage, advisory and retirement accounts. Our experienced staff receives ongoing training that enables them to provide consistent and accurate information. Unlike many FAs licensed at brokerage firms that outsource clearing services, our FAs can access a single point of contact to resolve questions for their clients. As a result, our staff resolves approximately 92% of inbound queries on the first contact.

Research

We provide IFAs with independent research on mutual funds, separate accounts, annuities, alternative investments, fixed income securities, asset allocation strategies, financial markets and the

economy. They develop asset allocation models for our fee-based advisory programs and provide in-depth analysis on a vast number of investments. We believe these research resources are critical to our success and provide us with a notable competitive advantage. Our research department has developed recommended lists of mutual funds, separate accounts and variable annuity sub-accounts. The research process combines quantitative and qualitative screening factors, without considering in any way any financial arrangements or business relationships between us and product manufacturers. The entire suite of published research analysis, commentary recommendations, third-party research data and analytical tools is available real time to IFAs.

Compliance and Registration

The primary function of our compliance departments are to develop policies and procedures designed to ensure that we, our employees, and our IFAs conduct business in a manner that complies with the rules and regulations of the U.S. Securities and Exchange Commission ("SEC"), the states, the Financial Industry Regulatory Authority ("FINRA"), the Commodities Futures Trading Commission ("CFTC") and other self-regulatory organizations of which we are a member.

Account Protection

Our Securities Investor Protection Corporation ("SIPC") membership provides account protection up to a maximum of \$500,000 per client account, of which \$100,000 may be in cash. Additionally, through Lloyds of London, our accounts have additional securities coverage subject to a \$750 million aggregate firm limit. The account protection applies when a SIPC firm fails financially and is unable to meet obligations to securities clients, but it does not protect against losses from the rise and fall in the market value of investments.

Disaster Recovery

We have developed a comprehensive business continuity plan that covers business disruptions of varying severity and scope. The plan addresses the potential loss of a geographic area, building, staff, data, systems and/or our telecommunications. Specifically, we have our primary data center in Charlotte, North Carolina and our back-up data center in San Diego, California. We subject our business continuity plan to review and testing on an ongoing basis and update it as necessary. Under our business continuity plan, we expect to continue to be able to do business and resume operations with minimal service impacts. However, under certain scenarios, the time that it would take for us to recover and to resume operations may significantly increase depending on the extent of the disruption and the number of personnel affected.

Competition

We compete with a variety of financial institutions to attract and retain experienced and productive FAs and financial institutions who employ them. These financial institutions include clearing and processing firms, broker-dealers, asset managers insurance companies, and banks. We believe our primary competitors include Merrill Lynch & Co., Inc., Charles Schwab & Co., Inc., Wachovia Securities, Inc., SEI Investments Development, Inc., National Financial Services, LLC, Pershing, LLC, Primevest Financial Services, Inc. and Raymond James Financial, Inc., among others. We believe that our strong value proposition for our IFAs and financial institutions that employ financial advisors allows us to differentiate ourselves versus competitors.

Our IFAs compete for clients and administered assets with brokerage firms, banks, insurance companies, asset management and investment advisory firms. In addition, they also compete with a number of firms offering on-line financial services and discount brokerage services, usually with lower levels of service and fees, to individual clients. Factors affecting our IFAs' competitiveness include

pricing levels, the breadth and quality of the products and advisory programs they offer, as well as the strength and continuity of their client relationships. In addition, the proper functioning of the service platform we provide to our IFAs, such as software, processing, compliance and registration, is critical to our IFAs' ability to compete effectively.

Employees

As of December 31, 2007, we had 2,621 employees. None of our employees are subject to collective bargaining agreements governing their employment with us. Our continued growth is dependent, in part, on our ability to recruit and retain skilled technical sales and professional personnel. We believe that our relationships with our employees are excellent.

Regulation

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

Broker-Dealer Regulation

LPL is a registered broker-dealer with the SEC, a member of FINRA, a member of various self-regulatory organizations, a member of the Boston Stock Exchange ("BSE"), a participant of various clearing organizations including The Depository Trust Company ("DTC"), the National Securities Clearing Corporation ("NSCC") and Options Clearing Corporation, and conducts business as a broker-dealer in all 50 states and the District of Columbia.

Each of the Broker-Dealer Entities is registered as a broker-dealer with the SEC and is a member of FINRA. Similar to LPL, UVEST, IFMG Securities, Inc. and the Affiliated Broker-Dealers conduct business on a national basis; however each acts as an introducing firm, using a third-party firm for securities clearing and custody functions.

Broker-dealers are subject to regulations covering all aspects of the securities business, including sales and trading practices, public offerings, publication of research reports, use and safekeeping of customers' funds and securities, capital structure, record-keeping and the conduct of directors, managers, officers and employees. Broker-dealers are also regulated by securities administrators in those states where they do business. Compliance with many of the regulations applicable to us involves a number of risks because regulations are subject to varying interpretations. Regulators make periodic examinations and review annual, monthly and other reports on our operations, track record and financial condition. Violations of regulations governing a broker-dealer's actions could result in censure, fine, the issuance of cease-and-desist orders, the suspension or expulsion from the securities industry of such broker-dealer or its officers or employees, or other similar consequences. The rules of the MSRB, which are enforced by FINRA, apply to the municipal securities activities of the Broker-Dealer Entities.

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The broker-dealer business activities that each of the Broker-Dealer Entities may conduct are limited by their membership agreements with FINRA, their primary self-regulator. The membership agreement 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, each of the Broker-Dealer Entities is subject to certain regulations regarding changes in control of our ownership. FINRA Rule 1017 generally provides, among other things, that FINRA approval must be obtained in connection with any transaction resulting in a change in our equity ownership that results in one person or entity directly or indirectly owning or controlling 25% or more of our equity capital, and would include a change in control of our parent company. As a result of these regulations, our future efforts to sell shares or raise additional capital may be delayed or prohibited by FINRA.

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

Investment Adviser Regulation

As investment advisers registered with the SEC, the Broker-Dealer Entities, IAG and Associated Planners Investment Advisory, Inc. are subject to the requirements of the Investment Advisers Act of 1940 and the SEC's regulations thereunder, as well as to 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 an advisor and advisory clients, recordkeeping and reporting requirements, disclosure requirements and general anti-fraud provisions. In addition, the Broker-Dealer Entities, IAG, and Associated Planners Investment Advisory, Inc. are subject to the Employee Retirement Income Security Act of 1974, as amended, or ERISA, and to regulations promulgated thereunder, insofar as they are a "fiduciary" under ERISA with respect to benefit plan clients. ERISA and applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), impose certain duties on persons who are fiduciaries under ERISA, prohibit certain transactions involving ERISA plan clients and provide monetary penalties for violations of these prohibitions. The failure to comply with these requirements could have a material adverse effect on our business.

