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, 2019
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.)*

75 State Street, Boston, Massachusetts 02109
(Address of Principal Executive Offices) (Zip Code)

(617) 423-3644
(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. x Yes o 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). x Yes o 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	x	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. o

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

The number of shares of Common Stock, par value $0.001 per share, outstanding as of July 24, 2019 was 82,309,324.

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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, the acquisition of Allen & Company of Florida, Inc. ("Allen & Company"), future affiliation models and capabilities, market and macroeconomic trends, and 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 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 July 30, 2019. 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 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 indenture 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; 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 of Allen & Company and AdvisoryWorld and its expense plans and technology initiatives; the performance of third-party service providers to which business processes are transitioned; the Company’s ability to control operating risks, information technology systems risks, cybersecurity risks, and sourcing risks; and the other factors set forth in Part I, “Item 1A. Risk Factors” in the Company's 2018 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 2019 included net income of $146.1 million, or $1.71 per share, which compares to $118.8 million, or $1.30 per share, for the second quarter of 2018.

Asset Growth Trends

Total brokerage and advisory assets served were $706.0 billion as of June 30, 2019, up 7% from $659.1 billion as of June 30, 2018. Total net new assets were $4.0 billion for the three months ended June 30, 2019, compared to $2.5 billion for the same period in 2018.

Net new advisory assets were $6.6 billion for the three months ended June 30, 2019, compared to $4.3 billion for the same period in 2018. As of June 30, 2019, our advisory assets had grown to $327.3 billion, compared to $291.5 billion as of June 30, 2018, and represented 46% of total brokerage and advisory assets served.

Net new brokerage assets were an outflow of $2.6 billion for the three months ended June 30, 2019, compared to an outflow of $1.9 billion for the same period in 2018. As of June 30, 2019, our brokerage assets had grown to $378.7 billion from $367.5 billion as of June 30, 2018.

Gross Profit Trends

Gross profit, a non-GAAP financial measure, of $535.7 million for the three months ended June 30, 2019, increased 11% from $482.8 million for the quarter ended June 30, 2018. Gross profit is calculated as net revenues, which were $1,390 million for the three months ended June 30, 2019, 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 8 to the Financial Metrics table within the "How We Evaluate Our Business" section for additional information on gross profit.

Stockholder Capital Returns

We returned $145.9 million of capital to stockholders during the three months ended June 30, 2019, including $20.8 million of dividends and $125.0 million of share repurchases, representing 1,591,950 shares.

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 program 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 manufacturers 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 advisory programs, including related disclosures, in the context of the changing regulatory environment for retirement accounts.

How We Evaluate Our Business

We focus on several key business and financial metrics in evaluating the success of our business relationships and our resulting financial position and operating performance. Our key business and financial metrics are as follows:

Business Metrics (dollars in billions) (balances may not foot due to rounding)	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	% Change
Advisory assets(1)(2)	$ 327.3	$ 291.5	12%
Brokerage assets(1)(3)	378.7	367.5	3%
Total Brokerage and Advisory Assets served(1)	**$ 706.0**	**$ 659.1**	**7%**
Net new advisory assets(4)	$ 11.2	$ 17.5	n/m
Net new brokerage assets(5)	(3.2)	23.9	n/m
Total Brokerage and Advisory Net New Assets	**$ 8.0**	**$ 41.4**	**n/m**
Insured cash account balances(1)	$ 21.3	$ 21.7	(2%)
Deposit cash account balances(1)	4.3	4.0	8%
Total Insured Sweep Balances	25.5	25.7	(1%)
Money market account balances(1)	3.5	2.9	21%
Purchased money market fund balances(1)	$ 1.0	$ —	n/m
Total Client Cash Balances	**$ 30.1**	**$ 28.6**	**5%**
Advisors	16,161	16,049	1%

Financial Metrics (dollars in millions, except per share data)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018
Total net revenues	$ 1,389.8	$ 1,298.8	$ 2,761.4	$ 2,540.4
Recurring gross profit rate (trailing twelve months)(6)	86.5%	84.7%	86.5%	84.7%
Pre-tax income	$ 195.1	$ 162.9	$ 398.9	$ 282.8
Net income	$ 146.1	$ 118.8	$ 301.5	$ 212.3
Earnings per share, diluted	$ 1.71	$ 1.30	$ 3.50	$ 2.30
Non-GAAP Financial Measures(7)				
Gross profit(8)	$ 535.7	$ 482.8	$ 1,091.6	$ 946.7
Gross profit growth from prior period(8)	11.0%	24.2%	15.3%	23.8%
Gross profit as a % of net revenue(8)	38.5%	37.2%	39.5%	37.3%

(1) Brokerage and advisory assets are comprised 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.

