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

Form 10-Q

(Mark One)

☒ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2020
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: 001-34963

LPL Financial Holdings Inc.
(Exact name of registrant as specified in its charter)

Delaware	**20-3717839**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*

4707 Executive Drive, San Diego, California 92121
(Address of Principal Executive Offices) (Zip Code)

(800) 877-7210
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock - par value $0.001 per share	LPLA	The Nasdaq Global Select Market

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). ☒ Yes ☐ No

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

Large Accelerated Filer	☒	Accelerated Filer	☐
Non-accelerated Filer	☐	Smaller Reporting Company	☐
		Emerging Growth Company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

The number of shares of Common Stock, par value $0.001 per share, outstanding as of July 28, 2020 was 79,089,899.

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WHERE YOU CAN FIND MORE INFORMATION

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

We post the following filings to LPL.com as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our annual reports on Form 10-K, our proxy statements, our quarterly reports on Form 10-Q, our current reports on Form 8-K and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. Hard copies of all such filings are available free of charge by request via email (investor.relations@lpl.com), telephone ((617) 897-4574), or mail (LPL Financial Investor Relations at 75 State Street, 22nd Floor, Boston, MA 02109). The information contained or incorporated on our website is not a part of this Quarterly Report on Form 10-Q.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in Part I, “Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this Quarterly Report on Form 10-Q regarding the Company’s future financial and operating results, outlook, growth, plans, business strategies, liquidity and future share repurchases, including statements regarding future resolution of regulatory matters, legal proceedings and related costs, future revenue and expenses, future affiliation models and capabilities, market and macroeconomic trends, projected savings and anticipated improvements to the Company’s operating model, services and technologies as a result of its investments, initiatives, programs and/or acquisitions, as well as expected impacts of the coronavirus disease 2019 (“COVID-19”) pandemic on the Company's businesses, and any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. These forward-looking statements are based on the Company’s historical performance and its plans, estimates and expectations as of August 4, 2020. The words “anticipates,” “believes,” “expects,” “may,” “plans,” “predicts,” “will” and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future results, plans, intentions or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive and other factors, which may cause actual financial or operating results, levels of activity or the timing of events to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in general economic and financial market conditions, including retail investor sentiment; changes in interest rates and fees payable by banks participating in the Company’s client cash programs, including the Company’s success in negotiating agreements with current or additional counterparties; the Company’s strategy and success in managing client cash program fees; fluctuations in the levels of brokerage and advisory assets, including net new assets, and the related impact on revenue; effects of competition in the financial services industry; the success of the Company in attracting and retaining financial advisors and institutions, and their ability to market effectively financial products and services; whether retail investors served by newly-recruited advisors choose to move their respective assets to new accounts at the Company; changes in growth and profitability of the Company’s fee-based business, including the Company’s centrally managed advisory platform; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by federal and state regulators and self-regulatory organizations, and the implementation of Regulation BI (Best Interest); the cost of settling and remediating issues related to regulatory matters or legal proceedings, including actual costs of reimbursing customers for losses in excess of our reserves; changes made to the Company’s services and pricing, including in response to competitive developments and current, pending, and future legislation, regulation, and regulatory actions, and the effect that such changes may have on the Company’s gross profit streams and costs; execution of the Company’s capital management plans, including its compliance with the terms of its credit agreement and the indentures governing its senior notes; the price, the availability of shares, and trading volumes of the Company’s common stock, which will affect the timing and size of future share repurchases by the Company, if any; execution of the Company’s plans and its success in realizing the synergies, expense savings, service improvements or efficiencies expected to result from its investments, initiatives and programs, including its acquisitions, expense plans and technology initiatives; the performance of third-party service providers to which business processes have been transitioned; the Company’s ability to control operating risks, information technology systems risks, cybersecurity risks and sourcing risks; the effects of the COVID-19 pandemic, including efforts to contain it; and the other factors set forth in Part I, “Item 1A. Risk Factors” in the Company’s 2019 Annual Report on Form 10-K, as may be amended or updated in the Company’s Quarterly Reports on Form 10-Q. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this Quarterly Report on Form 10-Q, even if its estimates change, and you should not rely on statements contained herein as representing the Company’s views as of any date subsequent to the date of this Quarterly Report on Form 10-Q.

PART I — FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

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

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

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

Executive Summary

Financial Highlights

Results for the second quarter of 2020 included net income of $101.7 million, or $1.27 per share, which compares to $146.1 million, or $1.71 per share, for the second quarter of 2019.

Asset Growth Trends

Total brokerage and advisory assets served were $761.7 billion as of June 30, 2020, up 8% from $706.0 billion as of June 30, 2019. Total net new assets were $13.0 billion for the three months ended June 30, 2020, compared to $6.2 billion for the same period in 2019.

Net new advisory assets were $10.2 billion for the three months ended June 30, 2020, compared to $7.5 billion for the same period in 2019. As of June 30, 2020, our advisory assets had grown to $375.3 billion, compared to $327.3 billion as of June 30, 2019, an increase of 15%, and represented 49% of total brokerage and advisory assets served.

Net new brokerage assets were an inflow of $2.8 billion for the three months ended June 30, 2020, compared to an outflow of $1.3 billion for the same period in 2019. As of June 30, 2020, our brokerage assets were $386.4 billion, up from $378.7 billion as of June 30, 2019, an increase of 2%.

Gross Profit Trends

Gross profit, a non-GAAP financial measure, of $488.2 million for the three months ended June 30, 2020, decreased 9% from $535.7 million for the quarter ended June 30, 2019. Gross profit is calculated as net revenues, less commission and advisory expenses and brokerage, clearing and exchange fees. Management presents gross profit because we believe that measure may provide useful insight to investors in evaluating the Company's core operating performance before indirect costs that are general and administrative in nature. See footnote 9 to the Financial Metrics table within the "How We Evaluate Our Business" section for additional information on gross profit.

Stockholder Capital Returns

We returned $19.7 million of capital, in the form of dividends, to stockholders during the three months ended June 30, 2020.

COVID-19 Response

In response to the coronavirus disease 2019 ("COVID-19") pandemic, we have taken measures to protect the health and safety of our employees, as well as the stability and continuity of our operations. For example, we have equipped and enabled a substantial majority of employees to work remotely, implemented physical distancing and enhanced cleaning protocols throughout our corporate offices, and have worked closely with our vendors to maintain service continuity throughout the increased market volatility and operational volumes that occurred during the first six months of the year. We have also made extra support available to our advisors by extending service hours and providing additional resources to enable them to deliver differentiated service to their clients. For information about the risks associated with COVID-19, see Part II, "Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q.

Our Sources of Revenue

Our revenues are derived primarily from fees and commissions from products and advisory services offered by our advisors to their clients, a substantial portion of which we pay out to our advisors, as well as fees we receive from our advisors for the use of our technology, custody, clearing, trust and reporting platforms. We also generate asset-based revenues through our cash sweep vehicles and money market programs and the access we provide to a variety of product providers with the following product lines:

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

Under our self-clearing platform, we custody the majority of client assets invested in these financial products, for which we provide statements, transaction processing and ongoing account management. In return for these services, mutual funds, insurance companies, banks and other financial product sponsors pay us fees based on asset levels or number of accounts managed. We also earn interest from margin loans made to our advisors' clients.

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

How We Evaluate Our Business

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

	Six Months Ended June 30,		
Operating and Business Metrics (dollars in billions)(1)	**2020**	**2019**	**% Change**
Advisory assets(2)(3)	$ 375.3	$ 327.3	15%
Brokerage assets(2)(4)	386.4	378.7	2%
Total Brokerage and Advisory Assets served(2)	**$ 761.7**	**$ 706.0**	**8%**
Net new advisory assets(5)	$ 23.4	$ 12.7	n/m
Net new brokerage assets(6)	4.0	(0.8)	n/m
Total Brokerage and Advisory Net New Assets	**$ 27.3**	**$ 11.9**	**n/m**
Insured cash account balances(2)	$ 33.1	$ 21.3	55%
Deposit cash account balances(2)	7.7	4.3	79%
Total Insured Sweep Balances	**40.8**	**25.5**	**60%**
Money market account balances(2)	1.6	3.5	(54%)
Purchased money market fund balances(2)	2.8	1.0	n/m
Total Client Cash Balances	**$ 45.3**	**$ 30.1**	**50%**
Advisors	16,973	16,161	5%

	Three Months Ended June 30,		Six Months Ended June 30,	
Financial Metrics (dollars in millions, except per share data)	**2020**	**2019**	**2020**	**2019**
Total net revenues	$ 1,366.7	$ 1,389.8	$ 2,830.1	$ 2,761.4
Recurring gross profit rate (trailing twelve months)(7)	86.8 %	86.5%	86.8 %	86.5%
Pre-tax income	$ 137.3	$ 195.1	$ 344.9	$ 398.9
Net income	$ 101.7	$ 146.1	$ 257.3	$ 301.5
Earnings per share, diluted	$ 1.27	$ 1.71	$ 3.19	$ 3.50
Non-GAAP Financial Measures(8)				
Gross profit(9)	$ 488.2	$ 535.7	$ 1,063.8	$ 1,091.6
Gross profit (decrease)/increase from prior period(9)	(8.9%)	11.0%	(2.5%)	15.3%
Gross profit as a % of net revenue(9)	35.7%	38.5%	37.6%	39.5%

(1) Totals may not foot due to rounding.

(2) Brokerage and advisory assets consists of assets that are custodied, networked and non-networked and reflect market movement in addition to new assets, inclusive of new business development and net of attrition. Insured cash account balances, deposit cash account balances, money market account balances and purchased money market fund balances are also included in brokerage and advisory assets served.

(3) Advisory assets consists of total advisory assets under custody at our broker-dealer subsidiary, LPL Financial LLC ("LPL Financial"). See *Results of Operations* for a tabular presentation of advisory assets.

(4) Brokerage assets consists of assets serviced by advisors licensed with LPL Financial.

(5) Net new advisory assets consists of total client deposits into custodied advisory accounts less total client withdrawals from custodied advisory accounts, plus dividends, plus interest, minus advisory fees. We consider conversions from and to brokerage accounts as deposits and withdrawals, respectively. The previously reported figures for net new advisory assets did not include dividends and interest or subtract advisory fees. The figure previously reported for the six months ended June 30, 2019 was an inflow of $11.2 billion.

(6) Net new brokerage assets consists of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts, plus dividends, plus interest, minus advisory fees. We consider conversions from and to advisory accounts as deposits and withdrawals,

respectively. The previously reported figures for net new brokerage assets did not include dividends and interest or subtract advisory fees. The figure previously reported for the six months ended June 30, 2019 was an outflow of $3.2 billion.

(7) Recurring gross profit rate refers to the percentage of our gross profit, a non-GAAP financial measure, that was recurring for the period presented. We track recurring gross profit, a characterization of gross profit and a statistical measure, which is defined to include asset-based revenues, advisory revenues, trailing commission revenues and certain other fee revenues that are based upon the number of client accounts and advisors, less the expenses associated with such revenues and certain other recurring expenses not specifically associated with a revenue line. We allocate other recurring expenses on a pro-rata basis against specific revenue lines at our discretion. Because certain sources of recurring gross profit are associated with asset balances, they will fluctuate depending on the market values and current interest rates. Accordingly, our recurring gross profit can be negatively impacted by adverse external market conditions. However, we believe that recurring gross profit is meaningful despite these fluctuations because it is not dependent upon transaction volumes or other activity-based revenues, which are more difficult to predict, particularly in declining or volatile markets.

(8) We believe that presenting certain non-GAAP financial measures by excluding or including certain items can be helpful to investors and analysts who may wish to use some or all of this information to analyze our current performance, prospects, and valuation. Our management uses this non-GAAP information internally to evaluate operating performance and in formulating the budget for future periods. We believe that the non-GAAP financial measures and metrics presented above and discussed below are appropriate for evaluating the performance of the Company.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
Gross Profit (in millions)	**2020**	**2019**	**2020**	**2019**
Total net revenues	$ 1,366.7	$ 1,389.8	$ 2,830.1	$ 2,761.4
Commission and advisory expense	859.8	838.0	1,730.6	1,637.7
Brokerage, clearing and exchange fees	18.6	16.0	35.6	32.1
Gross profit(1)	**$ 488.2**	**$ 535.7**	**$ 1,063.8**	**$ 1,091.6**

(1) Totals may not foot due to rounding.