Commodities and Futures Regulation

LPL is licensed as a futures commission merchant ("FCM") and commodity pool operator with the CFTC and is a member of the NFA. Although licensed as a FCM and a commodity pool operator, LPL's futures activities are limited to conducting business as a guaranteed introducing broker. LPL is regulated by the CFTC and NFA, of which it is a member. Violations of the rules of the CFTC and the NFA could result in remedial actions including fines, registration terminations or revocations of exchange memberships. As a guaranteed introducing broker, LPL clears commodities and futures products through ADM Investor Services International Limited ("ADM"), and all commodities accounts and related client positions are held by ADM.

Trust Regulation

Our subsidiary, PTC, is a non-depository national banking association. PTC was chartered in 1994 and was acquired by us in February of 2003. 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

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accept deposits or make loans. For this reason, trust assets under PTC's management are not insured by the Federal Deposit Insurance Corporation.

As PTC is not a "bank" as defined under the Bank Holding Company Act of 1956, neither its parent, PTC Holdings nor the Company is regulated by the Board of Governors of the Federal Reserve System as a bank holding company.

Because PTC is a national bank regulated by the OCC, many common corporate activities require approval of or are subject to regulations promulgated by the OCC. These include aspects of day to day operations which are subject to such OCC regulations and policies and procedures adopted by PTC, prior approval of any material change in the business plan of PTC, including direct or indirect changes in control of its parent, the opening of additional full service fiduciary offices (as opposed to representative trust office that only require a post-notice filing), any merger or acquisition directly by PTC, as opposed to us, maintenance of capital standards and numerous other items. In connection with the Acquisition (as defined in Note 1 to our consolidated financial statements), the OCC required PTC to enter into an operating agreement that required us to provide the OCC with quarterly financial reporting and to seek prior OCC approval to any modification of PTC's business plan and imposed certain restrictions on the ability of PTC to pay dividends. PTC was previously party to an operating agreement with the OCC during the period from 2003 until 2004, and based on our experience, we do not expect that the terms of the new operating agreement will materially and adversely affect our operations. Under the new operating agreement, the OCC conditioned its approval of the Acquisition on an agreement by PTC to maintain certain levels of capital. Currently, PTC has agreed to maintain its capital level at not less than \$10 million of Tier I capital, which the board of directors of PTC deems adequate for the current operation of its business. PTC also agreed to maintain liquid assets equal to the greater of \$8 million or its projected operating expenses for the next twenty-four months (plus any additional expenses during that time period). We also agreed to establish a letter of credit in favor of PTC in an amount equal to \$10 million.

The declaration of dividends by PTC is limited. Generally, a national bank may declare a dividend, without approval of the OCC, if the total of the dividends declared by such institution in a calendar year does not exceed the total of its net profits for that year less any dividends paid in that year combined with its retained profits for the preceding two years.

PTC operates in a highly competitive industry. It competes with national and state banks, savings and loan associations, securities dealers, insurance companies, investment companies, and personal financial planners as well as other financial institutions.

Mortgage Brokerage Regulation

Our subsidiary, Innovex, provided mortgage brokerage and/or lending services in 46 states (excluded states are Nevada, New York, New Jersey and Virginia). Innovex was acquired by us in 2004 and has been approved as a Title II non-supervised mortgagee by the U.S. Department of Housing and Urban Development ("HUD"), maintaining mortgage brokerage or mortgage lending licenses or similar authorizations in those states in which its business requires it to do so. Violations by Innovex of any state or federal regulations, including while Innovex was under control of its prior owners, could result in fines, payment of restitution, revocations of its licenses or other authorizations, and in some circumstances, impairment of the enforceability of its loans or the validity of its liens.

As of December 31, 2007, we ceased the operations of Innovex.

Regulatory Capital

The SEC, FINRA, CFTC and the NFA have stringent rules and regulations with respect to the maintenance of specific levels of net capital by regulated entities. Generally, a broker-dealer's capital is

net worth plus qualified subordinated debt less deductions for certain types of assets. The Net Capital Rule under the Exchange Act requires that at least a minimum part of a broker-dealer's assets be maintained in a relatively liquid form. As a guaranteed introducing broker for commodities and futures that is also a registered broker-dealer, CFTC rules require us to comply with higher net capital requirements of The Net Capital Rule under the Exchange Act. If applicable net capital rules are changed or expanded, or if there is an unusually large charge against our net capital, our operations requiring the intensive use of capital would be limited. A large operating loss or charge against our net capital could adversely affect our ability to expand or even maintain these current levels of business, which could have a material adverse effect on our business and financial condition.

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

Anti-Money Laundering

The USA PATRIOT Act of 2001 (the "PATRIOT Act") contains anti-money laundering and financial transparency laws and mandates the implementation of various new regulations applicable to broker-dealers, FCMs and other financial services companies, including standards for verifying customer identification at account opening and obligations to monitor customer transactions and detect and report suspicious activities to the U.S. government. Financial institutions subject to the PATRIOT Act generally must have anti-money laundering procedures in place, implement specialized employee training programs, designate an anti-money laundering compliance officer and are audited periodically by an independent party to test the effectiveness of compliance. We have established policies, procedures and systems designed to comply with these regulations.

Privacy

We use information about our clients to provide personalized services. 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. We must comply with these information-related regulations, to the extent applicable, among others. Such regulations may constrain our ability to market our services to our current clients and to access additional clients. In addition, we must ensure that we properly safeguard our client information.

The 1999 Gramm-Leach-Bliley Act ("GLBA") requires disclosure of a financial institution's privacy policies and practices and affords customers (as defined in the GLBA) the right to "opt out" of an institution's transmission of information to unaffiliated third parties (with certain exceptions). GLBA also requires financial institutions to safeguard customer information. We will continue our efforts to safeguard the data entrusted to us in accordance with applicable law and our internal data protection policies, including taking steps to reduce the potential for identity theft, while seeking to collect and use data to properly achieve our business objectives and to best serve our clients. Our Broker-Dealer Entities are further subject to state privacy and data security laws, which if more strict than the federal standard under GLBA will apply in addition to the GLBA standard.

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The Fair Credit Reporting Act of 1970 ("FCRA"), as amended, regulates our obtaining and disclosing consumer reports periodically obtained regarding our IFAs. The 2003 Fair and Accurate Credit Transactions Act ("FACT Act") significantly amended the FCRA, including making permanent and adding to the preemption of state laws regarding certain activities involving consumer reports. The extent to which the FCRA preempts state law is currently the subject of litigation. In addition, the FACT Act amended the FCRA by adding new provisions designed to prevent or reduce the incidence of identity theft and to improve the accuracy of consumer report information. The FACT Act also requires any company that receives consumer "eligibility" information from an affiliate to permit the consumer to opt out of having that information used to market the company's products to the consumer, subject to certain exceptions. This provision has not yet taken effect, as the rules implementing it have not been finalized.

Regulatory Actions

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

Other Matters

We filed a Certificate of Correction with the Delaware Secretary of State on March 31, 2008, in order to correct the references to par value in our Certificate of Incorporation from \$0.01 to \$0.001. This Certificate of Correction is filed as an exhibit to this Annual Report on Form 10-K.

ITEM 1A. RISK FACTORS

We depend on our ability to attract and retain experienced and productive IFAs and Financial Institutions.