(2) 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.

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

(4) Net new advisory assets consists of total client deposits into custodied advisory accounts less total client withdrawals from custodied advisory accounts. We consider conversions from and to brokerage accounts as deposits and withdrawals, respectively.

(5) Net new brokerage assets consists of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts. We consider conversions from and to advisory accounts as deposits and withdrawals, respectively.

(6) 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.

(7) 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.

(8) Set forth below is a calculation of gross profit (in millions), 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)	**2019**	**2018**	**2019**	**2018**
Total net revenues	$ 1,389.8	$ 1,298.8	$ 2,761.4	$ 2,540.3
Commission and advisory expense	838.0	800.6	1,637.7	1,562.3
Brokerage, clearing, and exchange fees	16.0	15.4	32.1	31.3
Gross profit(1)	**$ 535.7**	**$ 482.8**	**$ 1,091.6**	**$ 946.7**

(1) Balances 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 a legal proceeding, whether or not covered by the Company's 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 the captive insurance subsidiary at June 30, 2019, include estimated costs for significant regulatory matters, 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 related to our historical compliance with certain state “blue sky” laws, which will result in aggregate fines of approximately $26.4 million. As part of the settlement structure, we engaged independent third party consultants to conduct a historical review of securities transactions and an operational review of our systems for complying with blue sky securities registration requirements. We also agreed to offer customers remediation in the form of reimbursement for any actual losses, plus interest. We believe our captive insurance subsidiary has adequate loss reserves to cover the aggregate fines and the costs of remediation. As of the date of this Quarterly Report on Form 10-Q, however, the historical review of transactions has not been completed and, as a result, the scope and costs of potential customer remediation cannot be estimated at this time. The actual costs of reimbursing customers for losses could exceed our reserves.

The outcome of regulatory matters 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 Rule”). The DOL has indicated that it may propose a new fiduciary rule with regard to such accounts. 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 - banking regulators, and the state securities and insurance regulators - may respond to or attempt to enforce similar issues addressed by the former DOL Rule and Regulation BI.

Uncertainty regarding pending and future laws and regulations, including with regard to the implementation of Regulation BI, a potential new rule proposed by the DOL and state rules, relating to the standards of conduct applicable to both retirement and non-retirement accounts, may have impacts on our business in ways which cannot be anticipated or planned for, and which may have further impact on our products and 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 May 17, 2019, the Company entered into a purchase agreement to acquire all of the outstanding equity interests of Allen & Company of Florida, Inc. ("Allen & Company"), a broker-dealer and registered investment adviser ("RIA"). Under the transaction structure, Allen & Company advisors and staff will join the Company as employees and Allen & Company will maintain its operations and brand. The transaction is expected to close in the third quarter of 2019, with a total purchase price expected to be in the mid-$30.0 million range, including a base payment payable at closing and an additional contingent payment payable six months after closing based on transferred assets.

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

Economic Overview and Impact of Financial Market Events

Our business is directly and indirectly sensitive to several macroeconomic factors and the state of the U.S. financial markets. In the United States, economic data has pointed to slowing economic growth through the second quarter of 2019. According to the most recent estimate by the Bureau of Economic Analysis, real gross domestic product ("GDP") grew at an annualized rate of 2.1% in the second quarter of 2019, consistent with the 2.3% growth rate in the one-year period since the second quarter of 2018 and the expansion average, also 2.3%. Growth has generally moderated over the last several quarters from the over 3% growth seen in mid-2018, due in part to headwinds from slower global growth and uncertainty around trade policy. Forward expectations remain muted but not recessionary. The Federal Reserve's ("Fed") most recent median projection, released following its June 18-19, 2019 policy meeting, puts expected U.S. growth at 2.1% for all of 2019, which would signal growth expectations of under 2% over the final two quarters of the year. The median Fed projection for 2020 is approximately 2%. Together these numbers imply expectations that the boost to growth from fiscal stimulus has run its course and that growth would return to a rate modestly below the expansion average.

