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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER
8-13431

FACING PAGE
Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/13 AND ENDING 12/31/13
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: **Lincoln Financial Distributors, Inc.**

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

130 N. Radnor-Chester Road
(No. and Street)

Radnor, Pennsylvania 19087
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT
Elizabeth F. Conover (336) 691-3153
(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

Ernst & Young LLP
(Name - if individual, state last, first, middle name)

One Commerce Square, Suite 700, 2005 Market Street Philadelphia, PA 19103
(Address) (City) (State) (Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

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*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION

Lincoln Financial Distributors, Inc.
Years Ended December 31, 2013 and 2012
With Report and Supplementary Report of
Independent Registered Public Accounting Firm

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OATH OR AFFIRMATION

I, Elizabeth F. Conover, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Lincoln Financial Distributors, Inc., as of December 31, 2013, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Elizabeth F. Conover
Signature

AVP and Interim Chief Financial Officer
Title

ROBYN E HICKS
NOTARY PUBLIC
GUILFORD COUNTY, NC

Robyn E. Hicks Expires 03/05/16
Notary Public

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Lincoln Financial Distributors, Inc.

Financial Statements and Supplementary Information

Years Ended December 31, 2013 and 2012

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Report of Independent Registered Public Accounting Firm

The Board of Directors
Lincoln Financial Distributors, Inc.

We have audited the accompanying financial statements of Lincoln Financial Distributors, Inc. (an indirect, wholly owned subsidiary of Lincoln National Corporation) (the "Company"), which comprise the statements of financial condition as of December 31, 2013 and 2012, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended that are filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lincoln Financial Distributors, Inc. as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The information contained in Schedules I and II is presented for purposes of additional analysis and is not a required part of the financial statements, but is supplementary information required by Rule 17a-5 under the Securities Exchange Act of 1934. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

February 25, 2014

Ernst + Young LLP

Lincoln Financial Distributors, Inc.

Statements of Financial Condition

| | December 31 | |
|---|----------------------|----------------------|
| | 2013 | 2012 |
| Assets | | |
| Cash and invested cash | \$ 8,256,933 | \$ 8,713,355 |
| Commissions and fees receivable | 21,091,536 | 17,569,824 |
| Due from affiliates | 822,974 | 33,413 |
| Deferred tax asset | 845 | 608 |
| Total assets | <u>\$ 30,172,288</u> | <u>\$ 26,317,200</u> |
| Liabilities and stockholder's equity | | |
| Liabilities: | | |
| Due to affiliates | \$ 21,119,131 | \$ 17,560,544 |
| Other liabilities | 569,010 | 233,537 |
| Total liabilities | <u>21,688,141</u> | <u>17,794,081</u> |
| Stockholder's equity: | | |
| Common stock – \$25 par value; 10,000 shares authorized; 8,000 shares issued and outstanding | 200,000 | 200,000 |
| Additional paid-in capital | 12,632,000 | 12,632,000 |
| Accumulated deficit | (4,347,853) | (4,308,881) |
| Total stockholder's equity | <u>8,484,147</u> | <u>8,523,119</u> |
| Total liabilities and stockholder's equity | <u>\$ 30,172,288</u> | <u>\$ 26,317,200</u> |

See accompanying notes.

Lincoln Financial Distributors, Inc.

Statements of Income

| | Year Ended December 31 | |
|--|-------------------------------|----------------------|
| | 2013 | 2012 |
| Revenues: | | |
| Commissions and fees from third parties | \$ 204,427,062 | \$ 165,476,566 |
| Commissions and fees from affiliates | 1,271,204,170 | 938,088,208 |
| Interest | 4,123 | 48 |
| Other | 3 | - |
| Total revenues | <u>1,475,635,358</u> | <u>1,103,564,822</u> |
| Expenses: | | |
| Commissions and agency expenses | 204,427,062 | 165,476,566 |
| Service charges from affiliates | 1,271,204,170 | 938,088,208 |
| Total expenses | <u>1,475,631,232</u> | <u>1,103,564,774</u> |
| Income before income tax expense (benefit) | 4,126 | 48 |
| Income tax expense (benefit) | 43,098 | (9,056) |
| Net (loss) income | <u>\$ (38,972)</u> | <u>\$ 9,104</u> |

See accompanying notes.

Lincoln Financial Distributors, Inc.