Legal & Regulatory Matters

As a regulated entity, we are subject to regulatory oversight and inquiries related to, among other items, our compliance and supervisory systems and procedures and other controls, as well as our disclosures, supervision and reporting. We review these items in the ordinary course of business in our effort to adhere to legal and regulatory requirements applicable to our operations. Nevertheless, the environment of additional regulation, increased regulatory compliance obligations and enhanced regulatory enforcement has resulted, and may result in the future, in additional operational and compliance costs, as well as increased costs in the form of penalties and fines, investigatory and settlement costs, customer restitution and remediation related to regulatory matters. In the ordinary course of business, we periodically identify or become aware of purported inadequacies, deficiencies and other issues. It is our policy to evaluate these matters for potential securities law or regulatory violations, and other potential compliance issues. It is also our policy to self-report known violations and issues as required by applicable law and regulation. When deemed probable that matters may result in financial losses, we accrue for those losses based on an estimate of possible fines, customer restitution and losses related to the repurchase of sold securities and other losses, as applicable. Certain regulatory and other legal claims and losses may be covered through our wholly-owned captive insurance subsidiary, which is chartered with the insurance commissioner in the state of Tennessee.

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

Our accruals, including those established through our captive insurance subsidiary at June 30, 2020, include estimated costs for significant regulatory matters or legal proceedings, generally relating to the adequacy of our compliance and supervisory systems and procedures and other controls, for which we believe losses are both probable and reasonably estimable. For example, on May 1, 2018, we agreed to a settlement structure with the North American Securities Administrators Association that related to our historical compliance with certain state “blue sky” laws and resulted in aggregate fines of $26.4 million, all of which were covered by our captive insurance subsidiary loss reserves. As part of the settlement structure, we engaged independent third party consultants to conduct a historical review of securities transactions and an operational review of our systems for complying with blue sky securities registration requirements, each of which has been completed. We also agreed to offer customers remediation in the form of reimbursement for any actual losses, plus interest. As of the date of this Quarterly Report on Form 10-Q, customer remediation is substantially complete and the cost is not expected to be material.

The outcome of regulatory or legal proceedings could result in legal liability, regulatory fines or monetary penalties in excess of our accruals and insurance, which could have a material adverse effect on our business, results of operations, cash flows or financial condition. For more information on management’s loss contingency policies, see Note 10. *Commitments and Contingencies*, within the notes to the unaudited condensed consolidated financial statements.

In June 2018, the U.S. Court of Appeals for the Fifth Circuit issued a mandate invalidating regulations previously enacted by the U.S. Department of Labor (“DOL”) that expanded the definition of “fiduciary” and would have resulted in significant new restrictions on our servicing of certain retirement plan accounts subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and individual retirement accounts (“IRAs”), including compliance with expanded prohibited transaction requirements under section 4975 of the Internal Revenue Code. The DOL has proposed a new fiduciary rule with regard to such accounts (the “DOL Rule”). Because ERISA plans and IRAs comprise a significant portion of our business, we continue to expect that compliance with current and future laws and regulations with respect to retail retirement savings and reliance on prohibited transaction exemptions under such laws and regulations will require increased legal, compliance, information technology and other costs and could lead to a greater risk of class action lawsuits and other litigation.

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

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

Acquisitions, Integrations and Divestitures

From time to time we undertake acquisitions or divestitures based on opportunities in the competitive landscape. These activities are part of our overall growth strategy, but can distort comparability when reviewing revenue and expense trends for periods presented.

On August 1, 2019, we acquired all of the outstanding equity interests of Allen & Company of Florida, LLC (“Allen & Company”), a broker-dealer and registered investment adviser (“RIA”), for a total purchase price of $34.9 million. Allen & Company advisors and staff became employees of the Company. See Note 4. *Acquisitions*, within the notes to the unaudited condensed consolidated financial statements for further detail.

During the three-months ended June 30, 2020 we entered into asset purchase agreements with Lucia Securities, LLC, a broker-dealer and RIA firm headquartered in San Diego, California, and E.K. Riley Investments, LLC, a broker-dealer and RIA headquartered in Seattle, Washington. Both transactions are expected to close in the second half of 2020.

Economic Overview and Impact of Financial Market Events

Our business is directly and indirectly sensitive to several macroeconomic factors and the state of domestic and international financial markets. Global economic conditions in the second quarter of 2020 continued to be dominated by the consequences of efforts to contain the COVID-19 pandemic. According to the most recent available estimate from the U.S. Bureau of Economic Analysis, the U.S. economy contracted at an annualized rate of 5% in the first quarter of 2020. The National Bureau of Economic Research, which identifies U.S. recessions, announced in June 2020 that U.S. economic growth had peaked in February 2020 and that the ensuing slowdown in economic activity met its criteria for a recession, ending the economic expansion that began in June 2009.

Data received during the second quarter of 2020 suggests that U.S. gross domestic product ("GDP") has likely seen a historic contraction over the quarter. Several key economic reports suggested that a modest stabilization occurred during the second half of the quarter, although overall economic activity remained at depressed levels. In particular, the unemployment rate, which had spiked to 14.7% in April 2020, declined in both May and June 2020, as consumer spending rebounded, while survey-based data implied both the manufacturing and services sectors expanded in June 2020. In addition, Congress has passed significant fiscal stimulus, highlighted by the Coronavirus Aid, Relief, and Economic Security Act, or CARES Act, a more than $2 trillion fiscal stimulus package aimed at supporting consumers and businesses, and is considering additional stimulus measures. In addition, the Federal Reserve ("Fed") has acted aggressively to stimulate the economy. In addition to keeping the target range for the federal funds rate at 0.0 - 0.25% and continuing its bond purchases, known as quantitative easing, the Fed has enacted a range of programs to increase liquidity, strengthen credit markets and support lending.

Ultimately, the pace of the recovery will depend on the success of efforts to limit the spread of COVID-19; progress on testing, treatment and vaccine development; and policy efforts to mitigate the impact of the economic downturn. The Fed's most recent median GDP projection, released following its June 9-10, 2020 policy meeting, suggests the economy will contract 6.5% for all of 2020 followed by 5.0% growth in 2021. Despite the forecast for contraction in 2020, many economists expect the economy to return to growth sequentially in the second half of the year.

Equity markets bounced back in the second quarter of 2020 from sharp declines in the first quarter related to the COVID-19 pandemic, helped by significant fiscal and monetary policy support, the gradual reopening of the U.S. economy and improving economic data. The S&P 500 Index hit its bear market low on March 23, 2020, and then reversed into a rally that extended over the course of the second quarter. The S&P 500 posted a total return of 20.5% in the second quarter, the second best quarter in the last thirty years. The strong rally off of lows left the S&P 500 down 3.1% for the year as of the end of the quarter. The broad MSCI indexes for both developed international and emerging market equities also rallied but still trailed the S&P 500, returning 15.1% and 18.2%, respectively, during the second quarter. Despite the strong stock market rally, U.S. Treasuries saw solid demand with the 10-year Treasury yield dipping 0.04% (4 basis points) over the second quarter to 0.66% on June 30, 2020. Steady Treasury yields and strength in investment-grade corporate bonds as credit spreads recovered from distressed levels helped the broad Bloomberg Barclays U.S. Aggregate Bond Total Return Index advance 2.9% over the quarter. High-yield bond credit spreads also narrowed significantly, supporting prices and lifting the Bloomberg Barclays U.S. Corporate Total Return Index to a 10.2% gain, although credit spreads still remained well above typical expansion norms.

Our business is sensitive to current and expected short-term interest rates, which are largely driven by Fed policy. During the second quarter of 2020, Fed policymakers maintained the target range for the federal funds rate at 0.0 - 0.25%. In the policy statement released at the conclusion of its June 9-10, 2020 policy meeting, the Fed emphasized that it did not expect to raise rates until it was clear the economy had effectively navigated the COVID-19 pandemic crisis and was on a stable path to recovery. Projections released at the meeting's conclusion showed a median expectation that the Fed would not raise rates until after 2022. The minutes to the meeting also indicated that the Fed is actively exploring expanding the policy tools available to support the economy despite a policy rate near zero, including forward guidance to maintain credible expectations that rates will remain low for some time, the continued or expanded use of asset purchases and yield curve control, which would put a target cap on rates at longer maturities than the federal funds rate, which only directly impacts overnight lending. While these expanded policies are only in the discussion stage, they signal the Fed's intent to deploy additional policy tools.

Please consult the "Risks Related to Our Business and Industry" section within Part I, "Item 1A. Risk Factors" in our 2019 Annual Report on Form 10-K for more information about the risks associated with significant interest rate changes and the potential related effects on our profitability and financial condition.

Results of Operations

The following discussion presents an analysis of our results of operations for the three and six months ended June 30, 2020 and 2019. Where appropriate, we have identified specific events and changes that affect comparability or trends, and where possible and practical, have quantified the impact of such items.

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in thousands)	**2020**	**2019**	**% Change**	**2020**	**2019**	**% Change**
REVENUES						
Commission	$ 427,453	$ 479,135	(10.8)%	$ 930,897	$ 940,494	(1.0)%
Advisory	523,370	481,309	8.7 %	1,102,397	935,247	17.9 %
Asset-based	247,067	288,551	(14.4)%	532,573	584,914	(8.9)%
Transaction and fee	119,478	118,335	1.0 %	256,574	240,815	6.5 %
Interest income, net of interest expense	6,540	11,690	(44.1)%	16,082	24,011	(33.0)%
Other	42,751	10,737	298.2 %	(8,467)	35,955	(123.5)%
Total net revenues	1,366,659	1,389,757	(1.7)%	2,830,056	2,761,436	2.5 %
EXPENSES						
Commission and advisory	859,847	838,022	2.6 %	1,730,642	1,637,720	5.7 %
Compensation and benefits	143,320	131,788	8.8 %	290,122	268,700	8.0 %
Promotional	44,540	41,423	7.5 %	101,938	92,772	9.9 %
Depreciation and amortization	26,890	22,584	19.1 %	53,534	46,054	16.2 %
Amortization of intangible assets	16,689	16,249	2.7 %	33,259	32,417	2.6 %
Occupancy and equipment	43,066	33,320	29.2 %	82,612	66,426	24.4 %
Professional services	13,620	18,837	(27.7)%	28,225	38,449	(26.6)%
Brokerage, clearing and exchange	18,565	15,994	16.1 %	35,589	32,138	10.7 %
Communications and data processing	14,361	12,532	14.6 %	25,196	24,859	1.4 %
Other	22,194	29,975	(26.0)%	48,422	56,378	(14.1)%
Total operating expenses	1,203,092	1,160,724	3.7 %	2,429,539	2,295,913	5.8 %
Non-operating interest expense and other	26,289	33,957	(22.6)%	55,607	66,673	(16.6)%
INCOME BEFORE PROVISION FOR INCOME TAXES	137,278	195,076	(29.6)%	344,910	398,850	(13.5)%
PROVISION FOR INCOME TAXES	35,616	48,984	(27.3)%	87,607	97,360	(10.0)%
NET INCOME	$ 101,662	$ 146,092	(30.4)%	$ 257,303	$ 301,490	(14.7)%

Revenues

Commission Revenues

We generate two types of commission revenues: sales-based commissions and trailing commissions. Sales-based commission revenues, which occur when clients trade securities or purchase various types of investment products, primarily represent gross commissions generated by our advisors. The levels of sales-based commission revenues can vary from period to period based on the overall economic environment, number of trading days in the reporting period and investment activity of our advisors' clients. Trailing commission revenues, which are paid over time, are recurring in nature and are earned based on the market value of investment holdings in trail-eligible assets. We earn trailing commission revenues primarily on mutual funds and variable annuities held by clients of our advisors. See Note 3*. Revenues*, within the notes to the unaudited condensed consolidated financial statements for further detail regarding our commission revenue by product category.