The U.S. economy continues to be supported by healthy labor markets and low interest rates, which helped consumer spending rebound in the second quarter from first quarter weakness. Business investment, however, has softened amid trade uncertainty and manufacturing has slowed. The slowdown in global growth remains a key concern, with major international organizations, such as the International Monetary Fund and World Bank, lowering forecasts as the year has progressed.

In the second quarter of the year, U.S. equity markets extended their rebound from sharp declines in the fourth quarter of 2018 as prospects of increased central bank support and some progress on trade talks between the United States and China offset growth concerns. The S&P 500 Index climbed 4.3% over the quarter, bringing its total return over the first half of the year to 18.5%. Both international developed and emerging market stocks have continued to lag behind U.S. markets, both in the second quarter and over the first half of the year. Bonds also fared well during the quarter, helped by further declines in yields, the benchmark 10-year Treasury yield ending the quarter near 2.0% (bond prices rise when yields falls.) The broad Bloomberg Barclays U.S. Aggregate Bond Index posted a 3.1% gain over the quarter, with particular strength in the investment grade corporate bond sector.

Our business is also sensitive to current and expected short-term interest rates, which are largely driven by Fed policy. Please consult the Risks Related to Our Business and Industry section within Part I, "Item 1A. Risk Factors" in our 2018 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. The Fed followed through on late fourth quarter and early first quarter messaging by holding off on any additional rate hikes over the first half of the year after four hikes in 2018, leaving the federal funds target rate at 2.25 - 2.5% as of June 30, 2019. At the same time, the tone from the Fed became increasingly supportive over the quarter, signaling an increasing possibility of a rate cut. The minutes from the Fed's June policy meeting revealed policymakers' rising concerns about increased economic uncertainty and downside risks to growth forecasts. Fed Chair Jerome Powell, in his semi-annual testimony before Congress on July 10-11, 2019, indicated that concerns had continued to rise over the intervening month. Markets interpreted Powell's comments as a signal that the Fed may cut rates at the end of July as a buffer against economic risks.

Results of Operations

The following discussion presents an analysis of our results of operations for the three and six months ended June 30, 2019 and 2018. 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.

(In thousands)	Three Months Ended June 30, 2019	Three Months Ended June 30, 2018	% Change	Six Months Ended June 30, 2019	Six Months Ended June 30, 2018	% Change
REVENUES						
Commission	$ 479,135	$ 488,085	(1.8)%	$ 940,494	$ 962,896	(2.3)%
Advisory	481,309	438,917	9.7 %	935,247	861,304	8.6 %
Asset-based	288,551	238,603	20.9 %	584,914	457,939	27.7 %
Transaction and fee	118,335	116,455	1.6 %	240,815	233,104	3.3 %
Interest income, net of interest expense	11,690	10,133	15.4 %	24,011	17,914	34.0 %
Other	10,737	6,611	62.4 %	35,955	7,204	399.1 %
Total net revenues	1,389,757	1,298,804	7.0 %	2,761,436	2,540,361	8.7 %
EXPENSES						
Commission and advisory	838,022	800,619	4.7 %	1,637,720	1,562,316	4.8 %
Compensation and benefits	131,788	122,360	7.7 %	268,700	245,877	9.3 %
Promotional	41,423	43,407	(4.6)%	92,772	110,834	(16.3)%
Depreciation and amortization	22,584	22,220	1.6 %	46,054	42,921	7.3 %
Amortization of intangible assets	16,249	15,682	3.6 %	32,417	28,904	12.2 %
Occupancy and equipment	33,320	26,904	23.8 %	66,426	54,540	21.8 %
Professional services	18,837	15,922	18.3 %	38,449	38,094	0.9 %
Brokerage, clearing, and exchange	15,994	15,433	3.6 %	32,138	31,310	2.6 %
Communications and data processing	12,532	11,038	13.5 %	24,859	22,212	11.9 %
Other	29,975	30,370	(1.3)%	56,378	58,956	(4.4)%
Total operating expenses	1,160,724	1,103,955	5.1 %	2,295,913	2,195,964	4.6 %
Non-operating interest expense and other	33,957	31,940	6.3 %	66,673	61,562	8.3 %
INCOME BEFORE PROVISION FOR INCOME TAXES	195,076	162,909	19.7 %	398,850	282,835	41.0 %
PROVISION FOR INCOME TAXES	48,984	44,143	11.0 %	97,360	70,539	38.0 %
NET INCOME	$ 146,092	$ 118,766	23.0 %	$ 301,490	$ 212,296	42.0 %