Our ability to attract and retain experienced and productive IFAs and Financial Institutions has contributed significantly to our growth and success, and our strategic plan is premised upon continued growth in the number of our IFAs. If we fail to attract new IFAs and Financial Institutions or to retain and motivate our current IFAs and Financial Institutions, our business, results of operations or financial condition may suffer.

We devote considerable efforts to recruiting experienced and productive FAs. The market for experienced and productive FAs is highly competitive. In attracting FAs, we compete directly with a variety of financial institutions such as wirehouses, regional broker-dealers, banks, insurance companies and other independent broker-dealers. There can be no assurance that we will be successful in our efforts to recruit the FAs needed to achieve our growth objectives.

We also devote considerable resources to encouraging our IFAs and Financial Institutions to remain with us. Our contracts with our IFAs are mutually terminable upon 30 days' notice. As a result, IFAs licensed with us may in the future leave us at any time to pursue other opportunities. Although our level of payout is designed to discourage attrition, there can be no assurance that we will be successful in retaining such IFAs, the loss of whom, and the loss of whose clients, will also result in a loss of income to us.

Further, as competition for experienced and productive FAs increases, there may be competitive pressure to increase the share of commissions and advisory fees we pay to our IFAs and Financial Institutions. Any such increase could have a material adverse effect on our business, results of operations, cash flows or financial condition.

We depend on FAs' ability to grow their businesses.

Our financial results are influenced by the growth of our FAs' and related Financial Institutions' businesses. The growth of their businesses has been affected by a variety of factors that are both external and internal to the financial advisory industry, including general economic conditions. If FAs are not able to grow their businesses, our business, results of operations, cash flows or financial condition may suffer.

The performance of our business is correlated with the economy and financial markets, and a slowdown or downturn in the economy or financial markets could adversely affect our business, results of operations, cash flows or financial condition.

Our financial results are influenced by the willingness or ability of clients to maintain or increase their investment activities in the financial products offered by us. As a result, general economic and market factors can affect our commission and fee revenue. For example, a decrease in stock prices can:

reduce new investments by both new and existing clients in financial products that are linked to the stock market, such as variable life insurance, variable annuities, mutual funds and managed accounts;

reduce trading activity, thereby affecting our brokerage commissions;

reduce the value of assets under management, thereby reducing asset-based fee income; and

motivate clients to withdraw funds from their accounts, reducing assets under management, advisory fee revenue, and asset-based fee income.

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In addition, a decline in interest rates could have an adverse effect upon our ICA Program and our business in general. General economic and market factors may also slow the rate of growth, or lead to a decrease in the size, of the mass affluent market.

Because clients can withdraw their assets on short notice, poor performance of the investment products and services may have a material adverse

	March 31, 2015	December 31, 2014
Computer and office equipment	\$ 251,386	\$ 229,980
Manufacturing equipment	153,140	153,140
Furniture and fixtures	181,366	181,366
Software	98,869	77,454
Leasehold improvements	134,573	134,573
Construction in Progress	1,152,765	601,317
	1,972,099	1,377,830
Less: Accumulated depreciation	(308,119)	(268,439)
Total property and equipment, net	\$ 1,663,980	\$ 1,109,391

Depreciation expense for the three months ended March 31, 2015 and, 2014, was \$39,680 and \$27,344, respectively. During the three months ended March 31, 2015 and 2014, there were no disposals of property and equipment.

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consisted of the following:

	March 31, 2015	December 31, 2014
Clinical research	\$ 582,650	\$ 1,035,510
Contract manufacturing services	270,000	294,900
Payroll and other employee-related expenses	649,205	1,172,978
Preclinical services		119,500
Consultant fees and expenses	74,150	26,900
Professional services fees	325,333	439,874
Interest expense		24,111
Other	74,494	99,931
Total accrued expenses and other current liabilities	\$ 1,975,832	\$ 3,213,704

Table of Contents**7. Stock-Based Compensation**
Stock Option Valuation

The fair value of each stock option grant is estimated on the date of grant using the Black-Scholes option-pricing model. Prior to the IPO, the Company was a private company and therefore lacked company-specific historical and implied volatility information. Therefore, it estimates its expected stock volatility based on the historical volatility of its publicly-traded peer companies and expects to continue to do so until such time as it has adequate historical data regarding the volatility of its own traded stock price. The expected term of the Company's stock options has been determined utilizing the simplified method for awards that qualify as plain vanilla options. The expected term of stock options granted to non-employees is equal to the contractual term of the option award. The risk-free interest rate is determined by reference to the U.S. Treasury yield curve in effect at the time of grant of the award for time periods approximately equal to the expected term of the award. Expected dividend yield is based on the fact that the Company has never paid cash dividends and does not expect to pay any cash dividends in the foreseeable future. The relevant data used to determine the value of the stock option grants for the three months ended March 31, 2015 and 2014 are as follows:

	Three months ended	
	March 31,	
	2015	2014
Risk-free interest rates	1.51-1.83%	1.54-1.87%
Expected dividend yield	0.00%	0.00%
Expected term (in years)	6.0	6.0
Expected volatility	78.4-81.4%	64.3-66.9%

The following table summarizes stock option activity for the three months ended March 31, 2015:

	Shares Issuable Under Options	Weighted Average Exercise Price
Outstanding as of December 31, 2014	1,289,082	\$ 10.26
Granted	397,425	23.27
Exercised	(21,361)	1.74
Canceled	(28,336)	17.23
Outstanding as of March 31, 2015	1,636,810	\$ 13.41
Options vested and expected to vest at March 31, 2015	1,387,913	
Options exercisable at March 31, 2015	581,956	

The aggregate intrinsic value of options is calculated as the difference between the exercise price of the options and the fair value of the Company's common stock for those options that had exercise prices lower than the fair value of the Company's common stock. A total of 21,361 options were exercised during the three months ended March 31,

2015. The aggregate intrinsic value of stock options exercised during the three months ended March 31, 2015 was \$456,078.

At March 31, 2015 and 2014 the Company had options for the purchase of 1,636,810 and 1,190,704 shares of common stock outstanding, respectively, with a weighted average remaining contractual term of 8.4, and 8.7 years, respectively, and with a weighted average exercise price of \$13.41 and \$9.54 per share, respectively.

The weighted average grant date fair value of options granted during the three months ended March 31, 2015 and 2014 was \$23.27 and \$10.49, respectively.

Table of Contents**Stock-based Compensation**

The Company recorded stock-based compensation expense related to stock options for the three months ended March 31, 2015 and 2014 as follows:

	Three months ended,	
	2015	2014
Research and development	\$ 321,749	\$ 113,518
General and administrative	686,501	322,977
	\$ 1,008,250	\$ 436,495

As of March 31, 2015, unrecognized stock-based compensation expense for stock options outstanding was \$12,643,020, which is expected to be recognized over a weighted average period of 3.2 years. As of March 31, 2014, unrecognized stock-based compensation expense for stock options outstanding was \$7,717,771, which was expected to be recognized over a weighted average period of 3.3 years.