The following table sets forth our commission revenue, by sales-based and trailing commission revenue, included in our unaudited condensed consolidated statements of income (dollars in thousands):

	Three Months Ended June 30,			
	2020	2019	$ Change	% Change
Sales-based	$ 159,512	$ 203,531	$ (44,019)	(21.6)%
Trailing	267,941	275,604	(7,663)	(2.8)%
Total commission revenue	$ 427,453	$ 479,135	$ (51,682)	(10.8)%

The decrease in sales-based commission revenue for the three months ended June 30, 2020, compared with the same period in 2019 was primarily driven by the low interest rate environment caused by the COVID-19 pandemic, which led to a decrease in sales of annuities, mutual funds and fixed income products, partially offset by an increase in sales of equities.

The decrease in trailing revenues for the three months ended June 30, 2020, compared with the same period in 2019 was primarily due to the recent market downturn that caused a decrease in the market value of mutual funds.

The following table sets forth our commission revenue, by sales-based and trailing commission revenue, included in our unaudited condensed consolidated statements of income (dollars in thousands):

	Six Months Ended June 30,			
	2020	2019	$ Change	% Change
Sales-based	$ 387,903	$ 394,530	$ (6,627)	(1.7)%
Trailing	542,994	545,964	(2,970)	(0.5)%
Total commission revenue	$ 930,897	$ 940,494	$ (9,597)	(1.0)%

The decrease in sales-based commission revenue for the six months ended June 30, 2020, compared with the same period in 2019 was primarily driven by the low interest rate environment caused by the COVID-19 pandemic, which led to a decrease in sales of annuities, slightly offset by an increase in sales of equities.

The decrease in trailing revenues for the six months ended June 30, 2020, compared with the same period in 2019 was primarily due to the decline in value of mutual funds and other trail-eligible assets as a result of the market downturn during the first quarter of 2020.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Balance - Beginning of period	$ 347.6	$ 372.1	$ 398.6	$ 346.0
Net new brokerage assets(1)	2.8	(1.3)	4.0	(0.8)
Market impact(2)	36.0	7.9	(16.2)	33.5
Balance - End of period	$ 386.4	$ 378.7	$ 386.4	$ 378.7

(1) Net new brokerage assets consists of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts, plus dividends, plus interest, minus advisory fees. We consider conversions from and to advisory accounts as deposits and withdrawals, respectively. Previously reported figures for net new brokerage assets did not include dividends and interest or subtract advisory fees. The figures previously reported for the three and six months ended June 30, 2019 were an outflow of $2.6 billion and $3.2 billion, respectively.

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

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

Advisory Revenues

Advisory revenues primarily represent fees charged on our corporate RIA platform provided to clients of our advisors based on the value of their advisory assets. Advisory fees are billed to clients in advance, on a quarterly basis, and are recognized as revenue ratably during the quarter. The majority of our accounts are on a calendar quarter and are billed using values as of the last business day of the preceding quarter. The value of the assets in an advisory account on the billing date determines the amount billed, and accordingly, the revenues earned in the following three-month period. Advisory revenues collected on our corporate advisory platform are proposed by the advisor and agreed to by the client and average 1.0% of the underlying assets with a maximum of 2.5% of the underlying assets as of June 30, 2020.

We also support separate investment adviser firms (“Hybrid RIAs”) through our independent advisory platform, which allows advisors to engage us for technology, clearing and custody services, as well as access to the capabilities of our investment platforms. The assets held under a Hybrid RIA’s investment advisory accounts custodied with LPL Financial are included in our brokerage and advisory assets, net new advisory assets, and advisory assets metrics. The advisory revenue generated by a Hybrid RIA is not included in our advisory revenues, although we charge separate fees to Hybrid RIAs for technology, clearing, administrative, oversight and custody services. The administrative fees collected on our independent advisory platform vary and can reach a maximum of 0.2% of the underlying assets as of June 30, 2020.

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

	June 30,			
	2020	2019	$ Change	% Change
Corporate platform advisory assets	$ 233.5	$ 201.9	$ 31.6	15.7%
Hybrid platform advisory assets	141.9	125.4	16.5	13.2%
Total advisory assets(1)	$ 375.3	$ 327.3	$ 48.1	14.7%

(1) Totals may not foot due to rounding.

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Balance - Beginning of period	$ 322.3	$ 311.9	$ 365.8	$ 282.0
Net new advisory assets(1)	10.2	7.5	23.4	12.7
Market impact(2)	42.8	7.9	(13.9)	32.6
Balance - End of period	$ 375.3	$ 327.3	$ 375.3	$ 327.3

(1) Net new advisory assets consists of total client deposits into custodied advisory accounts less total client withdrawals from custodied advisory accounts, plus dividends, plus interest, minus advisory fees. We consider conversions from and to brokerage accounts as deposits and withdrawals, respectively. Previously reported figures for net new advisory assets did not include dividends and interest or subtract advisory fees. The figures previously reported for the three and six months ended June 30, 2019 were an inflow of $6.6 billion and $11.2 billion, respectively.

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

Net new advisory assets in a particular quarter drive advisory revenue in future quarters, due to billing quarterly in advance. Therefore, the full impact of net new advisory assets to advisory revenue is not realized in the same period.

The growth in advisory revenue for the three months ended June 30, 2020 compared to the same period in 2019 was due to net new advisory assets resulting from our recruiting efforts and strong advisor productivity, offset by the market downturn during the first quarter of 2020.

The growth in advisory revenue for the six months ended June 30, 2020 compared to the same period in 2019 was due to net new advisory assets resulting from our recruiting efforts and strong advisor productivity.

Asset-Based Revenues

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

Asset-based revenues for the three months ended June 30, 2020 decreased compared to the same period in 2019 primarily due to decreased revenues from our client cash programs.

Asset-based revenues for the six months ended June 30, 2020 decreased compared to the same period in 2019 primarily due to decreased revenues from our client cash programs, offset by an increase in recordkeeping revenues.

Client cash revenues for the three and six months ended June 30, 2020 decreased compared to the same periods in 2019 primarily due to the impact of a lower federal funds effective rate during the first two quarters of 2020, offset by higher average client cash balances. For the three months ended June 30, 2020, our average client cash balances increased to $46.1 billion compared to $29.9 billion for the same period in 2019. For the six months ended June 30, 2020, our average client cash balances increased to $42.3 billion compared to $30.6 billion for the same period in 2019.

The declines in client cash revenues we experienced in the second quarter are likely to continue through the remainder of the year due to low interest rates.

Revenues for our recordkeeping programs for the three and six months ended June 30, 2020, which are largely based on the market value of the underlying assets, increased compared to the same periods in 2019.

Revenues for our sponsorship programs remained relatively flat for the three and six months ended June 30, 2020 compared with the same periods in 2019.

Transaction and Fee Revenues

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

Transaction and fee revenues increased for the three and six months ended June 30, 2020 compared to the same periods in 2019 primarily due to increased transaction volume in response to the market volatility caused by the COVID-19 pandemic, partially offset by a decrease in conference service revenue due to the cancellation of advisor-related conferences.

Interest Income, Net of Interest Expense

We earn interest income from client margin accounts and cash equivalents, net of operating expense. Period-over-period variances correspond to changes in the average balances of assets in margin accounts and cash equivalents as well as changes in interest rates.

Interest income, net of interest expense decreased for the three and six months ended June 30, 2020, compared to the same periods in 2019 primarily due to lower average interest rates.

Other Revenues

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

Other revenues increased for the three months ended June 30, 2020 compared to the same period in 2019 primarily due to unrealized gains on assets held in our advisor non-qualified deferred compensation plan due to the rapid market recovery from the first quarter of 2020 downturn.

Other revenues decreased for the six months ended June 30, 2020 compared to the same period in 2019 primarily due to unrealized losses on assets held in our advisor non-qualified deferred compensation plan caused by the market downturn during the first quarter of 2020.

Expenses

Commission and Advisory Expenses

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

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Base payout rate(1)	82.64%	83.39%	(75 bps)	82.67%	83.17%	(50 bps)
Production based bonuses	3.59%	3.15%	44 bps	2.94%	2.61%	33 bps
Total payout ratio(2)	86.24%	86.54%	(30 bps)	85.61%	85.78%	(17 bps)

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

(2) Totals may not foot due to rounding.

Our total payout ratio decreased for the three and six months ended June 30, 2020 compared with the same periods in 2019, primarily due to a decrease in base payout rate, which was driven by a spike in the sale of equities and a shift from brokerage to advisory business, each of which result in lower payouts, offset by an increase in production based bonuses, which was driven by broader price reductions on our corporate advisory platform.

Compensation and Benefits Expense

Compensation and benefits expense includes salaries, wages, benefits, share-based compensation and related taxes for our employees, as well as compensation for temporary employees and consultants.

The following table sets forth our average number of employees for the three and six months ended June 30, 2020, as compared with the same periods in 2019.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	**2019**	**Change**	**2020**	**2019**	**Change**
Average number of employees	4,530	4,331	4.6%	4,440	4,299	3.3%

Compensation and benefits expense increased for the three and six months ended June 30, 2020 compared with the same periods in 2019 due to an increase in salary and discretionary bonus expenses resulting from an increase in headcount.

Promotional Expense

Promotional expense includes costs related to our hosting of certain advisor conferences that serve as training, sales and marketing events, business development costs related to advisor recruitment and retention, and other costs that support advisor business growth.

The increase in promotional expense for the three and six months ended June 30, 2020 compared with the same periods in 2019 was primarily driven by an increase in costs associated with advisor loans and promotions, offset by a decrease in advisor conference expense due to conference cancellations in response to the COVID-19 pandemic.

Depreciation and Amortization Expense

Depreciation and amortization expense represents the benefits received for using long-lived assets. Those assets consist of fixed assets, which include internally developed software, hardware, leasehold improvements, and other equipment.

The increase in depreciation and amortization expense for the three and six months ended June 30, 2020 compared with the same periods in 2019 was primarily due to an increase in internally developed software.

Amortization of Intangible Assets

Amortization of intangible assets represents the benefits received for using long-lived assets, which consist of intangible assets established through our acquisitions.

Amortization of intangible assets remained relatively flat for the three and six months ended June 30, 2020 compared with the same periods in 2019.

Occupancy and Equipment Expense

Occupancy and equipment expense includes the costs of leasing and maintaining our office spaces, software licensing and maintenance costs, and maintenance expenses on computer hardware and other equipment.

The increase in occupancy and equipment expense for the three and six months ended June 30, 2020 compared with the same periods in 2019 was primarily due to an increase in costs related to software licensing fees in support of our service and technology investments.

Professional Services

Professional services includes costs paid to outside firms for assistance with legal, accounting, technology, regulatory, marketing, and general corporate matters, as well as non-capitalized costs related to service and technology enhancements.

The decrease in professional services for the three and six months ended June 30, 2020 compared with the same periods in 2019 was primarily due to decreases in costs related to outsourced services.

Brokerage, Clearing and Exchange Fees

Brokerage, clearing and exchange fees include expenses originating from trading or clearing operations as well as any exchange membership fees. Changes in brokerage, clearing and exchange fees fluctuate largely in line with the volume of sales and trading activity.

The increase in brokerage, clearing and exchange fees was consistent with the increase in the volume of sales and trading activity for the three and six months ended June 30, 2020 compared with the same periods in 2019.

Communications and Data Processing

Communications expense consists primarily of the cost of voice and data telecommunication lines supporting our business, including connectivity to data centers, exchanges and markets. Data processing expense consists primarily of customer statement processing and postage costs.

The increase in communications and data processing expense for the three months ended June 30, 2020 compared with the same period in 2019 was primarily due to an increase in client statement costs.

Communications and data processing expense remained relatively flat for the six months ended June 30, 2020 compared with the same period in 2019.

Other Expenses

Other expenses includes the estimated costs of the investigation, settlement and resolution of regulatory matters (including customer restitution and remediation), licensing fees, insurance, broker-dealer regulator fees, and other miscellaneous expenses. Other expenses will depend in part on the size and timing of resolving regulatory matters and the availability of self-insurance coverage, which depends in part on the amount and timing of resolving historical claims. There are particular uncertainties and complexities involved when assessing the potential costs and timing of regulatory matters, including the adequacy of loss reserves for potential liabilities that are self-insured by our captive insurance subsidiary.