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, commissions that 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 (in thousands):

	Three Months Ended June 30,			
	2019	2018	$ Change	% Change
Sales-based	$ 203,531	$ 196,530	$ 7,001	3.6 %
Trailing	275,604	291,555	(15,951)	(5.5)%
Total commission revenue	$ 479,135	$ 488,085	$ (8,950)	(1.8)%

The increase in sales-based commission revenue for the three months ended June 30, 2019, compared with the same period in 2018 was driven by market volatility that led to an increase in sales of fixed annuities.

The decrease in trailing revenues for the three months ended June 30, 2019, compared with the same period in 2018 was primarily due to market volatility impacting mutual funds and alternative investments.

The following table sets forth our commission revenue, by sales-based and trailing commission revenue (in thousands):

	Six Months Ended June 30,			
	2019	2018	$ Change	% Change
Sales-based	$ 394,530	$ 383,763	$ 10,767	2.8 %
Trailing	545,964	579,133	(33,169)	(5.7)%
Total commission revenue	$ 940,494	$ 962,896	$ (22,402)	(2.3)%

The increase in sales-based commission revenue for the six months ended June 30, 2019, compared with the same period in 2018 was driven by market volatility that led to an increase in sales of fixed annuities, partially offset by a decrease in activity for equities and variable annuities.

The decrease in trailing revenues for the six months ended June 30, 2019, compared with the same period in 2018 was primarily due to market volatility impacting mutual funds and variable annuity trailing commissions.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Balance - Beginning of period	$ 372.1	$ 364.1	$ 346.0	$ 342.1
Net new brokerage assets	(2.6)	(1.9)	(3.2)	23.9
Market impact(1)	9.2	5.3	35.9	1.5
Balance - End of period	$ 378.7	$ 367.5	$ 378.7	$ 367.5

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

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 on either a calendar quarter or non-calendar quarter basis of their choice, at the beginning of that period, and are recognized as revenue ratably during the quarter. The majority of our accounts are billed in advance using values as of the last business day of each immediately preceding calendar 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 3.0% of the underlying assets as of June 30, 2019.

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 under custody metrics. However, 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 0.6% of the underlying assets as of June 30, 2019.

The following table summarizes the composition of total advisory assets as of June 30, 2019 and 2018 (in billions):

	June 30,			
	2019	2018	$ Change	% Change
Corporate platform advisory assets	$ 201.9	$ 173.9	$ 28.0	16.1%
Hybrid platform advisory assets	125.4	117.7	7.7	6.5%
Total advisory assets(1)	$ 327.3	$ 291.5	$ 35.7	12.2%

(1) Balances 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 (in billions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
Balance - Beginning of period	$ 311.9	$ 283.5	$ 282.0	$ 273.0
Net new advisory assets	6.6	4.3	11.2	17.5
Market impact(1)	8.8	3.7	34.1	1.0
Balance - End of period	$ 327.3	$ 291.5	$ 327.3	$ 291.5

(1) 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 for the three and six months ended June 30, 2019 and 2018 had a limited impact on our advisory revenue for those respective periods. Rather, net new advisory assets are a primary driver of future advisory revenue. The revenue for any particular quarter is primarily driven by the value of each of the prior quarter's month-end advisory assets under custody.