8. Net Loss Per Share

Basic and diluted net loss per share attributable to common stockholders was calculated as follows for the three months ended March 31, 2015 and 2014:

	2015	2014
Numerator:		
Net loss	\$ (9,173,523)	\$ (6,542,244)
Net loss:	\$ (9,173,523)	\$ (6,542,244)
Denominator:		
Weighted average common shares outstanding, basic and diluted	21,451,317	7,632,786
Net loss per share, basic and diluted	\$ (0.43)	\$ (0.86)

Stock options for the purchase of 1,548,014 and 942,165 weighted average shares of common stock were excluded from the computation of diluted net loss per share attributable to common stockholders for the three months ended March 31, 2015 and 2014, respectively, because those options had an anti-dilutive impact due to the net loss incurred for those periods. These options were excluded from the computations because they had an anti-dilutive impact to diluted net loss attributable to common stockholders incurred for those periods.

9. Long-term Debt

On January 3, 2013, the Company entered into a credit and security agreement with MidCap Financial SBIC, LP (MidCap) under which it immediately borrowed \$5,000,000 as a term loan. The term loan accrued interest monthly at an interest rate of 8.0% per annum and had a term of 45 months. As the term loan had a 15-month interest-only period, the term loan principal balance, along with any accrued interest, was to be paid in 30 equal monthly installments beginning April 1, 2014 and ending September 1, 2016. In addition to these principal payments, the Company was required to make a payment of \$175,000 to the lender on September 1, 2016, which amount was accreted to the carrying value of the debt using the effective interest rate method. On March 31, 2015, the Company paid MidCap \$3,236,019, representing the outstanding principal of the debt along with accrued interest as of that date, the \$175,000 final payment, a prepayment fee of \$30,000 and associated legal expenses to satisfy the Company's obligation under the credit and security agreement.

Prior to the debt repayment, the term loan outstanding under the Company's credit and security agreement with MidCap was reported at its carrying value in the accompanying balance sheet. The Company determined the fair value of the term loan using an income approach, utilizing a discounted cash flow analysis based on current market interest rates for debt issuances with similar remaining years to maturity, adjusted for credit risk. The term loan was valued using Level 2 inputs as of December 31, 2014. The result of the calculation yielded a fair value that approximates carrying value.

10. Subsequent Events

There were no subsequent events that require disclosure in the financial statements for the period ended March 31, 2015.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis should be read in conjunction with our financial statements and accompanying notes included in this Quarterly Report on Form 10-Q and the financial statements and accompanying notes thereto for the fiscal year ended December 31, 2014 and the related Management's Discussion and Analysis of Financial Condition and Results of Operations, both of which are contained in our Annual Report of Form 10-K filed by us with the Securities and Exchange Commission, or SEC, on March 24, 2015.

Forward-Looking Statements

This discussion contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Such forward looking statements, which represent our intent, belief, or current expectations, involve risks and uncertainties. We use words such as may, will, expect, anticipate, estimate, intend, plan, predict, believe, should and similar expressions to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Although we believe the expectations reflected in these forward-looking statements are reasonable, such statements are inherently subject to risk and we can give no assurances that our expectations will prove to be correct. You should not place undue reliance on these forward-looking statements, which apply only as of the date of this Quarterly Report on Form 10-Q. As a result of many factors, including without limitation those set forth under Risk Factors under Item 1A of Part II below, and under Item 1A of our Annual Report on Form 10-K, and elsewhere in this Quarterly Report on Form 10-Q, our actual results may differ materially from those anticipated in these forward-looking statements. We undertake no obligation to update these forward-looking statements to reflect events or circumstances after the date of this report or to reflect actual outcomes.

Overview

We are a specialty pharmaceutical company focused on the development and commercialization of novel, injectable pain therapies. We are developing anti-inflammatory and analgesic therapies for the treatment of patients with musculoskeletal conditions, beginning with osteoarthritis, a type of degenerative arthritis, referred to as OA. Our broad and diversified portfolio of product candidates addresses the OA pain treatment spectrum, from moderate to severe pain, and provides us with multiple opportunities to achieve our goal of commercializing novel, patient-focused pain therapies. Our pipeline consists of three proprietary product candidates: FX006, a sustained-release, intra-articular, or IA, steroid; FX007, a TrkA receptor antagonist for the post-operative pain setting; and FX005, a sustained-release intra-articular p38 MAP kinase inhibitor. We retain the exclusive worldwide rights to our product candidates.

We were incorporated in Delaware in November 2007, and to date we have devoted substantially all of our resources to our development efforts relating to our product candidates, including conducting clinical trials with our product candidates, providing general and administrative support for these operations and protecting our intellectual property. We do not have any products approved for sale and have not generated any revenue from product sales. From our inception through March 31, 2015, we have funded our operations primarily through the sale of our common stock and convertible preferred stock and, to a lesser extent, debt financing. From our inception through March 31, 2015, we have raised \$244.4 million from such transactions, including from our initial and follow-on public offerings. Until such time, if ever, as we can generate substantial product revenue, we expect to finance our cash needs through a combination of equity offerings, debt financings, government or third-party funding, and licensing or collaboration arrangements.

Product Candidates and Recent Developments

A current summary of our significant research and development programs and recent developments with respect to our related product candidates follows:

Product Candidate	Development Phase	Indication
FX006 Intra-articular injectable steroid	Phase 2b/ Phase 3	OA of the knee
FX007 TrkA receptor antagonist	Preclinical	Post-operative pain
FX005 p38 MAP kinase inhibitor	Phase 2a	End-Stage OA pain

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FX006 Front Line IA Therapy for Patients with Moderate to Severe OA Pain

FX006 is a steroid, triamcinolone acetonide, or TCA, formulated for sustained-release, delivered via IA injection and designed to treat moderate to severe OA pain. FX006 combines commonly administered TCA with our poly lactic-co-glycolic acid, referred to as PLGA, formulation technology, which is the cornerstone of our injectable IA sustained-release technology.

OA is a type of degenerative arthritis that is caused by the progressive breakdown and eventual loss of cartilage in one or more joints. Arthritis is the most common cause of disability in the United States and OA is the most common joint disease, affecting 27 million Americans, with numbers expected to grow as a result of aging, obesity and sports injuries. Recent data suggest that OA accounts for over \$185 billion of annual healthcare expenditures in the United States, which does not include loss of productivity costs. We estimate that by 2030, 45 million people will have OA, and that approximately 24 million of those people will have knee OA. OA commonly affects large weight-bearing joints like the knees and hips, but also occurs in the shoulders, hands, feet and spine. Patients with OA suffer from joint pain, tenderness, stiffness and limited movement. As the disease progresses, it becomes increasingly painful and debilitating, culminating, in many cases, in the need for total joint arthroplasty, or TJA. According to IMS Health, each year approximately ten million patients in the United States receive IA steroid injection treatments in the knee, hip, shoulder, hand and foot. Our clinical trials to date have treated patients with knee OA, which represents the most common joint treated with IA therapies for OA. In 2012, the number of patients that received steroid injections in the knee, the most commonly injected OA joint, increased approximately 12.0% to 3 million patients. We estimate that approximately 1.3 million patients received knee injections of HA in 2012. Sales of HA in the United States in 2013 were approximately \$700 million, with a cost to the patient per treatment ranging from \$500 to \$1000. Worldwide, HA sales were approaching \$2 billion as of 2012, however, recent negative guidance from specialty societies questioning the overall effectiveness of HA therapy (e.g. the American Academy of Orthopedic Surgeons (AAOS), and the Osteoarthritis Research Society International (OARSI) may have put downward pressure on HA sales. We believe that FX006 has the potential to be a superior front line injectable treatment for OA pain management compared to existing therapies by providing safe, more effective and sustained pain relief to patients. We believe the following attributes make FX006 an attractive development candidate:

A first-in-class injectable, IA, sustained-release treatment for patients with moderate to severe OA pain that to date has demonstrated in clinical trials:

clinically meaningful and significantly better pain relief;

persistent therapeutic concentrations of drug in the joint and durable efficacy;

an attractive safety profile with limited systemic exposures and the potential for fewer side effects;

Amongst the largest analgesic effects seen in OA clinical trials;

Strong proprietary position through a combination of patents, trade secrets and proprietary know-how, as well as eligibility for marketing exclusivity;

Well-defined Section 505(b)(2) of the Federal Food Drug and Cosmetic Act, or FDCA, regulatory pathway seeking approval for a novel formulation of the same dose of the already approved immediate-release steroid used by orthopedists and rheumatologists;

Potential for pharmacoeconomic benefits due to superior efficacy and durability and the potential to delay costly and invasive total joint replacement, also referred to as total joint arthroplasty, or TJA.

To date, three clinical trials have been completed to test FX006 against immediate-release TCA injection. A total of 302 patients were enrolled in these three clinical trials, of which 236 patients received FX006 and 66 patients received immediate-release TCA. In a completed Phase 2b dose-ranging clinical trial of patients with knee OA, FX006 demonstrated clinically meaningful and significant improvements in pain relief and functional status relative to a commercially available 40 mg immediate-release TCA. Data from this completed 12-week Phase 2b dose-ranging clinical trial show that FX006 has a well-tolerated systemic safety profile that is indistinguishable from the standard of care immediate-release steroid. Further, the local safety profile for FX006 in the completed 12-week Phase 2b dose-ranging clinical trial was attractive and comparable to that seen with the same dose of immediate-release steroid comparator.

Our pharmacokinetic data suggest that IA administration of FX006 produces a more controlled-release of TCA from the site of injection than immediate-release TCA, prolonging local exposure to TCA while reducing systemic exposure. A pharmacodynamic clinical trial has also demonstrated that FX006 avoids the marked suppression of the hypothalamic-pituitary-adrenal, or HPA, axis (which determines the body's ability to make its own naturally occurring steroids) seen with commercially available steroid suspensions. Preclinical data demonstrate that single doses are well tolerated and, in an

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inflammatory arthritis rat model, have the potential to prevent joint damage more effectively than the immediate-release comparator. We have conducted two pharmacokinetic clinical trials that compared the duration of FX006 to immediate-release TCA in the joint by measuring synovial fluid concentrations in patients with OA following a single IA administration. TCA concentrations in the joint were determined at 6, 12, 16 and 20 weeks following injection depending on the trial design. The data from these clinical trials show that at 6 and 12 weeks, both the FX006 10 mg and 40 mg dose groups had measurable concentrations of drug in synovial fluid. In contrast, the 40 mg immediate-release TCA dose group at 6 and 12 weeks had concentrations of drug that were below the lower limit of quantitation. The FX006 40 mg dose group also demonstrated readily measurable concentrations of drug at 16 weeks, which fell to below the lower limit of quantitation at 20 weeks. These data, in part, will be used to define the dosing interval for repeat injection.

We are conducting a pivotal Phase 2b clinical trial of FX006 and expect to report topline data for the trial in the fourth quarter of 2015. In 2014, the FDA informed us that it will consider our on-going pivotal Phase 2b trial as one of two pivotal efficacy trials required for registration of a single-dose administration of FX006. In addition, the FDA informed us that a second placebo-controlled pivotal trial would be sufficient to support the filing of an NDA for single-dose administration of FX006 and that data from a repeat-dose safety trial would not be required. In February 2015, we initiated the second required pivotal trial for FX006, a placebo-controlled Phase 3 trial and expect to report topline data in the first half of 2016. We expect to develop and file repeat-dose safety data in a supplemental NDA after an approval and launch of FX006 for single-dose administration.

In April 2015, we announced that the U.S. Department of Defense awarded us a grant worth approximately \$2 million to conduct a Phase 2 clinical trial investigating FX006 as a treatment for OA pain in active military and medically retired veterans with post-traumatic OA of the knee. The trial is a single-center, double-blind, randomized, parallel group, proof-of-concept study, in which, we, as the sponsor of the clinical trial, plan to enroll a total of 124 male and female active and medically retired service members between the ages of 20 and 45 and with moderately symptomatic post-traumatic OA of the knee. The primary objective of this study will be to assess the analgesic effect of a single IA injection of 40 mg of FX006 relative to commercially available immediate-release TCA in this population. The primary endpoint is the average change from baseline in the weekly mean of the average daily (24-hour) pain intensity scores over weeks 5 to 10. The study is also designed to assess the effect of FX006 on function, responder status, global impressions of change, stiffness and consumption of analgesic medications and to assess the safety and tolerability of a single IA injection of 40 mg FX006 relative to commercially available immediate-release TCA.

FX007 For Post-Operative Pain

FX007 is a small molecule TrkA receptor antagonist that is in development for the persistent relief of post-operative pain. TrkA is the receptor for nerve growth factor, commonly known as NGF, a small peptide that is released following tissue injury. NGF binds to TrkA on the surface of pain sensing neurons and renders these cells more responsive to external stimuli. In recent clinical trials of Pfizer's monoclonal antibody, tanezumab, systemic blockade of NGF demonstrated marked analgesia in a variety of painful conditions. Additionally, human genetic studies demonstrated that patients with a mutation in the TrkA gene have congenital insensitivity to pain. These data indicate that interruption of the NGF-TrkA pathway produces a profound analgesic effect, and in preclinical pharmacology experiments, FX007 has demonstrated both high affinity for the TrkA receptor and analgesic effects in OA and post-operative pain. However, systemic and persistent blockade of NGF with monoclonal antibodies has been associated with rapidly progressive OA requiring TJA. FX007 is being developed for acute, local administration, which has the potential to avoid side effects associated with chronic systemic use.

Post-operative pain is usually most severe in the first few days following the completion of a surgical procedure and is a response to tissue damage during surgery which stimulates peripheral nerves that signal the brain to produce a

sensory and physiological response. Numerous studies reveal that the incidence and severity of post-operative pain is primarily determined by the type of surgery, duration of surgery and the pain treatment choice following surgery.