The decrease in other expenses for the three and six months ended June 30, 2020 compared with the same periods in 2019 was primarily due to a decrease in travel expenses as a result of the COVID-19 pandemic and lower costs associated with the investigation of regulatory matters.

Non-Operating Interest Expense and Other

Non-operating interest expense and other represents expense from our senior secured credit facilities, senior unsecured notes, finance leases and other non-operating expenses.

The decrease in non-operating interest expense and other for the three and six months ended June 30, 2020 compared with the same periods in 2019 was primarily due to a lower outstanding principal balance, and a lower interest rate on our senior secured term loan, partially offset by an increase in balance from issuing additional senior unsecured notes in 2019.

Provision for Income Taxes

We estimate our full-year effective income tax rate at the end of each reporting period. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The tax rate in any quarter can be affected positively or negatively by adjustments that are required to be reported in the quarter in which resolution of a particular item occurs. The effective income tax rates reflect the impact of state taxes, settlement contingencies, tax credits and other permanent differences in tax deductibility of certain expenses.

Our effective tax rate was 25.9% and 25.1% for the three months ended June 30, 2020 and 2019, respectively. The increase in our effective tax rate for the three months ended June 30, 2020 compared with the same period in 2019 was primarily due to a reduction in tax benefits associated with stock option exercises under Accounting Standards Codification (“ASC”) Topic 718.

Our effective tax rate was 25.4% and 24.4% for the six months ended June 30, 2020 and 2019, respectively. The increase in our effective tax rate for the six months ended June 30, 2020 compared with the same period in 2019 was primarily due to a reduction in tax benefits associated with stock option exercises under ASC Topic 718.

COVID-19 Impact

On March 11, 2020, the World Health Organization designated the spread of COVID-19 as a pandemic. As of the date of this Quarterly Report on Form 10-Q, COVID-19 has had a significant impact on global financial markets, and we continue to monitor its effects on the overall economy and our operations. We are not yet able to determine the full impact of the pandemic; however, should it continue for an extended period, there could be a material and adverse financial impact to our results of operations. For more information about the risks associated with COVID-19, see Part II, "Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q.

Liquidity and Capital Resources

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

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

	Six Months Ended June 30, 2020	Six Months Ended June 30, 2019
Net cash flows provided by (used in):		
Operating activities	$ 338,148	$ (54,405)
Investing activities	(74,491)	(62,242)
Financing activities	(245,727)	(284,140)
Net increase (decrease) in cash, cash equivalents and restricted cash	17,930	(400,787)
Cash, cash equivalents and restricted cash — beginning of period	1,471,778	1,562,119
Cash, cash equivalents and restricted cash — end of period	$ 1,489,708	$ 1,161,332

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

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

The increase in cash flows provided by operating activities for the six months ended June 30, 2020 compared to the same period in 2019 was primarily attributable to a decrease in outflows from payables to clients, an increase in income taxes payable and a decrease in receivables from clients, due to the timing of payments made, partially offset by a decrease in net income.

The increase in cash flows used in investing activities for the six months ended June 30, 2020 compared to the same period in 2019 was primarily attributable to an increase in capital expenditures and purchases of held-to-maturity securities.

The decrease in cash flows used in financing activities for the six months ended June 30, 2020 compared to the same period in 2019 was primarily attributable to the suspension of repurchases of our common stock, partially offset by repayments of our revolving lines of credit.

We have actively monitored any changes to our liquidity needs caused by the COVID-19 pandemic. We believe that based on current levels of operations and anticipated growth, our cash flow from operations, together with other available sources of funds, which include four uncommitted lines of credit, the revolving credit facility established through our senior secured credit agreement (the "Credit Agreement") and the committed revolving credit facility of LPL Financial, will be adequate to satisfy our working capital needs, the payment of all of our obligations and the funding of anticipated capital expenditures for the foreseeable future. We believe that this will remain the case in reasonably likely stress scenarios involving a sustained market downturn and the persistence of current interest rates. We note that the earliest principal maturity date for our long-term borrowings is 2025 and our revolving credit facilities mature in 2024, which makes us less dependent on capital markets in the near-term.

We have certain capital adequacy requirements related to our registered broker-dealer subsidiary and bank trust subsidiary and have met all such requirements and expect to continue to do so for the foreseeable future. In particular, we believe that our liquidity planning has positioned us to meet reasonably foreseeable liquidity needs resulting from higher transaction volumes and price volatility, including higher margin requirements of clearing corporations and exchanges. For short-term liquidity needs we have the ability to draw on the committed revolving credit facility of LPL Financial and our senior secured revolving credit facility for a combined available amount of up to $1.1 billion.

We regularly evaluate our existing indebtedness, including refinancing thereof, based on a number of factors, including our capital requirements, future prospects, contractual restrictions, the availability of refinancing on attractive terms and general market conditions.

Share Repurchases

We engage in share repurchase programs, which are approved by our board of directors (the “Board of Directors”), pursuant to which we may repurchase our issued and outstanding shares of common stock from time to time. Purchases may be effected in open market or privately negotiated transactions. See Note 11. *Stockholders’ Equity*, within the notes to the unaudited condensed consolidated financial statements for additional information regarding our share repurchases. We suspended share repurchases in mid-March 2020 in light of the business and financial uncertainties created by the COVID-19 pandemic. The resumption, timing and amount of future share repurchases will generally be determined at our discretion within the constraints of our Credit Agreement, the indentures governing our senior unsecured notes (the “Indentures”) and consideration of our general liquidity needs.

Dividends

The payment, timing and amount of any dividends are subject to approval by the Board of Directors as well as certain limits under our Credit Agreement and the Indentures. See Note 11. *Stockholders’ Equity*, within the notes to the unaudited condensed consolidated financial statements for additional information regarding our dividends.

Operating Capital Requirements

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

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

We may sometimes be required to fund timing differences arising from the delayed receipt of client funds associated with the settlement of client transactions in securities markets. These timing differences are funded either with internally generated cash flow or, if needed, with funds drawn on our uncommitted lines of credit at LPL Financial or under one of our revolving credit facilities.

LPL Financial is subject to the SEC’s Uniform Net Capital Rule, which requires the maintenance of minimum net capital. LPL Financial computes net capital requirements under the alternative method, which requires firms to maintain minimum net capital equal to the greater of $250,000 or 2.0% of aggregate debit balances arising from client transactions. At June 30, 2020, LPL Financial had net capital of $121.5 million with a minimum net capital requirement of $9.6 million.

LPL Financial’s ability to pay dividends greater than 10% of its excess net capital during any 35-day rolling period requires approval from the Financial Industry Regulatory Authority (“FINRA”). In addition, payment of dividends is restricted if LPL Financial’s net capital would be less than 5.0% of aggregate customer debit balances.

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

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

Debt and Related Covenants

See Note 8. *Borrowings,* within the notes to the unaudited condensed consolidated financial statements for further detail regarding the Credit Agreement and the Indentures.

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

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

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

As of June 30, 2020, we were in compliance with both of our financial covenants, a maximum Consolidated Total Debt to Consolidated EBITDA Ratio ("Leverage Test," as defined in the Credit Agreement) and a minimum Consolidated EBITDA to Consolidated Interest Expense Ratio ("Interest Coverage," as defined in the Credit Agreement). The breach of these financial covenants would be subject to certain equity cure rights. The required ratios under our financial covenants and actual ratios were as follows:

Financial Ratio	Covenant Requirement	Actual Ratio
Leverage Test (Maximum)	5.00	2.03
Interest Coverage (Minimum)	3.00	9.24

Off-Balance Sheet Arrangements

We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our advisors' clients. These arrangements include Company commitments to extend credit. For information on these arrangements, see Note 10. *Commitments and Contingencies* and Note 17. *Financial Instruments with Off-Balance-Sheet Credit Risk and Concentrations of Credit Risk,* within the notes to the unaudited condensed consolidated financial statements.

Contractual Obligations

During the six months ended June 30, 2020, there were no material changes in our contractual obligations, other than in the ordinary course of business, from those disclosed in our 2019 Annual Report on Form 10-K. See Note 8. *Borrowings* and Note 10. *Commitments and Contingencies,* within the notes to the unaudited condensed consolidated financial statements, as well as the Contractual Obligations section within Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2019 Annual Report on Form 10-K, for further detail.

Fair Value of Financial Instruments

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

Critical Accounting Policies and Estimates

In the notes to our consolidated financial statements and in Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2019 Annual Report on Form 10-K, we have disclosed those accounting policies that we consider to be significant in determining our results of operations and financial condition. There have been no other material changes to those policies that we consider to be significant since the filing of our 2019 Annual Report on Form 10-K. The accounting principles used in preparing our unaudited condensed consolidated financial statements conform in all material respects to GAAP.

Recently Issued Accounting Pronouncements

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

Item 1. Financial Statements (unaudited)

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)
(In thousands, except per share data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
REVENUES				
Commission	$ 427,453	$ 479,135	$ 930,897	$ 940,494
Advisory	523,370	481,309	1,102,397	935,247
Asset-based	247,067	288,551	532,573	584,914
Transaction and fee	119,478	118,335	256,574	240,815
Interest income, net of interest expense	6,540	11,690	16,082	24,011
Other	42,751	10,737	(8,467)	35,955
Total net revenues	1,366,659	1,389,757	2,830,056	2,761,436
EXPENSES				
Commission and advisory	859,847	838,022	1,730,642	1,637,720
Compensation and benefits	143,320	131,788	290,122	268,700
Promotional	44,540	41,423	101,938	92,772
Depreciation and amortization	26,890	22,584	53,534	46,054
Amortization of intangible assets	16,689	16,249	33,259	32,417
Occupancy and equipment	43,066	33,320	82,612	66,426
Professional services	13,620	18,837	28,225	38,449
Brokerage, clearing and exchange	18,565	15,994	35,589	32,138
Communications and data processing	14,361	12,532	25,196	24,859
Other	22,194	29,975	48,422	56,378
Total operating expenses	1,203,092	1,160,724	2,429,539	2,295,913
Non-operating interest expense and other	26,289	33,957	55,607	66,673
INCOME BEFORE PROVISION FOR INCOME TAXES	137,278	195,076	344,910	398,850
PROVISION FOR INCOME TAXES	35,616	48,984	87,607	97,360
NET INCOME	$ 101,662	$ 146,092	$ 257,303	$ 301,490
EARNINGS PER SHARE (Note 13)				
Earnings per share, basic	$ 1.29	$ 1.75	$ 3.25	$ 3.59
Earnings per share, diluted	$ 1.27	$ 1.71	$ 3.19	$ 3.50
Weighted-average shares outstanding, basic	78,940	83,247	79,223	83,869
Weighted-average shares outstanding, diluted	80,127	85,350	80,659	86,052

See notes to unaudited condensed consolidated financial statements.