Statements of Changes in Stockholder's Equity

| | Year Ended December 31 | |
|--|------------------------|---------------------|
| | 2013 | 2012 |
| Common stock: | | |
| Balance as of beginning and end of year | <u>\$ 200,000</u> | <u>\$ 200,000</u> |
| Additional paid-in capital: | | |
| Balance as of beginning and end of year | <u>12,632,000</u> | <u>12,632,000</u> |
| Accumulated deficit: | | |
| Balance as of beginning of year | (4,308,881) | (4,317,985) |
| Net (loss) income | <u>(38,972)</u> | <u>9,104</u> |
| Balance as of end of year | <u>(4,347,853)</u> | <u>(4,308,881)</u> |
| Total stockholder's equity as of end of year | <u>\$ 8,484,147</u> | <u>\$ 8,523,119</u> |

See accompanying notes.

Lincoln Financial Distributors, Inc.

Statements of Cash Flows

| | Year Ended December 31 | |
|--|-------------------------------|---------------------|
| | 2013 | 2012 |
| Operating activities | | |
| Net (loss) income | \$ (38,972) | \$ 9,104 |
| Adjustments to reconcile net (loss) income to net cash used in operating activities: | | |
| Change in deferred tax asset | (237) | (608) |
| Change in commissions and fees receivable | (3,521,712) | (2,386,261) |
| Change in due from affiliates | (789,561) | 92,054 |
| Change in other assets | - | 70 |
| Change in due to affiliates | 3,558,587 | 2,385,377 |
| Change in other liabilities | 335,473 | (284,027) |
| Net cash used in operating activities | <u>(456,422)</u> | <u>(184,291)</u> |
| Net decrease in cash and invested cash | (456,422) | (184,291) |
| Cash and invested cash as of beginning of year | 8,713,355 | 8,897,646 |
| Cash and invested cash as of end of year | <u>\$ 8,256,933</u> | <u>\$ 8,713,355</u> |
| Supplemental disclosure of cash flow information | | |
| Income tax paid | <u>\$ 1,131,769</u> | <u>\$ 706,314</u> |

See accompanying notes.

Lincoln Financial Distributors, Inc.

Notes to Financial Statements

December 31, 2013

1. Nature of Operations, Basis of Presentation, and Summary of Significant Accounting Policies

Nature of Operations

Lincoln Financial Distributors, Inc. (“LFD” or the “Company,” which also may be referred to as “we,” “our,” or “us”) is a registered broker-dealer that is engaged in the business of wholesaling and marketing financial services products, such as mutual funds, variable life insurance, and variable annuities, through financial intermediaries, such as stock brokerage firms, banks, and independent insurance agencies. LFD also receives commissions from affiliated insurance companies via intercompany transfers. LFD does not solicit or sell products directly to the general public. LFD is licensed to engage in broker-dealer activity throughout the United States. LFD is a wholly owned subsidiary of The Lincoln National Life Insurance Company (“LNL”), which is a wholly owned subsidiary of Lincoln National Corporation (“LNC”).

Basis of Presentation

The accompanying financial statements are prepared in accordance with United States of America generally accepted accounting principles (“GAAP”). Certain GAAP policies, which significantly affect the determination of financial position, results of operations, and cash flows, are summarized below.

The Company and other affiliated entities that provide services to the Company are under common ownership and management control. The existence of this control could result in the Company’s operating results or financial position being significantly different from those that would have been obtained if the Company were autonomous.

Summary of Significant Accounting Policies

Accounting Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions affecting the reported amounts of assets and liabilities and the disclosures of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Those estimates are inherently subject to change, and actual results could differ from those estimates.

Lincoln Financial Distributors, Inc.

Notes to Financial Statements (continued)

1. Nature of Operations, Basis of Presentation, and Summary of Significant Accounting Policies (continued)

Cash and Invested Cash

Cash and invested cash is carried at cost and includes all highly liquid investments purchased with an original maturity of three months or less.

Commission and Fee Revenue and Expense

LFD is the principal underwriter for the wholesale distribution of all variable life and annuity products of LNL and Lincoln Life & Annuity Company of New York (“LLANY”). We recognize all commission and fee revenue for the distribution of these products. These selling costs are then passed on to LNL who, through the processing and services agreements, pays the commissions on LFD’s behalf. An accrual is recorded for fee income, and a corresponding accrual is recorded for the commission expense to be paid based on the fee income.