The growth in advisory revenue for the three and six months ended June 30, 2019 compared to the same periods in 2018 was due to net new advisory assets resulting from our recruiting efforts and strong advisor productivity, as well as market gains as represented by higher levels of the S&P 500 index.

Asset-Based Revenues

Asset-based revenues are comprised of our sponsorship programs with financial product manufacturers, omnibus processing and networking services, collectively referred to as recordkeeping, 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 and six months ended June 30, 2019 increased compared to the same periods in 2018 primarily due to increased revenues from our client cash programs, sponsorship programs and recordkeeping revenues.

Client cash revenue for the three and six months ended June 30, 2019 increased compared to the same periods in 2018 due to the impact of a higher federal funds effective rate during 2019. For the three months ended June 30, 2019, our average client cash balances increased as compared to the same period in 2018, with balances of $29.9 billion and $28.7 billion, respectively. For the six months ended June 30, 2019, our average client cash balances increased as compared to the same period in 2018, with balances of $30.6 billion and $29.0 billion, respectively.

Revenues for our recordkeeping and sponsorship programs for the three and six months ended June 30, 2019, which are largely based on the market value of the underlying assets, increased compared to the same periods in 2018 due to the impact of market appreciation on the value of those underlying assets.

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, 2019 compared to the same periods in 2018 primarily due to the expansion of advisor and client based fee revenue driven by advisor growth.

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 increased for the three and six months ended June 30, 2019, compared to the same periods in 2018 primarily due to the impact of rising 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, 2019 compared to the same period in 2018 primarily due to unrealized gains on assets held in our advisor non-qualified deferred compensation plan.

Other revenues increased for the six months ended June 30, 2019 compared to the same period in 2018 primarily due to unrealized gains on assets held in our advisor non-qualified deferred compensation plan and an increase in dividend income on assets held in our advisor non-qualified deferred compensation plan.

Expenses

Commission and Advisory Expenses

Commission and advisory expenses are comprised 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; 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,		
	2019	2018	Change	2019	2018	Change
Base payout rate(1)	83.39%	83.25%	14 bps	83.17%	83.04%	13 bps
Production based bonuses	3.15%	2.81%	34 bps	2.61%	2.44%	17 bps
Total payout ratio	86.54%	86.06%	48 bps	85.78%	85.48%	30 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.

Our total payout ratio increased for the three and six months ended June 30, 2019 compared with the same periods in 2018 primarily due to an increase in production based bonuses which were driven by an increase in commission and advisory revenue.

Compensation and Benefits Expense

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
Average number of employees	4,331	3,940	9.9%	4,299	3,882	10.7%

Compensation and benefits expense increased for the three and six months ended June 30, 2019 compared with the same periods in 2018 due to an increase in salary expenses resulting from an increase in headcount.

Promotional Expense

Promotional expenses include costs related to our hosting of certain advisor conferences that serve as training, sales, and marketing events, as well as business development costs related to recruiting, such as transition assistance and expenses associated with loans issued to advisors.

The decrease in promotional expense for the three months ended June 30, 2019 compared with the same period in 2018 was primarily driven by 2018 recruiter and advisor costs related to the onboarding of advisors and decreases in broker training and education expenses, offset by an increase in costs associated with advisor transition assistance.

The decrease in promotional expense for the six months ended June 30, 2019 compared with the same period in 2018 was primarily driven by 2018 recruiter and advisor costs related to the onboarding of advisors from the broker-dealer network of National Planning Holdings, Inc. ("NPH"), offset by an increase in costs associated with advisor transition assistance.

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, 2019 compared with the same periods in 2018 was primarily due to increases in purchased hardware and 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 months ended June 30, 2019 compared with the same period in 2018.

The increase in amortization of intangible assets for the six months ended June 30, 2019 compared with the same periods in 2018 was due to the intangible assets recorded during 2018 as part of our acquisition of NPH.

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, 2019 compared with the same periods in 2018 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 increase in professional services for the three months ended June 30, 2019 compared with the same period in 2018 was primarily due to increases in non-capitalized costs related to our service and technology projects during the period.

Professional services expense remained relatively flat for the six months ended June 30, 2019 compared with the same period in 2018.