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

ASSETS	June 30, 2020	December 31, 2019
Cash and cash equivalents	$ 845,228	$ 590,209
Cash segregated under federal and other regulations	574,429	822,697
Restricted cash	70,051	58,872
Receivables from:		
Clients, net of allowance of $395 at June 30, 2020 and $115 at December 31, 2019	385,894	433,986
Product sponsors, broker-dealers and clearing organizations	177,752	177,654
Advisor loans, net of allowance of $6,583 at June 30, 2020 and $3,974 at December 31, 2019	474,718	441,743
Others, net of allowance of $3,334 at June 30, 2020 and $10,292 at December 31, 2019	314,856	298,790
Securities owned:		
Trading — at fair value	35,327	46,447
Held-to-maturity — at amortized cost	14,406	11,806
Securities borrowed	10,944	17,684
Fixed assets, net of accumulated depreciation and amortization of $440,935 at June 30, 2020 and $388,355 at December 31, 2019	556,490	533,044
Operating lease assets	101,741	102,477
Goodwill	1,503,648	1,503,648
Intangible assets, net of accumulated amortization of $577,912 at June 30, 2020 and $544,653 at December 31, 2019	406,740	439,838
Deferred income taxes, net	751	—
Other assets	432,758	401,343
Total assets	$ 5,905,733	$ 5,880,238
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	$ 206,084	$ 218,636
Payables to clients	1,034,445	1,058,873
Payables to broker-dealers and clearing organizations	87,706	92,002
Accrued commission and advisory expenses payable	162,620	174,330
Accounts payable and accrued liabilities	521,088	557,969
Income taxes payable	88,376	20,129
Unearned revenue	100,377	82,842
Securities sold, but not yet purchased — at fair value	71	176
Long-term and other borrowings, net	2,349,619	2,398,818
Operating lease liabilities	140,293	141,900
Finance lease liabilities	107,548	108,592
Deferred income taxes, net	—	2,098
Total liabilities	4,798,227	4,856,365
Commitments and contingencies (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 600,000,000 shares authorized; 127,238,822 shares issued at June 30, 2020 and 126,494,028 shares issued at December 31, 2019	127	126
Additional paid-in capital	1,733,334	1,703,973
Treasury stock, at cost — 48,154,472 shares at June 30, 2020 and 46,259,989 shares at December 31, 2019	(2,391,961)	(2,234,793)
Retained earnings	1,766,006	1,554,567
Total stockholders' equity	1,107,506	1,023,873
Total liabilities and stockholders' equity	$ 5,905,733	$ 5,880,238

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30, 2019							
	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE — March 31, 2019	125,648	$ 126	$ 1,658,631	41,612	$(1,859,484)	$ —	$ 1,210,422	$ 1,009,695
Net income, net of tax expense						—	146,092	146,092
Issuance of common stock to settle restricted stock units, net	9	—	—	2	(179)			(179)
Treasury stock purchases				1,592	(125,033)			(125,033)
Cash dividends on common stock							(20,827)	(20,827)
Stock option exercises and other	314	—	6,425	(13)	473		372	7,270
Share-based compensation	—	—	8,099					8,099
BALANCE — June 30, 2019	125,971	$ 126	$ 1,673,155	43,193	$(1,984,223)	$ —	$ 1,336,059	$ 1,025,117

	Three Months Ended June 30, 2020							
	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE — March 31, 2020	127,036	$ 127	$ 1,720,276	48,178	$(2,392,712)	$ —	$ 1,683,666	$ 1,011,357
Net income, net of tax expense						—	101,662	101,662
Issuance of common stock to settle restricted stock units, net	76	—	—	2	(167)			(167)
Treasury stock purchases				—	—			—
Cash dividends on common stock							(19,745)	(19,745)
Stock option exercises and other	127	—	4,411	(25)	918		423	5,752
Share-based compensation	—	—	8,647					8,647
BALANCE — June 30, 2020	127,239	$ 127	$ 1,733,334	48,155	$(2,391,961)	$ —	$ 1,766,006	$ 1,107,506

Continued on following page

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

	Six Months Ended June 30, 2019							
	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE — December 31, 2018	124,910	$ 125	$ 1,634,337	39,821	$(1,730,535)	$ —	$ 1,070,146	$ 974,073
Net income, net of tax expense						—	301,490	301,490
Cumulative effect of accounting change							5,724	5,724
Issuance of common stock to settle restricted stock units, net	213	—	—	60	(4,607)			(4,607)
Treasury stock purchases				3,339	(250,067)			(250,067)
Cash dividends on common stock							(41,906)	(41,906)
Stock option exercises and other	848	1	21,755	(27)	986		605	23,347
Share-based compensation	—		17,063					17,063
BALANCE — June 30, 2019	125,971	$ 126	$ 1,673,155	43,193	$(1,984,223)	$ —	$ 1,336,059	$ 1,025,117

	Six Months Ended June 30, 2020							
	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE — December 31, 2019	126,494	$ 126	$ 1,703,973	46,260	$(2,234,793)	$ —	$ 1,554,567	$ 1,023,873
Net income, net of tax expense						—	257,303	257,303
Cumulative effect of accounting change							(7,317)	(7,317)
Issuance of common stock to settle restricted stock units, net	391	—	—	124	(8,537)			(8,537)
Treasury stock purchases				1,810	(150,036)			(150,036)
Cash dividends on common stock							(39,458)	(39,458)
Stock option exercises and other	354	1	11,382	(39)	1,405		911	13,699
Share-based compensation			17,979					17,979
BALANCE — June 30, 2020	127,239	$ 127	$ 1,733,334	48,155	$(2,391,961)	$ —	$ 1,766,006	$ 1,107,506

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2020	**2019**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 257,303	$ 301,490
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Noncash items:		
Depreciation and amortization	53,534	46,054
Amortization of intangible assets	33,259	32,417
Amortization of debt issuance costs	2,695	2,150
Share-based compensation	17,979	17,062
Provision for bad debts	4,181	3,532
Deferred income tax provision	(322)	8
Loan forgiveness	56,079	43,564
Other	(5,915)	(3,429)
Changes in operating assets and liabilities:		
Receivables from clients	47,813	(49,413)
Receivables from product sponsors, broker-dealers and clearing organizations	(98)	(9,531)
Advisor loans	(95,636)	(99,763)
Receivables from others	(19,495)	(17,887)
Securities owned	9,671	633
Securities borrowed	6,740	(2,417)
Operating leases	(871)	(548)
Other assets	(54,520)	(44,452)
Drafts payable	(12,552)	(40,673)
Payables to clients	(24,428)	(190,826)
Payables to broker-dealers and clearing organizations	(4,296)	(18,515)
Accrued commission and advisory expenses payable	(11,710)	(11,514)
Accounts payable and accrued liabilities	(6,940)	(6,545)
Income taxes receivable/payable	68,247	(19,770)
Unearned revenue	17,535	14,055
Securities sold, but not yet purchased	(105)	(87)
Net cash provided by (used in) operating activities	338,148	(54,405)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(71,909)	(63,504)
Purchase of securities classified as held-to-maturity	(5,082)	(1,238)
Proceeds from maturity of securities classified as held-to-maturity	2,500	2,500
Net cash used in investing activities	(74,491)	(62,242)

Continued on following page

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

	Six Months Ended June 30,	
	2020	**2019**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from revolving credit facility	1,071,000	—
Repayments of revolving credit facility	(1,116,000)	—
Repayment of senior secured term loans	(5,350)	(7,500)
Payment of debt issuance costs	—	(2,660)
Payment of contingent consideration	(10,000)	—
Tax payments related to settlement of restricted stock units	(8,537)	(4,607)
Repurchase of common stock	(150,036)	(250,067)
Dividends on common stock	(39,458)	(41,906)
Proceeds from stock option exercises and other	13,698	23,347
Principal payment of finance leases and obligations	(1,044)	(747)
Net cash used in financing activities	(245,727)	(284,140)
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	17,930	(400,787)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	1,471,778	1,562,119
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of period	$ 1,489,708	$ 1,161,332
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 56,109	$ 66,170
Income taxes paid	$ 19,819	$ 117,121
NONCASH DISCLOSURES:		
Capital expenditures included in accounts payable and accrued liabilities	$ 16,331	$ 14,434
Lease assets obtained in exchange for operating lease liabilities	$ 3,447	$ 108,539

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

	June 30,	
	2020	**2019**
Cash and cash equivalents	$ 845,228	$ 403,813
Cash segregated under federal and other regulations	574,429	708,613
Restricted cash	70,051	48,906
Total cash, cash equivalents and restricted cash shown in the statement of cash flows	$ 1,489,708	$ 1,161,332

See notes to unaudited condensed consolidated financial statements.

1. Organization and Description of the Company

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

Description of Subsidiaries

LPL Holdings, Inc. ("LPLH"), a Massachusetts holding corporation, owns 100% of the issued and outstanding common stock or other ownership interest in each of LPL Financial LLC ("LPL Financial"), AW Subsidiary, Inc., LPL Employee Services, LLC, Fortigent Holdings Company, Inc. and LPL Insurance Associates, Inc. ("LPLIA"), as well as a captive insurance subsidiary (the "Captive Insurance Subsidiary") that underwrites insurance for various legal and regulatory risks of the Company. LPLH is also the majority stockholder in PTC Holdings, Inc. ("PTCH"), and owns 100% of the issued and outstanding voting common stock. Each member of PTCH's board of directors meets the direct equity ownership interest requirements that are required by the Office of the Comptroller of the Currency.

LPL Financial, with primary offices in San Diego, California; Fort Mill, South Carolina; and Boston, Massachusetts, is a clearing broker-dealer and an investment adviser that principally transacts business as an agent for its advisors and financial institutions on behalf of their clients in a broad array of financial products and services. LPL Financial is licensed to operate in all 50 states, Washington D.C., Puerto Rico, and the U.S. Virgin Islands.

Fortigent Holdings Company, Inc. and its subsidiaries provide solutions and consulting services to registered investment advisers ("RIAs"), banks, and trust companies serving high-net-worth clients.

LPLIA operates as an insurance brokerage general agency that offers life and disability insurance products and services for LPL Financial advisors.

AW Subsidiary, Inc. is a holding company for AdvisoryWorld, which offers technology products, including proposal generation, investment analytics and portfolio modeling, to both the Company's advisors and external clients in the wealth management industry.

PTCH is a holding company for The Private Trust Company, N.A. ("PTC"). PTC is chartered as a non-depository limited purpose national bank, providing a wide range of trust, investment management oversight, and custodial services for estates and families. PTC also provides Individual Retirement Account ("IRA") custodial services for LPL Financial.

LPL Employee Services, LLC is a holding company for Allen & Company of Florida, LLC ("Allen & Company"), an RIA.

2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"), which require the Company to make estimates and assumptions regarding the valuation of certain financial instruments, intangible assets, allowance for doubtful accounts, share-based compensation, accruals for liabilities, income taxes, revenue and expense accruals, and other matters that affect the consolidated financial statements and related disclosures. The unaudited condensed consolidated financial statements reflect all adjustments which are, in the opinion of management, necessary to present fairly the results for the interim periods presented. Actual results could differ from those estimates under different assumptions or conditions and the differences may be material to the consolidated financial statements.

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

The unaudited condensed consolidated financial statements do not include all information and notes necessary for a complete presentation of results of income, comprehensive income, financial position, and cash flows in conformity with GAAP. Accordingly, these financial statements should be read in conjunction with the Company's audited consolidated financial statements and the related notes for the year ended December 31, 2019, contained in the Company's Annual Report on Form 10-K as filed with the Securities and Exchange Commission ("SEC").

See below for significant accounting polices updated on January 1, 2020. A summary of other significant accounting policies are included in Note 2. *Summary of Significant Accounting Policies*, in the Company's audited consolidated financial statements and the related notes for the year ended December 31, 2019.

Receivables from and Payables to Clients

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

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

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

	June 30, 2020
Beginning balance — January 1	$ 115
Impact of CECL adoption	—
Provision for bad debts	280
Charge-offs, net of recoveries	—
Ending balance — June 30	$ 395

Advisor Loans

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

Advisor repayable loans totaled $109.7 million and advisor forgivable loans that have become repayable upon advisor termination totaled $2.8 million as of June 30, 2020. Included in the table below is a $1.3 million allowance for advisor forgivable loans that have become repayable.

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

	June 30, 2020
Beginning balance — January 1	$ 3,974
Impact of CECL adoption	6,227
Provision for bad debts	1,639
Charge-offs, net of recoveries	(5,257)
Ending balance — June 30	$ 6,583

Receivables from Others

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

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

	June 30, 2020
Beginning balance — January 1	$ 10,292
Impact of CECL adoption	3,617
Provision for bad debts	2,167
Charge-offs, net of recoveries	(12,742)
Ending balance — June 30	$ 3,334

Fair Value of Financial Instruments

The Company's financial assets and liabilities are carried at fair value or at amounts that, because of their short-term nature, approximate current fair value, with the exception of its held-to-maturity securities and indebtedness, which are carried at amortized cost. The Company measures the implied fair value of its debt instruments using trading levels obtained from a third-party service provider. Accordingly, the debt instruments qualify as Level 2 fair value measurements. See Note 5. *Fair Value Measurements*, for additional information regarding the Company's fair value measurements. As of June 30, 2020, the carrying amount and fair value of the Company's indebtedness was approximately $2,364.7 million and $2,325.1 million, respectively. As of December 31, 2019, the carrying amount and fair value was approximately $2,415.0 million and $2,476.0 million, respectively.