LFD also recognizes wholesaling revenue on 12b-1 fees received from separate account fund sponsors as compensation for marketing and distributing the underlying mutual funds. These 12b-1 fees are passed on to LNL to offset wholesale distribution expenses provided on LFD’s behalf. The 12b-1 fees received from separate account fund sponsors amounted to \$215,874,623 and \$178,115,212 in 2013 and 2012, respectively. These fees are included in commissions and fees from third parties to the extent expense is incurred on the Statements of Income. All other commission and fee revenue amounts are received from affiliates.

Income Taxes

LNC files a U.S. consolidated income tax return that includes all eligible subsidiaries, including LFD and LNL. Pursuant to an intercompany tax-sharing agreement with LNL, LFD provides for income taxes on a separate return filing basis. The tax-sharing agreement also provides that LFD will receive benefit for net operating losses, capital losses, and tax credits, which may not be usable on a separate return basis to the extent such items may be utilized in the consolidated federal income tax returns of LNC.

Deferred income taxes are recognized, based on enacted rates, when assets and liabilities have different values for financial statement and tax reporting purposes. A valuation allowance is recorded to the extent required. Considerable judgment and the use of estimates are required in determining whether a valuation allowance is necessary and, if so, the amount of such valuation allowance. See Note 2 for additional information.

Lincoln Financial Distributors, Inc.

Notes to Financial Statements (continued)

2. Income Taxes

The federal income tax expense (benefit) was as follows:

| | Year Ended December 31 | |
|--------------------------------------|-------------------------------|-------------------|
| | 2013 | 2012 |
| Current | \$ 43,335 | \$ (8,448) |
| Deferred | (237) | (608) |
| Federal income tax expense (benefit) | <u>\$ 43,098</u> | <u>\$ (9,056)</u> |

A reconciliation of the effective tax rate differences was as follows:

| | Year Ended December 31 | |
|--------------------------------------|-------------------------------|-------------------|
| | 2013 | 2012 |
| Tax rate times pretax income | \$ 1,444 | \$ 17 |
| Effect of: | | |
| Other items | 41,654 | (9,073) |
| Federal income tax expense (benefit) | <u>\$ 43,098</u> | <u>\$ (9,056)</u> |
| Effective tax rate | <u>1,044.6%</u> | <u>18,867.0%</u> |

The effective tax rate is the ratio of tax expense over pretax income (loss). The 2013 and 2012 income tax expense differs from the federal tax rate of 35% as a result of permanent differences.

The federal income tax (liability) asset was as follows:

| | Year Ended December 31 | |
|--|-------------------------------|-----------------|
| | 2013 | 2012 |
| Current | \$ (40,278) | \$ 1,200 |
| Deferred | 845 | 608 |
| Total federal income tax (liability) asset | <u>\$ (39,433)</u> | <u>\$ 1,808</u> |

Lincoln Financial Distributors, Inc.

Notes to Financial Statements (continued)

2. Income Taxes (continued)

Significant components of our deferred tax assets were as follows:

| | Year Ended December 31 | |
|---------------------------------|-------------------------------|---------------|
| | 2013 | 2012 |
| Deferred tax assets | | |
| Net operating loss carryforward | \$ 845 | \$ 608 |
| Total deferred tax assets | <u>845</u> | <u>608</u> |
| Deferred tax liabilities | | |
| Total deferred tax liabilities | - | - |
| Net deferred tax asset | <u>\$ 845</u> | <u>\$ 608</u> |

Current federal income taxes (liability) receivable of \$(40,278) and \$1,200 at December 31, 2013 and 2012, respectively, is included in due from affiliates (due to affiliates) on the Statements of Financial Condition.

The Company is required to establish a valuation allowance for any gross deferred tax assets that are unlikely to reduce taxes payable in future years' tax returns. At December 31, 2013 and 2012, the Company concluded that it was more likely than not that its gross deferred tax assets will reduce taxes payable in future years; therefore, no valuation allowance was necessary. The LNC consolidated group is subject to annual tax examinations from the Internal Revenue Service ("IRS") and state taxing jurisdictions. We do not anticipate that any adjustments that might result from such audits would be material to our results of operations or financial condition. The LNC consolidated group is currently under audit by the IRS for years 2009, 2010, and 2011.

There are no uncertain tax positions related to the Company in the current year.