There are approximately 51 million surgeries performed in the United States each year, and the global post-operative pain market was estimated to be \$5.9 billion in 2010. Despite the size of this market, however, post-operative pain management remains a challenge for healthcare providers, with studies reporting that up to 80% of patients experience inadequate pain relief after surgery. Given the limitations of current post-operative therapies, we are developing FX007 as a superior alternative to manage post-operative pain. The blockade of the NGF-TrkA pathway results in highly effective analgesia. Additionally, acute local administration has the potential to avoid the side-effects associated with systemic and persistent blockade of NGF.

FX007 is being developed to treat post-operative pain with target analgesia of at least 36 to 72 hours and is being formulated to remain in the tissues for a sufficient period of time to provide this duration of pain relief. We are performing preclinical local pharmacology and toxicology experiments and plan to conduct a PoC clinical trial for FX007 following the generation of these data.

Table of Contents**FX005 For End-Stage OA Pain**

FX005 is intended as therapy for patients with end-stage OA pain, particularly those patients awaiting TJA, as an alternative to opioids. FX005 is a p38 MAP kinase inhibitor formulated for sustained-release delivered via IA injection, which is designed to have both analgesic and anti-inflammatory benefits without the systemic side effects of oral p38 MAP kinase inhibitors. p38 MAP kinase is an enzyme in an inflammatory cascade that up regulates in response to stress and culminates in the elaboration of multiple proinflammatory cytokines, including interleukin 1 and tumor necrosis factor, as well as enzymes like matrix metalloproteinases that have the potential to destroy cartilage. In other studies, multiple oral p38 MAP kinase inhibitors have been evaluated in inflammatory diseases and pain and, while efficacy has been demonstrated, serious toxicity affecting multiple organ systems has been frequently observed. For example, a clinical study of an orally administered p38 MAP kinase inhibitor in OA demonstrated pain relief comparable to oxycodone but was associated with concerning side effects, including QTc prolongation which could increase the risk of arrhythmias. Because FX005 leverages the same PLGA technology used in FX006 in order to achieve persistent therapeutic concentrations of drug in the joint while maintaining very low plasma concentrations, it may have the potential to provide durable pain relief while avoiding p38 MAP kinase inhibitor systemic side effects. We believe the preclinical and clinical data we have generated to date support this potential.

In May 2012, FX005 completed a Phase 2a clinical trial in which 70 patients were randomized to FX005 and 70 patients were randomized to placebo. The Phase 2a clinical trial demonstrated positive effects of FX005 on both pain and function. These effects were substantially enhanced in a pre-specified exploratory subset analysis of patients with high baseline pain. FX005 also demonstrated efficacy in responder analysis. Overall, FX005 was well-tolerated systemically and local tolerability was similar to that documented for marketed HA preparations. Repeat-dose toxicology studies demonstrated that FX005 can be associated with synovial inflammation, articular cartilage damage and alterations to joint structure. These findings were not present in animals treated with blank PLGA microspheres, so toxicity appears to be specific to the p38 MAP kinase inhibitor itself. To guide the appropriate future development path for FX005, additional toxicology studies using lower doses of FX005 were conducted to determine the appropriate dose level. These additional toxicology studies showed that at the human equivalent dose of 3 and 1 mg, there was no evidence of the damage to cartilage that had been associated with doses greater than or equal to 10 mg. Based on this, we expect that further development of FX005, if any, would involve a dose substantially lower than the doses studied in the previously-conducted Phase 2a clinical trial. We will continue to evaluate further development of FX005 taking into consideration, among other factors, our available capital resources.

Financial Overview***Revenue***

We have not generated any revenue since our inception. We do not have any products approved for sale, and we do not expect to generate any revenue from the sale of products in the near future. In the future, if our research and development efforts result in clinical success and regulatory approval, we may generate revenue from the sales of our product candidates, or we may generate revenue from licensing rights to our product candidates to third parties. If we fail to complete the development of FX006 or our other product candidates, our ability to generate future revenue, and our results of operations and financial position will be adversely affected.

Operating Expenses

The majority of our operating expenses to date have been related to in-licensing certain of our product candidates and the development activities of FX006, FX007 and FX005.

Research and Development Expenses

Since our inception, we have focused our resources on our development activities, including: preclinical studies and clinical trials and chemistry manufacturing and controls, or CMC. Our development expenses consist primarily of:

expenses incurred under agreements with consultants, contract research organizations, or CROs, and investigative sites that conduct our preclinical studies and clinical trials;

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costs of acquiring, developing and manufacturing clinical trial materials;

personnel costs, including salaries, benefits, stock-based compensation and travel expenses for employees engaged in scientific research and development functions;

costs related to compliance with regulatory requirements;

expenses related to the in-license of certain technologies from pharmaceutical companies; and

allocated expenses for rent and maintenance of facilities, insurance and other general overhead.

We expense research and development costs as incurred. Our direct research and development expenses consist primarily of external-based costs, such as fees paid to investigators, consultants, investigative sites, CROs and companies that manufacture our clinical trial materials, and are tracked on a program-by-program basis. We do not allocate personnel costs, facilities or other indirect expenses to specific research and development programs. These indirect expenses are included within the amounts designated as Personnel and other costs in the table below.

The following table summarizes our research and development expenses for the periods presented:

	Three Months Ended	
	March 31,	
	2015	2014
Direct research and development expenses by program:		
FX006	\$ 3,909,460	\$ 2,811,027
FX007	159,421	228,974
FX005	143,156	71,161
Total direct research and development expenses	4,212,037	3,111,162
Personnel and other costs	2,043,074	1,039,685
Total research and development expenses	\$ 6,255,111	\$ 4,150,847

Related costs incurred under the grant from the U.S. Department of Defense are included in research and development expenses. We are reimbursed and offset research and development expenses when invoices for allowable costs are prepared and submitted to the U.S. Department of Defense. Payments under cost reimbursable grants with agencies of the U.S. government are provisional payments subject to adjustment upon audit by the U.S. government. When the final determination of the allowable costs for any year has been made, research and development expenses may be adjusted accordingly. The grant also provides the U.S. government agency the ability to terminate the grant for various reasons, including if we fail to meet our obligations as set forth in the grant.

Our research and development expenses are expected to increase in the foreseeable future. Specifically, our costs associated with FX006 will increase as we conduct our pivotal Phase 2b and Phase 3 clinical trials, further the manufacturing process in anticipation of validation and commercialization, and otherwise advance our FX006

development program. We cannot determine with certainty the duration of and completion costs associated with future clinical trials of FX006. The duration, costs and timing associated with the development and commercialization of FX006 and our other product candidates will depend on a variety of factors, including uncertainties associated with the results of our clinical trials and our ability to obtain regulatory approval. As it relates to FX005 and FX007, we will decide which development programs to pursue and how much funding to direct to each program on an ongoing basis in response to preclinical and clinical success of each product candidate, as well as ongoing assessments of the commercial potential of each product candidate. As a result of these uncertainties, we are currently unable to estimate with any precision our future research and development expenses for any product candidate, when or if we will achieve regulatory approval, generate revenue from sales of any product candidate or achieve a positive cash flow position.

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General and Administrative Expenses

General and administrative expenses consist primarily of personnel costs, including salaries, related benefits, travel expenses and stock-based compensation of our executive, finance, business development, information technology, legal and human resources functions. Other general and administrative expenses include an allocation of facility-related costs, patent filing expenses, and professional fees for legal, consulting, auditing and tax services.