Recently Issued Accounting Pronouncements

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

Recently Adopted Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13, *Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which requires entities to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. ASU 2016-13 also requires additional disclosures regarding significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an entity's portfolio. The Company adopted the provisions of this guidance on January 1, 2020 using the modified retrospective method for all financial assets measured at amortized cost and recognized a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. Results for reporting periods beginning after January 1, 2020 are presented under Topic 326, while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption had no material impact on the Company's recognition of credit losses.

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

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

3. Revenues

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

Commission Revenue

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Commission revenue				
Annuities	$ 217,637	$ 256,671	$ 463,299	$ 504,124
Mutual funds	133,800	149,380	289,956	290,042
Fixed income	18,463	24,604	47,588	48,799
Equities	27,985	19,700	65,406	38,064
Other	29,568	28,780	64,648	59,465
Total commission revenue	$ 427,453	$ 479,135	$ 930,897	$ 940,494

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Commission revenue				
Sales-based				
Annuities	$ 64,287	$ 103,325	$ 156,812	$ 198,940
Mutual funds	29,716	38,095	75,250	72,726
Fixed income	18,463	24,604	47,588	48,799
Equities	27,985	19,700	65,406	38,064
Other	19,061	17,807	42,847	36,001
Total sales-based revenue	$ 159,512	$ 203,531	$ 387,903	$ 394,530
Trailing				
Annuities	$ 153,350	$ 153,346	$ 306,487	$ 305,184
Mutual funds	104,084	111,285	214,706	217,316
Other	10,507	10,973	21,801	23,464
Total trailing revenue	$ 267,941	$ 275,604	$ 542,994	$ 545,964
Total commission revenue	$ 427,453	$ 479,135	$ 930,897	$ 940,494

Advisory Revenue

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

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

Asset-Based Revenue

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

Client Cash Revenue

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

Sponsorship Programs

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

Recordkeeping

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	**2019**	**2020**	**2019**
Asset-based revenue				
Client cash	$ 116,266	$ 161,815	$ 267,664	$ 334,954
Sponsorship programs	63,885	62,472	128,334	124,556
Recordkeeping	66,916	64,264	136,575	125,404
Total asset-based revenue	$ 247,067	$ 288,551	$ 532,573	$ 584,914

Transaction and Fee Revenue

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Transaction and fee revenue				
Point-in-time(1)	$ 52,306	$ 52,215	$ 117,944	$ 106,896
Over time(2)	67,172	66,120	138,630	133,919
Total transaction and fee revenue	$ 119,478	$ 118,335	$ 256,574	$ 240,815

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

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

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

Interest Income, Net of Interest Expense

The Company earns interest income from client margin accounts and cash equivalents, less interest expense on related transactions. This revenue is not generated from contracts with customers. Interest expense incurred in connection with cash equivalents and client margin balances is completely offset by revenue on related transactions; therefore, the Company considers such interest to be an operating expense. Interest expense from operations for the three and six months ended June 30, 2020 and 2019 was not material.

Other Revenue

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

Arrangements with Multiple Performance Obligations

The Company's contracts with customers may include multiple performance obligations. Contracts with customers that include multiple performance obligations have performance obligations that follow the same revenue recognition pattern and are recorded in the same financial statement line item.

Unearned Revenue

The Company records unearned revenue when cash payments are received or due in advance of the Company's performance obligations, including amounts which are refundable. The increase in the unearned revenue balance for the six months ended June 30, 2020 is primarily driven by cash payments received or due in advance of satisfying the Company's performance obligations, offset by $79.9 million of revenues recognized that were included in the unearned revenue balance as of December 31, 2019.

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

4. Acquisitions

On August 1, 2019, the Company acquired all of the outstanding equity interests of Allen & Company. Under the transaction structure, Allen & Company advisors and staff became employees of the Company, and Allen & Company will maintain its operations and brand. The Company paid approximately $24.9 million at closing and also agreed to a potential contingent payment of up to $10.0 million, payable approximately six months after the closing date based on the percentage of assets retained by Allen & Company advisors. In February 2020, the Company paid the full $10.0 million, which had previously been recorded as an obligation within accounts payable and accrued liabilities.

5. Fair Value Measurements

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

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

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

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

There have been no transfers of assets or liabilities between these fair value measurement classifications during the six months ended June 30, 2020.

The Company's fair value measurements are evaluated within the fair value hierarchy, based on the nature of inputs used to determine the fair value at the measurement date. At June 30, 2020 and December 31, 2019, the Company had the following financial assets and liabilities that are measured at fair value on a recurring basis:

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

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

The Company uses prices obtained from independent third-party pricing services to measure the fair value of its trading securities. Prices received from the pricing services are validated using various methods including comparison to prices received from additional pricing services, comparison to available quoted market prices, and review of other relevant market data including implied yields of major categories of securities. In general, these quoted prices are derived from active markets for identical assets or liabilities. When quoted prices in active markets for identical assets and liabilities are not available, the quoted prices are based on similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. For certificates of deposit and treasury securities, the Company utilizes market-based inputs, including observable market interest rates that correspond to the remaining maturities or the next interest reset dates. At June 30, 2020, the Company did not adjust prices received from the independent third-party pricing services.

Other Assets — The Company's other assets include: (1) deferred compensation plan assets that are invested in money market and other mutual funds, which are actively traded and valued based on quoted market prices; and (2) certain non-traded real estate investment trusts and auction rate notes, which are valued using quoted prices for identical or similar securities and other inputs that are observable or can be corroborated by observable market data.

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

Level 3 Recurring Fair Value Measurements

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

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at June 30, 2020 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$ 5,971	$ —	$ —	$ 5,971
Securities owned — trading:				
Money market funds	117	—	—	117
Mutual funds	13,852	—	—	13,852
Equity securities	595	—	—	595
Debt securities	—	18	—	18
U.S. treasury obligations	20,495	—	—	20,495
Certificates of deposit	250	—	—	250
Total securities owned — trading	35,309	18	—	35,327
Other assets	281,891	9,035	—	290,926
Total assets at fair value	$ 323,171	$ 9,053	$ —	$ 332,224
Liabilities				
Securities sold, but not yet purchased:				
Equity securities	$ 65	$ —	$ —	$ 65
Debt securities	—	6	—	6
Total securities sold, but not yet purchased	65	6	—	71
Total liabilities at fair value	$ 65	$ 6	$ —	$ 71

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

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

6. Held-to-Maturity Securities

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

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

	June 30, 2020	December 31, 2019
Amortized cost	$ 14,406	$ 11,806
Gross unrealized gain	263	83
Fair value	$ 14,669	$ 11,889

At June 30, 2020, the securities held-to-maturity were scheduled to mature as follows (in thousands):

	Within one year	After one but within five years	After five but within ten years	Total
U.S. government notes — at amortized cost	$ 5,082	$ 9,324	$ —	$ 14,406
U.S. government notes — at fair value	$ 5,147	$ 9,522	$ —	$ 14,669

7. Goodwill and Other Intangible Assets

The balances in goodwill and intangible assets were a result of various acquisitions. See Note 9. *Goodwill and Other Intangible Assets*, in the Company's audited consolidated financial statements and the related notes in the 2019 Annual Report on Form 10-K for a discussion of the components of goodwill and additional information regarding intangible assets.

8. Borrowings

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

	June 30, 2020			December 31, 2019			
Long-Term Borrowings	**Balance**	**Applicable Margin**	**Interest Rate**	**Balance**	**Applicable Margin**	**Interest rate**	**Maturity**
Senior Secured Term Loan B(1)	$ 1,064,650	LIBOR+175 bps	1.93%	$ 1,070,000	LIBOR+175 bps	3.54%	11/12/2026
Senior Unsecured Notes(1)(2)	900,000	Fixed Rate	5.75%	900,000	Fixed Rate	5.75%	9/15/2025
Senior Unsecured Notes(1)(3)	400,000	Fixed Rate	4.63%	400,000	Fixed Rate	4.63%	11/15/2027
Total long-term borrowings	2,364,650			2,370,000			
Plus: Unamortized Premium	7,833			8,583			
Less: Unamortized Debt Issuance Cost	(22,864)			(24,765)			
Net Carrying Value	$ 2,349,619			$ 2,353,818			
Other Borrowings							
Revolving Credit Facility(4)	$ —	ABR+25bps	—%	$ 45,000	ABR+25bps	5.00%	11/12/2024
Broker-Dealer Revolving Credit Facility	—	FFR+125bps	—%	—	FFR+125bps	—	7/31/2024
Total borrowings	$ 2,349,619			$ 2,398,818			

(1) No leverage or interest coverage maintenance covenants.

(2) The 2025 Notes were issued in two separate transactions; $500.0 million in original notes were issued in March 2017 at par and $400.0 million in additional notes were issued in September 2017 and priced at 103.0% of the aggregate principal amount.

(3) The 2027 Notes were issued in November 2019 at par.

(4) The alternate base rate (ABR) was the PRIME rate, and reflects the interest rate incurred on the senior secured revolving credit facility on the outstanding balance as of December 31, 2019.

On November 12, 2019, LPLFH and LPLH entered into a fourth amendment agreement (the "Amendment") to the Company's amended and restated credit agreement ("Credit Agreement"), and repriced its senior secured Term Loan B facility ("Term Loan B"), increased the size of its senior secured revolving credit facility from $500.0 million to $750.0 million, extended the maturity dates applicable to its Term Loan B and its senior secured revolving credit facility, and made certain other changes to its credit agreement. Additionally, LPLH raised $400.0 million in aggregate principal amount of 4.625% senior unsecured notes which were issued at par ("2027 Notes"). The proceeds from the 2027 Notes were used to pay down the Term Loan B principal balance to $1,070.0 million. In connection with the execution of the Amendment, the Company incurred $13.5 million in costs which are capitalized as debt issuance costs in the consolidated statements of financial condition and accelerated the recognition of $3.2 million of unamortized debt issuance costs as a loss on extinguishment of debt in the consolidated statements of income.

The Credit Agreement subjects the Company to certain financial and non-financial covenants. As of June 30, 2020, the Company was in compliance with such covenants.

Issuance of 4.625% Senior Notes due 2027

The 2027 Notes are unsecured obligations, governed by an indenture, that will mature on November 15, 2027, and bear interest at the rate of 4.625% per year, with interest payable semi-annually, beginning on May 15, 2020. The Company may redeem all or part of the 2027 Notes at any time prior to November 15, 2022 (subject to a customary "equity claw" redemption right) at 100% of the principal amount redeemed plus a "make-whole" premium. Thereafter, the Company may redeem all or part of the 2027 Notes at annually declining redemption premiums until November 15, 2024, at and after which date the redemption price will be equal to 100% of the principal amount redeemed plus any accrued and unpaid interest thereon.

Issuance of 5.75% Senior Notes due 2025

LPLH issued $500.0 million aggregate principal amount of 5.75% senior notes on March 10, 2017 (the "Original Notes") and $400.0 million aggregate principal amount of 5.75% senior notes on September 21, 2017 (together with the Original Notes, the "2025 Notes"). The 2025 Notes are unsecured obligations, governed by an indenture, that will mature on September 15, 2025, and bear interest at the rate of 5.75% per year, with interest payable semi-annually, beginning September 15, 2017. The Company may redeem all or part of the 2025 Notes at any time prior to March 15, 2020 (subject to a customary “equity claw” redemption right) at 100% of the principal amount redeemed plus a “make-whole” premium. Thereafter the Company may redeem all or part of the 2025 Notes at annually declining redemption premiums until March 15, 2023, at and after which date the redemption price will be equal to 100% of the principal amount redeemed.