3. Agreements and Transactions With Affiliates

In order to be compliant with the Financial Industry Regulatory Authority ("FINRA") rules regarding proper expense recognition and expense-sharing agreements and to better match expenses with related revenue, LFD has entered into various cost-sharing agreements with affiliates. Amounts due from affiliates primarily represent amounts due to LFD for the settlement of general and administrative expenses, and taxes and fees, as stipulated in the Master Services Agreement. Amounts due to affiliates primarily represent amounts due to LNL related to separate account 12b-1 fees, as well as intercompany cost and tax-sharing agreements.

Lincoln Financial Distributors, Inc.

Notes to Financial Statements (continued)

4. Contingencies

Regulatory and Litigation Matters

Regulatory bodies, such as the Securities and Exchange Commission (“SEC”), FINRA, and other regulatory bodies, regularly make inquiries and conduct examinations or investigations concerning our compliance with, among other things, securities laws and laws governing the activities of broker-dealers. While LFD is involved in various pending or threatened legal or regulatory proceedings arising from the conduct of business both in the ordinary course and otherwise, such legal expenses are a part of our affiliate cost-sharing agreements. Based on information currently known by management, management does not believe any such charges are likely to have a material adverse effect on LFD’s financial position.

5. Net Capital Requirements

LFD has elected to operate under the alternative standard provisions of the SEC Uniform Net Capital Rule (Rule 15c3-1), which requires the minimum net capital to be the greater of \$250,000 or 2% of aggregate debit items computed in accordance with the SEC Customer Protection Rule (Rule 15c3-3) reserve requirements. Our operations do not normally include the physical handling of securities or the maintenance of open customer accounts; therefore, there are no reserve provisions pursuant to Rule 15c3-3. Accordingly, our minimum net capital requirement is \$250,000.

| | Year Ended December 31 | |
|---------------------------------|------------------------|---------------------|
| | 2013 | 2012 |
| Minimum net capital requirement | \$ 250,000 | \$ 250,000 |
| Net capital | 7,660,328 | 8,489,098 |
| Excess net capital | <u>\$ 7,410,328</u> | <u>\$ 8,239,098</u> |

6. Subsequent Events

The Company has evaluated subsequent events for recognition and disclosure through the date the financial statements were issued.

Supplementary Information

Lincoln Financial Distributors, Inc.

Schedule I – Computation of Net Capital Pursuant to Rule 15c3-1
under the Securities Exchange Act of 1934

December 31, 2013

Computation of net capital

| | |
|--|----------------------------|
| Total stockholder's equity qualified for net capital | <u>\$ 8,484,147</u> |
| Less non-allowable assets: | |
| Due from affiliates | 822,974 |
| Deferred tax asset | <u>845</u> |
| Total non-allowable assets | <u>823,819</u> |
| Other deductions | – |
| Net capital before haircuts on securities positions | <u>7,660,328</u> |
| Haircuts on securities | – |
| Net capital | <u><u>\$ 7,660,328</u></u> |

Computation of alternate net capital requirements

| | |
|--|----------------------------|
| 2% of combined aggregate debit items as shown in Formula for Reserve Requirements pursuant to Rule 15c3-3 | <u>\$ –</u> |
| Greater of \$250,000 or 2% of combined aggregate debit items | <u><u>\$ 250,000</u></u> |
| Excess net capital | <u><u>\$ 7,410,328</u></u> |
| Excess net capital at 120% of minimum net capital requirement | <u><u>\$ 7,360,328</u></u> |

No material differences exist between the audited financial statement computation of net capital and the computation included in the Company's corresponding unaudited Form X-17A-5, Part II filing as of December 31, 2013.

Lincoln Financial Distributors, Inc.

**Schedule II – Statement Regarding Reserve Requirements
Pursuant to Rule 15c3-3 under the Securities Exchange Act of 1934**

December 31, 2013

Lincoln Financial Distributors, Inc. is exempt from Rule 15c3-3 under the Securities Exchange Act of 1934 under paragraph (k)(1) of that Rule.

התאחדות המורים והמורות

Supplementary Report



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unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with generally accepted accounting principles. Rule 17a-5(g) lists additional objectives of the practices and procedures listed in the preceding paragraph.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control was for the limited purpose described in the first and second paragraphs and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses as defined above.

We understand that practices and procedures that accomplish the objectives referred to in the second paragraph of this report are considered by the SEC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second paragraph of this report, were adequate at December 31, 2013, to meet the SEC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, Financial Industry Regulatory Authority, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 in their regulation of registered brokers and dealers, and other recipients specified by Rule 17a-5(d)(6) and is not intended to be and should not be used by anyone other than these specified parties.

Ernst & Young LLP

February 25, 2014

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