We anticipate that our general and administrative expenses will increase in the future as we continue to build our corporate infrastructure to support the continued development of our product candidates. Additionally, we anticipate increased expenses related to the audit, legal, regulatory, investor relations and tax-related services associated with maintaining compliance with the Securities and Exchange Commission and Nasdaq requirements, director and officer insurance premiums and other costs associated with operating as a publicly-traded company.

Other Income (Expense)

Interest income. Interest income consists of interest earned on our cash and cash equivalents balances and our marketable securities. The primary objective of our investment policy is capital preservation.

Interest expense. In January 2013, we borrowed \$5.0 million under a credit facility with MidCap Financial SBIC, LP, or MidCap, and began to incur interest related to this borrowing at a fixed rate of 8.0% per annum. On March 31, 2015 we paid MidCap \$3,236,019 to satisfy our obligation related to the credit facility.

Other expense. Other expense consists of the net amortization of premiums related to our marketable securities, and our realized gains (losses) on redemptions of our marketable securities. We will continue to incur expenses related to net amortization of premiums on marketable securities for as long as we hold these investments.

Critical Accounting Policies and Significant Judgments and Estimates

Our management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which we have prepared in accordance with generally accepted accounting principles in the United States, or GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of our financial statements, and the reported revenue and expenses during the reported periods. We evaluate these estimates and judgments, including those described below, on an ongoing basis. We base our estimates on historical experience, known trends and events, contractual milestones and various other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying value of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that the estimates, assumptions and judgments involved in the accounting policies described in Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 7 of our Annual Report on Form 10-K for the year ended December 31, 2014 have the greatest potential impact on our financial statements, so we consider them to be our critical accounting policies and estimates. There were no material changes to our critical accounting policies and estimates during the quarter ended March 31, 2015 except for the introduction of accounting for the U.S. Government agency grant.

RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2015 and 2014

The following table summarizes our results of operations for the three months ended March 31, 2015 and 2014 (certain items may not sum correctly due to rounding):

	Three Months Ended March 31,			
	2015	2014	Change	% Change
Revenue	\$	\$		
Operating expenses:				
Research and development	6,255,111	4,150,847	2,104,264	50.7%
General and administrative	2,759,832	2,283,913	475,919	20.8%

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	Three Months Ended March 31,			
	2015	2014	Change	% Change
Total operating expenses	9,014,943	6,434,760	2,580,183	40.1%
Loss from operations	(9,014,943)	(6,434,760)	2,580,183	40.1%
Other income (expense):				
Interest income	168,363	30,758	137,605	447.4%
Interest expense	(203,468)	(111,667)	91,801	82.2%
Other expense	(123,475)	(26,575)	96,900	364.6%
Total other income (expense)	(158,580)	(107,484)	51,096	47.5%
Net loss	\$ (9,173,523)	\$ (6,542,244)	2,631,279	40.2%

Research and Development Expenses

	Three Months Ended March 31,			
	2015	2014	Change	% Change
	(in thousands)			
Direct research and development expenses by program:				
FX006	\$ 3,909,460	\$ 2,811,027	\$ 1,098,433	39.1%
FX007	159,421	228,974	(69,553)	(30.4%)
FX005	143,156	71,161	71,995	101.2%
Total direct research and development expenses	4,212,037	3,111,162	1,100,875	35.4%
Personnel and other costs	2,043,074	1,039,685	1,003,389	96.5%
Total research and development expenses	\$ 6,255,111	\$ 4,150,847	\$ 2,104,264	50.7%

Research and development expenses were \$6.3 million and \$4.2 million for the three months ended March 31, 2015 and 2014, respectively. The increase in research and development expenses year over year of \$2.1 million was primarily due to \$1.5 million in FX006 program expenses related to the pivotal Phase 2b clinical trial, the preparation and initiation of the Phase 3 trial, and manufacturing expenses related to clinical trial supplies. These costs were partially offset by \$0.4 million in reimbursements due in connection with the U.S. Department of Defense grant. Additionally, there was an increase of \$1.0 million in personnel and other costs primarily related to employee related costs for additional headcount, stock compensation expense and consulting costs.

General and Administrative Expenses

General and administrative expenses were \$2.8 million and \$2.3 million for the three months ended March 31, 2015 and 2014, respectively. The increase in general and administrative expenses of \$0.5 million was primarily due to salary and related costs associated with additional headcount and stock compensation expense.

Other Income (Expense)

Interest income was \$0.2 and \$0.03 million for the three months ended March 31, 2015 and 2014, respectively. The increase in interest income is primarily due to a larger average investment balance during the first quarter of 2015. Interest expense was \$0.2 and \$0.1 million for the three months ended March 31, 2015 and 2014, respectively. The increase in interest expenses was primarily due to the payment of our debt with MidCap during the first quarter of 2015.

Liquidity and Capital Resources

To date, we have not generated any revenue and have incurred losses since our inception in 2007. As of March 31, 2015, we had an accumulated deficit of \$102.7 million. We anticipate that we will continue to incur losses for the foreseeable

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future. We expect that our research and development and general and administrative expenses will continue to increase and, as a result, we will need additional capital to fund our operations, which we may seek to obtain through one or more equity offerings, debt financings, government or other third-party funding, and licensing or collaboration arrangements.

Since our inception through March 31, 2015, we have funded our operations primarily through the sale of our common stock and convertible preferred stock and, to a lesser extent, debt financing. From our inception through March 31, 2015, we have raised \$244.4 million from such transactions, including from our initial and follow-on public offerings during 2014. As of March 31, 2015, we had cash and cash equivalents of \$27.0 million and marketable securities of \$110.4 million.

Based on our current operating plan we anticipate that our existing cash, cash equivalents and marketable securities will fund our operations for at least the next twelve months. Cash in excess of immediate requirements is invested in accordance with our investment policy, primarily with a view to capital preservation.

The following table shows a summary of our cash flows for each of the three months ended March 31, 2015 and 2014:

	Three Months Ended March 31,	
	2015	2014
Cash flows used in operating activities	\$ (9,977,571)	\$ (6,486,814)
Cash flows used in investing activities	(62,468,958)	(42,526,419)
Cash flows (used in) provided by financing activities	(3,687,818)	68,614,224
Net increase (decrease) in cash and cash equivalents	\$ (76,134,347)	\$ 19,600,991

Net Cash Used in Operating Activities

Operating activities used \$10.0 million of cash in the three months ended March 31, 2015. The cash flow used in operating activities resulted primarily from our net loss of \$9.2 million for the period and cash used for changes in our operating assets and liabilities of \$2.0 million, offset by non-cash charges of \$1.2 million. Net cash used for changes in our operating assets and liabilities consisted primarily of a \$1.0 million increase in our prepaid expenses and other current assets due primarily to insurance costs. Additionally, accrued expenses and other current liabilities decreased \$1.1 million, primarily due to an increase in vendor invoices received and processed to accounts payable prior to March 31, 2015, as compared to the previous year, and accounts receivable increased by \$0.4 million related to our U.S. Government grant recorded during the first quarter of 2015. These changes were partially offset by a \$0.6 million increase in our accounts payable due to the timing of our payments to manufacturers, CROs and legal counsel. Our non-cash charges consisted of primarily of \$1.0 million of stock-based compensation expense.