Term Loan B and Revolving Credit Facility

Borrowings under the Term Loan B facility bear interest at a rate per annum of 175 basis points over the Eurodollar Rate or 75 basis points over the base rate (as defined in the Credit Agreement), and have no leverage or interest coverage maintenance covenants. Borrowings under the revolving credit facility bear interest at a rate per annum ranging from 125 to 175 basis points over the Eurodollar Rate or 25 to 75 basis points over the base rate, depending on the Consolidated Secured Debt to Consolidated EBITDA Ratio (as defined in the Credit Agreement). The Eurodollar Rate option is the one-, two-, three-, or six-month LIBOR rate, as selected by LPLH, or, with the approval of the applicable lenders, twelve-month LIBOR rate or the LIBOR rate for another period acceptable to the Administrative Agent (including a shorter period). The LIBOR rate, on which the Eurodollar Rate is based, is expected to be discontinued by December 31, 2021. The Credit Agreement permits LPLH to agree with the administrative agent for the Credit Agreement on a replacement benchmark rate subject to certain conditions (including that a majority of the lenders do not object to such replacement rate within a specified period of time following notice thereof from the administrative agent).

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

Broker-Dealer Revolving Credit Facility

On July 31, 2019, LPL Financial, the Company’s broker-dealer subsidiary, entered into a committed, unsecured revolving credit facility that matures on July 31, 2024 and allows for a maximum borrowing of up to $300.0 million (the “LPL Financial Credit Facility”). LPL Financial incurred approximately $1.5 million in debt issuance costs. Borrowings under the LPL Financial Credit Facility bear interest at a rate per annum ranging from 112.5 to 137.5 basis points over the Federal Funds Rate or Eurodollar Rate, depending on the Parent Leverage Ratio (each as defined in the credit agreement related to the LPL Financial Credit Facility). The credit agreement related to the LPL Financial Credit Facility subjects LPL Financial to certain financial and non-financial covenants. LPL Financial was in compliance with such covenants as of June 30, 2020.

Bank Loans Payable

The Company maintained four uncommitted lines of credit as of June 30, 2020. Two of the lines have unspecified limits, which are primarily dependent on the Company’s ability to provide sufficient collateral. The other two lines have a total limit of $150.0 million, one of which allows for collateralized borrowings while the other allows for uncollateralized borrowings. There were no balances outstanding as of June 30, 2020 or December 31, 2019.

Letters of Credit

As of June 30, 2020, the Company had $0.2 million of irrevocable letters of credit, with an applicable interest rate margin of 1.25%, which were supported by the credit facility.

9. Leases

The Company determines if an arrangement is a lease or contains a lease at inception. The Company has operating and finance leases for corporate offices and equipment with remaining lease terms of 2 years to 16 years, some of which include options to extend the lease for up to 20 years. For leases with renewal options, the lease term is extended to reflect renewal options the Company is reasonably certain to exercise.

Operating lease assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at the commencement date. As most of the Company’s leases do not provide an implicit rate, the Company estimates its incremental borrowing rate based on information available at the commencement date in determining the present value of future payments. Lease expense for net present value of payments is recognized on a straight-line basis over the lease term.

Finance lease assets are included in fixed assets in the unaudited condensed consolidated statements of financial condition and at June 30, 2020 were $104.8 million.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Operating lease cost	$ 4,790	$ 4,551	$ 9,207	$ 8,853
Finance lease cost:				
Amortization of right-of-use assets	$ 1,286	$ 1,164	$ 2,571	$ 2,329
Interest on lease liabilities	2,108	2,092	4,211	4,184
Total finance lease cost	$ 3,394	$ 3,256	$ 6,782	$ 6,513

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

	Six Months Ended June 30,	
	2020	2019
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 10,568	$ 9,434
Operating cash flows from finance leases	$ 4,211	$ 4,184
Financing cash flows from finance leases	$ 1,044	$ 747

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

	June 30, 2020	December 31, 2019
Weighted-average remaining lease term (years):		
Finance leases	25.8	26.2
Operating leases	8.5	9.1
Weighted-average discount rate:		
Finance leases	7.78%	7.75%
Operating leases	7.15%	7.27%

Maturities of lease liabilities as of June 30, 2020 were as follows (in thousands):

	Operating Leases	Finance Leases
2020 - remainder	$ 10,457	$ 4,337
2021	21,309	9,735
2022	21,840	8,802
2023	21,462	8,576
2024	21,241	8,727
Thereafter	94,566	233,639
Total lease payments	190,875	273,816
Less imputed interest	50,582	166,268
Total	$ 140,293	$ 107,548

10. Commitments and Contingencies

Service and Development Contracts

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

Guarantees

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

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

Loan Commitments

From time to time, LPL Financial makes loans to its advisors, primarily to newly recruited advisors to assist in the transition process, which may be forgivable. Due to timing differences, LPL Financial may make commitments to issue such loans prior to actually funding them. These commitments are generally contingent upon certain events occurring, including but not limited to the advisor joining LPL Financial. LPL Financial had no significant unfunded loan commitments at June 30, 2020.

Legal & Regulatory Matters

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

On May 1, 2018 the Company agreed to a settlement structure with the North American Securities Administrators Association that related to the Company's historical compliance with certain state "blue sky" laws and resulted in aggregate fines of approximately $26.4 million, all of which were covered by the Captive Insurance Subsidiary's loss reserves. As part of the settlement structure, the Company engaged independent third party consultants to conduct a historical review of securities transactions and an operational review of the Company's systems for complying with blue sky securities registration requirements, each of which has been completed. The Company also agreed to offer customers remediation in the form of reimbursement for any actual losses, plus interest. As of the date of this Quarterly Report on Form 10-Q, customer remediation is substantially complete and the cost is not expected to be material.

Third-Party Insurance

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

Self-Insurance

The Company has self-insurance for certain potential liabilities through the Captive Insurance Subsidiary. Liabilities associated with the risks that are retained by the Company are not discounted and are estimated by considering, in part, historical claims experience, severity factors, and other actuarial assumptions. The estimated accruals for these potential liabilities could be significantly affected if future occurrences and claims differ from such assumptions and historical trends, so there are particular complexities and uncertainties involved when assessing the adequacy of loss reserves for potential liabilities that are self-insured. As of June 30, 2020, these self-insurance liabilities are included in accounts payable and accrued liabilities in the unaudited condensed consolidated statements of financial condition. Self-insurance related charges are included in other expenses in the unaudited condensed consolidated statements of income for the three and six months ended June 30, 2020.

Other Commitments

As of June 30, 2020, the Company had approximately $327.4 million of client margin loans that were collateralized with securities having a fair value of approximately $458.3 million that it can repledge, loan or sell. Of these securities, approximately $68.5 million were client-owned securities pledged to the Options Clearing Corporation as collateral to secure client obligations related to options positions. As of June 30, 2020, there were no restrictions that materially limited the Company's ability to repledge, loan or sell the remaining $389.8 million of client collateral.

Trading securities on the unaudited condensed consolidated statements of financial condition include $5.5 million pledged to the Options Clearing Corporation at both June 30, 2020 and December 31, 2019, and $15.0 million pledged to the National Securities Clearing Corporation at both June 30, 2020 and December 31, 2019.

11. Stockholders' Equity

Dividends

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

	2020		2019	
	Dividend per Share	**Total Cash Dividend**	**Dividend per Share**	**Total Cash Dividend**
First quarter	$ 0.25	$ 19.7	$ 0.25	$ 21.1
Second quarter	$ 0.25	$ 19.7	$ 0.25	$ 20.8

Share Repurchases

The Company engages in share repurchase programs, which are approved by the Board of Directors, pursuant to which the Company may repurchase its issued and outstanding shares of common stock from time to time. Repurchased shares are included in treasury stock on the unaudited condensed consolidated statements of financial condition. As of June 30, 2020, the Company was authorized to purchase up to an additional $349.8 million of shares pursuant to share repurchase programs approved by the Board of Directors. During the first quarter of 2020, the Company repurchased 1.8 million shares of common stock at a weighted-average price of $82.91 for a total of $150.0 million. The Company suspended share repurchases in mid-March 2020 in light of the business and financial uncertainties created by the COVID-19 pandemic.

12. Share-Based Compensation

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

As of June 30, 2020, the 2010 Plan had 20,055,945 shares authorized for grant and 3,611,358 shares remaining available for future issuance.

Stock Options and Warrants

The following table summarizes the Company’s stock option and warrant activity as of and for the six months ended June 30, 2020:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding — December 31, 2019	2,705,241	$ 43.81		
Granted	—	$ —		
Exercised	(344,340)	$ 32.93		
Forfeited and Expired	(27,685)	$ 66.08		
Outstanding — June 30, 2020	2,333,216	$ 45.15	5.54	$ 77,586
Exercisable — June 30, 2020	1,969,970	$ 39.88	5.02	$ 75,893
Exercisable and expected to vest — June 30, 2020	2,311,341	$ 44.86	5.51	$ 77,515

The following table summarizes information about outstanding stock options and warrants as of June 30, 2020:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Shares	Weighted-Average Exercise Price
$19.85 - $25.00	432,458	$ 19.85	5.59	432,458	$ 19.85
$25.01 - $35.00	471,445	$ 30.80	1.73	471,445	$ 30.80
$35.01 - $45.00	412,039	$ 39.62	6.57	412,039	$ 39.62
$45.01 - $65.00	316,853	$ 48.85	4.29	316,853	$ 48.85
$65.01 - $75.00	323,069	$ 65.55	7.43	207,984	$ 65.54
$75.01 - $80.00	377,352	$ 77.53	8.54	129,191	$ 77.53
	2,333,216	$ 45.15	5.54	1,969,970	$ 39.88

The Company recognized share-based compensation related to the vesting of stock options awarded to employees and officers of $1.0 million and $2.2 million during the three months ended June 30, 2020 and 2019, respectively, and $2.4 million and $5.2 million for the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020, total unrecognized compensation cost related to non-vested stock options granted to employees and officers was $4.9 million, which is expected to be recognized over a weighted-average period of 1.43 years.

Restricted Stock and Stock Units

The following summarizes the Company's activity in its restricted stock awards and stock units, which include restricted stock units, deferred stock units, and performance stock units, for the six months ended June 30, 2020:

	Restricted Stock Awards		Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Units	Weighted-Average Grant-Date Fair Value
Outstanding — December 31, 2019	8,296	$ 81.99	792,185	$ 66.28
Granted	9,865	$ 64.74	509,336	$ 77.03
Vested	(12,601)	$ 76.10	(390,589)	$ 54.66
Forfeited	—	$ —	(15,342)	$ 75.33
Nonvested — June 30, 2020	5,560	$ 64.74	895,590 (1)	$ 77.31
Expected to vest — June 30, 2020	5,560	$ 64.74	784,513	$ 78.83

(1) Includes 52,773 vested and undistributed deferred stock units.

The Company grants restricted stock awards and deferred stock units to its directors and restricted stock units and performance stock units to its employees and officers. Restricted stock awards and stock units must vest or are subject to forfeiture; however, restricted stock awards are included in shares outstanding upon grant and have the same dividend and voting rights as the Company's common stock. The Company recognized $6.4 million and $4.6 million of share-based compensation related to the vesting of these restricted stock awards and stock units during the three months ended June 30, 2020 and 2019, respectively, and $13.0 million and $9.2 million during the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020, total unrecognized compensation cost for restricted stock awards and stock units was $44.5 million, which is expected to be recognized over a weighted-average remaining period of 2.23 years.

The Company also grants restricted stock units to its advisors and to financial institutions. The Company recognized share-based compensation of $0.6 million and $0.8 million related to the vesting of these awards during the three months ended June 30, 2020 and 2019, respectively, and $1.3 million and $1.8 million during the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020, total unrecognized compensation cost for restricted stock units granted to advisors and financial institutions was $3.0 million, which is expected to be recognized over a weighted-average remaining period of 1.84 years.

13. Earnings per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	2020	2019
Net income	$ 101,662	$ 146,092	$ 257,303	$ 301,490
Basic weighted-average number of shares outstanding	78,940	83,247	79,223	83,869
Dilutive common share equivalents	1,187	2,103	1,436	2,183
Diluted weighted-average number of shares outstanding	80,127	85,350	80,659	86,052
Basic earnings per share	$ 1.29	$ 1.75	$ 3.25	$ 3.59
Diluted earnings per share	$ 1.27	$ 1.71	$ 3.19	$ 3.50

The computation of diluted earnings per share excludes stock options, warrants and stock units that are anti-dilutive. For the three months ended June 30, 2020 and 2019, stock options, warrants and stock units representing common share equivalents of 1,040,297 shares and 590,751 shares, respectively, were anti-dilutive. For the six months ended June 30, 2020 and 2019, stock options, warrants and stock units representing common share equivalents of 683,813 shares and 549,029 shares, respectively, were anti-dilutive.