Operating activities used \$6.5 million of cash in the three months ended March 31, 2014. The cash flow used in operating activities resulted primarily from our net loss of \$6.5 million for the period and cash used for changes in our operating assets and liabilities of \$0.4 million, offset by non-cash charges of \$0.5 million. Net cash used for changes in our operating assets and liabilities consisted primarily of a \$0.7 million increase in our prepaid expenses and other current assets due primarily to increased insurance costs. Accrued expenses and other current liabilities decreased \$0.4

million, this decrease was primarily attributable to an increase in vendor invoices received and processed to accounts payable prior to March 31, 2014, as compared to the previous year. These changes were partially offset by a \$0.7 million increase in our accounts payable due to the timing of our payments to manufacturers, CROs and legal counsel, as well as an increase in the timely receipt of invoices from our vendors. Our non-cash charges consisted of primarily of \$0.4 million of stock-based compensation expense.

Net Cash Used in Investing Activities

Net cash used in investing activities was \$62.4 million in the three months ended March 31, 2015. Net cash used in investing activities consisted primarily of cash used for the purchase of marketable securities of \$89.4 million, partially offset by cash received from the redemption of marketable securities of \$27.5 million. In addition, \$0.5 million of cash was used to purchase manufacturing equipment.

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Net cash used in investing activities was \$42.5 million in the three months ended March 31, 2014. Net cash used in investing activities consisted primarily of cash used for the purchase of marketable securities of \$42.7 million, partially offset by cash received from the redemption of marketable securities of \$0.3 million.

Net Cash Used in and Provided by Financing Activities

Net cash used in financing activities was \$3.7 million compared to net cash provided by financing activities of \$68.6 million for the three months ended March 31, 2015 and 2014, respectively. Net cash used in financing activities in the three months ended March 31, 2015 consisted of \$3.5 million paid to satisfy our obligation to MidCap and \$0.2 million in financing costs associated with our follow-on financing in late 2014. Net cash provided by financing activities in the three months ended March 31, 2014 primarily consisted of \$69.5 million in proceeds from our initial public offering, and \$0.2 million in proceeds received from the exercise of stock options, offset by the payment of fees incurred in connection with our initial public offering of \$1.1 million.

Contractual Obligations

During the three months ending March 31, 2015, there were no material changes, outside of the ordinary course of business, in our outstanding contractual obligations from those disclosed within Management's Discussion and Analysis of Financial Condition and Results of Operations, as contained in our Annual Report on Form 10-K filed by us with the SEC on March 24, 2015.

Off-Balance Sheet Arrangements

During the periods presented, we did not have, nor do we currently have, any off-balance sheet arrangements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Our primary exposure to market risk is interest income sensitivity, which is affected by changes in the general level of U.S. interest rates. Due to the short-term duration of a majority of our investment portfolio and the low risk profile of our investments, an immediate 10.0% change in interest rates would not have a material effect on the fair market value of our portfolio. Accordingly, we would not expect our operating results or cash flows to be affected to any significant degree by a sudden change in market interest rates on our investment portfolio.

We do not believe that our cash, cash equivalents and marketable securities have significant risk of default or illiquidity. While we believe our cash and cash equivalents and certificates of deposit do not contain excessive risk, we cannot provide absolute assurance that in the future our investments will not be subject to adverse changes in market value. In addition, we maintain significant amounts of cash and cash equivalents at one or more financial institutions that are in excess of federally insured limits.

ITEM 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We are responsible for maintaining disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Disclosure controls and procedures are controls and other procedures designed to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded,

processed, summarized, and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

Based on our management's evaluation (with the participation of our principal executive officer and our principal financial officer) of our disclosure controls and procedures as required by Rule 13a-15 under the Exchange Act, our principal executive officer and our principal financial officer have concluded that our disclosure controls and procedures were effective to achieve their stated purpose as of March 31, 2015, the end of the period covered by this report.

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Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended March 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

We are not currently a party to any material legal proceedings.

ITEM 1A. RISK FACTORS

You should carefully consider the following risk factors, and the risk factors included in Item 1A of our Annual Report on Form 10-K, as well as the other information in this report, before deciding whether to purchase, hold or sell shares of our common stock. The occurrence of any of these risks could harm our business, financial condition, results of operations and/or growth prospects or cause our actual results to differ materially from those contained in forward-looking statements we have made in this report and those we may make from time to time. In these circumstances, the market price of our common stock would likely decline. You should consider all of the factors described below and in Item 1A of our Annual Report on Form 10-K when evaluating our business. The risk factors set forth below represent new risk factors or those containing changes, including material changes, to the similarly titled risk factors included in Item 1A of our Annual Report on Form 10-K.

Risks Related to Our Financial Condition and Need for Additional Capital

We have incurred significant losses since our inception and anticipate that we will continue to incur significant losses for the foreseeable future.

We have limited operating history. To date, we have focused primarily on developing our lead product candidate, FX006. We have two additional product candidates, FX007 and FX005. All of our product candidates will require substantial additional development time and resources before we would be able to apply for or receive regulatory approvals and begin generating revenue from product sales. We have incurred significant net losses in each year since our inception, including net losses of \$9.2 million for the three months ended March 31, 2015 and \$27.3 million, \$18.2 million and \$15.0 million for fiscal years 2014, 2013 and 2012, respectively. As of March 31, 2015, we had an accumulated deficit of \$102.7 million.

We have devoted most of our financial resources to product development, including our non-clinical development activities and clinical trials. To date, we have financed our operations exclusively through the sale of equity securities and debt. The size of our future net losses will depend, in part, on the rate of future expenditures and our ability to generate revenue. To date, none of our product candidates have been commercialized, and if our product candidates are not successfully developed or commercialized, or if revenue is insufficient following marketing approval, we will not achieve profitability and our business may fail. Even if we successfully obtain regulatory approval to market our product candidates in the United States, our revenue is also dependent upon the size of the markets outside of the United States, as well as our ability to obtain market approval and achieve commercial success.

We expect to continue to incur substantial and increased expenses as we expand our development activities and advance our clinical programs, particularly with respect to FX006. We also expect a continued increase in our expenses associated with our operations as a publicly-traded company. As a result of the foregoing, we expect to

continue to incur significant and increasing losses and negative cash flows for the foreseeable future.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Recent Sales of Unregistered Securities

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

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Not applicable.

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS**Exhibit**

number	Description of document
31.1	Certification of the Principal Executive Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
31.2	Certification of the Principal Financial Officer pursuant to Rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
32.1	Certification of the Principal Executive Officer and Principal Financial 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 Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Flexion Therapeutics, Inc.

Date: May 8, 2015

By: /s/ Frederick W. Driscoll
Frederick W. Driscoll
Chief Financial Officer
(Principal Financial Officer)