14. Income Taxes

The Company's effective income tax rate differs from the federal corporate tax rate of 21.0%, primarily as a result of state taxes, settlement contingencies, tax credits and other permanent differences in tax deductibility of certain expenses. These items resulted in effective tax rates of 25.9% and 25.1% for the three months ended June 30, 2020 and 2019, respectively, and 25.4% and 24.4% for the six months ended June 30, 2020 and 2019, respectively.

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

15. Related Party Transactions

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

The Company recognized revenue for services provided to these related parties of $1.1 million and $1.0 million during the three months ended June 30, 2020 and 2019, respectively, and $2.3 million and $1.9 million during the six months ended June 30, 2020 and 2019, respectively. The Company incurred expenses for the services provided by these related parties of $0.5 million and $0.4 million during the three months ended June 30, 2020 and 2019, respectively, and $0.9 million and $0.8 million during the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020 and 2019, receivables from and payables to related parties were not material.

16. Net Capital and Regulatory Requirements

The Company's registered broker-dealer, LPL Financial, is subject to the SEC's Net Capital Rule (Rule 15c3-1 under the Exchange Act), which requires the maintenance of minimum net capital. The net capital rules also provide that the broker-dealer's capital may not be withdrawn if resulting net capital would be less than minimum requirements. Additionally, certain withdrawals require the approval of the SEC and the Financial Industry Regulatory Authority to the extent they exceed defined levels, even though such withdrawals would not cause net capital to be less than minimum requirements. Net capital and the related net capital requirement may fluctuate on a daily basis. LPL Financial is a clearing broker-dealer and, as of June 30, 2020, had net capital of $121.5 million with a minimum net capital requirement of $9.6 million.

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

As of June 30, 2020 and December 31, 2019, LPL Financial and PTC met all capital adequacy requirements to which they were subject.

17. Financial Instruments with Off-Balance-Sheet Credit Risk and Concentrations of Credit Risk

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

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

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

18. Subsequent Events

On July 28, 2020, the Board of Directors declared a cash dividend of $0.25 per share on the Company's outstanding common stock to be paid on August 28, 2020 to all stockholders of record on August 14, 2020.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

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

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

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

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

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

As of June 30, 2020, the fair value of our trading securities owned was $35.3 million and securities sold, but not yet purchased were immaterial. The fair value of securities included within other assets was $290.9 million as of June 30, 2020. See Note 5. *Fair Value Measurements*, within the notes to the unaudited condensed consolidated financial statements for information regarding the fair value of trading securities owned, securities sold, but not yet purchased and other assets associated with our client facilitation activities. See Note 6. *Held-to-Maturity Securities*, within the notes to the unaudited condensed consolidated financial statements for information regarding the fair value of securities held to maturity.

Interest Rate Risk

We are exposed to risk associated with changes in interest rates. As of June 30, 2020, $1.1 billion of our outstanding debt under our Credit Agreement was subject to floating interest rate risk. While our senior secured term loan is subject to increases in interest rates, we do not believe that a short-term change in interest rates would have a material impact on our income before taxes given assets owned, which are generally subject to the same, but off-setting, interest rate risk.

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

Senior Secured Credit Facility	Outstanding Variable Interest Rates at June 30, 2020	Annual Impact of an Interest Rate Increase of: 10 Basis Points	25 Basis Points	50 Basis Points	100 Basis Points
Term Loan B	$ 1,064,650	$ 1,061	$ 2,652	$ 5,303	$ 10,606

See Note 8. *Borrowings*, within the notes to the unaudited condensed consolidated financial statements for additional information.

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

As of June 30, 2020 we offered our advisors and their clients two primary cash sweep vehicles that are interest rate sensitive: (1) our insured cash account ("ICA") for individuals, trusts, sole proprietorships and entities organized or operated to make a profit, such as corporations, partnerships, associations, business trusts and other organizations; and (2) an insured deposit cash account ("DCA") for advisory individual retirement accounts. In addition, we offer our advisors and their clients a money market program, including money market accounts and purchased money market funds. While clients earn interest for balances on deposit in ICA and DCA, we earn a fee. Our fees from ICAs are based on prevailing interest rates in the current interest rate environment. The fees that we receive from the DCA vehicle are calculated as a per account fee, and such fees increase as the federal funds target rate increases, subject to a cap. The fees we receive on cash balances in our advisors' clients' accounts in our money market program, including administrative and recordkeeping fees based on account type and the invested balances, are also sensitive to prevailing interest rates. Changes in interest rates and fees for the bank deposit sweep vehicles are monitored by our Rate Setting Committee (the "RSC"), which governs and approves any changes to our fees. By meeting promptly around the time of Federal Open Market Committee meetings, or for other market or non-market reasons, the RSC considers financial risk of the insured bank deposit sweep vehicles relative to other products into which clients may move cash balances.

Credit Risk

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

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

As our advisors execute margin transactions on behalf of their clients, we may incur losses if clients do not fulfill their obligations, the collateral in the clients' accounts is insufficient to fully cover losses from such investments and our advisors fail to reimburse us for such losses. Our losses on margin accounts were immaterial during the six months ended June 30, 2020 and 2019. We monitor exposure to industry sectors and individual securities and perform analyses on a regular basis in connection with our margin lending activities. We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions.

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

Operational Risk

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

In order to assist in the mitigation and control of operational risk, we have an operational risk framework that is designed to enable assessment and reporting on operational risk across the firm. This framework aims to ensure policies and procedures are in place and appropriately designed to identify and manage operational risk at appropriate levels throughout our organization and within various departments. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our employees and advisors operate within established corporate policies and limits. Notwithstanding the foregoing, please consult the "Risks Related to Our Technology" and the "Risks Related to Our Business and Industry" sections within Part I, "Item 1A. Risk Factors" in our 2019 Annual Report on Form 10-K for more information about the risks associated with our technology, including risks related to security, our risk management policies and procedures, and the potential related effects on our operations.

Our senior management is monitoring developments in the COVID-19 pandemic and has implemented changes to our policies, procedures and operations to protect the integrity and continuity of our business and the health and safety of our employees. For example, we equipped and enabled a substantial majority of employees to work remotely, implemented physical distancing and enhanced cleaning protocols throughout our corporate offices and worked closely with our vendors to maintain service continuity throughout the market volatility and increased operational volumes that occurred during the quarter. There can be no guarantee that our business continuity plans and the other efforts to manage the business implications of COVID-19 will be effective, or that there will not be material adverse effects on our results of operations. For information about the risks associated with COVID-19, see Part II, "Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q.

Regulatory and Legal Risk

The regulatory environment in which we operate is discussed in detail within Part I, "Item 1. Business" in our 2019 Annual Report on Form 10-K. In recent years, and during the period presented in this Quarterly Report on Form 10-Q, we have observed the SEC, FINRA and state regulators broaden the scope, frequency and depth of their examinations and inquiries to include greater emphasis on the quality, consistency and oversight of our compliance systems and programs. Please consult the "Risks Related to Our Regulatory Environment" and the "Risks Related to Our Business and Industry" sections within Part I, "Item 1A. Risk Factors" in our 2019 Annual Report on Form 10-K for more information about the risks associated with operating within our regulatory environment, pending regulatory matters and the potential related effects on our operations.

Risk Management

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

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

Our risk management governance approach includes the Board of Directors (the "Board") and certain of its committees; our Risk Oversight Committee (the "ROC") and its subcommittees; our Internal Audit department and our CLR department; and business line management. We regularly reevaluate and, when necessary, modify our processes to improve the identification and escalation of risks and events.

Audit Committee of the Board

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

Compensation and Human Resources Committee of the Board

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

Risk Oversight Committee of LPL Financial

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

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

Subcommittees of the Risk Oversight Committee

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

Internal Audit Department

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

Control Groups

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

Business Line Management

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

Advisor Policies

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Change in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the second quarter ended June 30, 2020, 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

From time to time, we have been subjected to and are currently subject to legal and regulatory proceedings arising out of our business operations, including lawsuits, arbitration claims, and inquiries, investigations and enforcement proceedings initiated by the SEC, FINRA, and state securities regulators, as well as other actions and claims. See Note 10. *Commitments and Contingencies,* within the notes to the unaudited condensed consolidated financial statements for additional information.

Item 1A. Risk Factors

For a discussion of the Company's risks, see the risk factor below and the information as set forth under Part I, "Item 1A. Risk Factors" in the Company's 2019 Annual Report on Form 10-K.

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

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

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

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

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

The COVID-19 pandemic has also jeopardized our ability to rely on our outsourced service providers, including those that operate off-shore. As COVID-19 has spread, governments in the United States and around the world, including in jurisdictions where our service providers have operations, have imposed or encouraged varying degrees of limitations on travel and social interaction. In many cases this has resulted in the partial or complete closure of businesses, including some that we rely on. While we have taken steps to minimize the disruptions that these closures have caused, and are seeking to avoid interruptions to our critical operations, there can be no guarantee that they will be effective, or, if they are effective, that such effect will be sustained or cost-effective. In addition, if business closures are prolonged or become more widespread, our ability to modify our operations to avoid interruption may become more limited or costly. Any interruption to our operations could have a negative effect on our reputation and results of operations.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation of LPL Investment Holdings Inc., dated November 23, 2010 (Incorporated by reference to Amendment No. 2 to the Registration Statement on Form S-1 filed on July 9, 2010).
3.2	Certificate of Ownership and Merger Merging LPL Financial Holdings Inc. with and into LPL Investment Holdings Inc., dated June 14, 2012 (Incorporated by reference to the Form 8-K filed on June 19, 2012).
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of LPL Financial Holdings Inc., dated May 8, 2014 (Incorporated by reference to the Form 8-K filed on May 9, 2014).
3.4	Fifth Amended and Restated Bylaws of LPL Financial Holdings Inc. (Incorporated by reference to the Form 8-K filed on March 12, 2014).
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.**
101.SCH	Inline XBRL Taxonomy Extension Schema
101.CAL	Inline XBRL Taxonomy Extension Calculation
101.LAB	Inline XBRL Taxonomy Extension Label
101.PRE	Inline XBRL Taxonomy Extension Presentation
101.DEF	Inline XBRL Taxonomy Extension Definition
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

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* Filed herewith.

** Furnished herewith.

SIGNATURES

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

LPL Financial Holdings Inc.

Date: August 4, 2020	By: /s/ DAN H. ARNOLD Dan H. Arnold President and Chief Executive Officer
Date: August 4, 2020	By: /s/ MATTHEW J. AUDETTE Matthew J. Audette Chief Financial Officer

Exhibit 31.1

CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER

I, Dan H. Arnold, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LPL Financial Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2020

/s/ Dan H. Arnold

Dan H. Arnold
President and Chief Executive Officer
(principal executive officer)

Exhibit 31.2

CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER

I, Matthew J. Audette, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of LPL Financial Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
    a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
    c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 4, 2020

/s/ Matthew J. Audette

Matthew J. Audette
Chief Financial Officer
(principal financial officer)

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of LPL Financial Holdings Inc. (the “Company”) for the period ending June 30, 2020 as filed with the Securities and Exchange Commission (“SEC”) on the date hereof (the “Report”), I, Dan H. Arnold, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: August 4, 2020

/s/ Dan H. Arnold

Dan H. Arnold
President and Chief Executive Officer

Exhibit 32.2

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Quarterly Report on Form 10-Q of LPL Financial Holdings Inc. (the “Company”) for the period ending June 30, 2020 as filed with the Securities and Exchange Commission (“SEC”) on the date hereof (the “Report”), I, Matthew J. Audette, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

Date: August 4, 2020

/s/ Matthew J. Audette

Matthew J. Audette
Chief Financial Officer