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 slight increase in brokerage, clearing, and exchange fees is relatively consistent with the volume of sales and trading activity for the three and six months ended June 30, 2019 compared with the same periods in 2018.

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 and six months ended June 30, 2019 compared with the same periods in 2018 was primarily due to client letters.

Other Expenses

Other expenses include 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.

Other expenses remained relatively flat for the three months ended June 30, 2019 compared with the same period in 2018.

The decrease in other expenses for the six months ended June 30, 2019 compared with the same period in 2018 was primarily driven by lower costs associated with the investigation, settlement, and resolution of regulatory matters and costs associated with insurance and licensing fees.

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. Period over period increases correspond to higher LIBOR rates.

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 and 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 25.1% and 27.1% for the three months ended June 30, 2019 and 2018, respectively. The decrease in our effective tax rate for the three months ended June 30, 2019 compared with the same period in 2018 was primarily due to settlement of legal contingencies in 2018.

Our effective tax rate was 24.4% and 24.9% for the six months ended June 30, 2019 and 2018, respectively.

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,	
	2019	**2018**
Net cash flows (used in) provided by:		
Operating activities	$ (54,405)	$ 60,128
Investing activities	(62,242)	(49,949)
Financing activities	(284,140)	(188,285)
Net decrease in cash, cash equivalents and restricted cash	(400,787)	(178,106)
Cash, cash equivalents and restricted cash — beginning of period	1,562,119	1,625,655
Cash, cash equivalents and restricted cash — end of period	$ 1,161,332	$ 1,447,549

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

Net cash 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 used in operating activities for the six months ended June 30, 2019 compared to the same period in 2018 was primarily attributable to an increase in advisor loans and receivable from clients and a decrease in income taxes payable, due to the timing of payments made. These were offset by an increase in net income.

The increase in cash flows used in investing activities for the six months ended June 30, 2019 compared to the same period in 2018 was due to an increase in capital expenditures to support our technology projects.

The increase in cash flows used in financing activities for the six months ended June 30, 2019 compared to the same period in 2018 was primarily attributable to an increase in repurchases of our common stock.

We believe that based on current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, which include three uncommitted lines of credit and the revolving credit facility established through our senior secured credit agreement (the "Credit Agreement"), 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. In addition, 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. 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, including transactions with our affiliates, with the timing of purchases and the amount of stock purchased generally determined at our discretion within the constraints of our Credit Agreement, the indenture governing our senior unsecured notes (the "Indenture"), and general liquidity needs. See Note 11. *Stockholders' Equity*, within the notes to the unaudited condensed consolidated financial statements for additional information regarding our share repurchases.

Dividends

The payment, timing, and amount of any dividends are subject to approval by the Board of Directors as well as certain limits under our Credit Agreement and the Indenture. 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, 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. As of June 30, 2019, we had approximately $348.9 million of client margin loans, collateralized with securities having a fair value of approximately $488.4 million that we can repledge, loan, or sell. Of these securities, approximately $64.8 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, 2019, there were no restrictions that materially limited our ability to repledge, loan, or sell the remaining $423.6 million of client collateral.

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 our registered broker-dealer subsidiary LPL Financial, or under our revolving credit facility.

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, as defined, equal to the greater of $250,000 or 2.0% of aggregate debit balances arising from client transactions. At June 30, 2019, LPL Financial had net capital of $107.2 million with a minimum net capital requirement of $9.5 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. *Debt,* within the notes to the unaudited condensed consolidated financial statements for further detail regarding the Credit Agreement.

The Credit Agreement and the Indenture 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 Indenture 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 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, 2019, 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 subject us to certain equity cure rights. The permitted ratios under our financial covenants and actual ratios were as follows:

Financial Ratio	Covenant Requirement	Actual Ratio
Leverage Test (Maximum)	5.00	1.99
Interest Coverage (Minimum)	3.00	8.53

On April 25, 2019, we entered into an amendment to the Credit Agreement that, among other things, increased the leverage-based thresholds applicable to Restricted Payments and Investments (in each case as defined in the Credit Agreement).

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, 2019, there have been no material changes in our contractual obligations, other than in the ordinary course of business, from those disclosed in our 2018 Annual Report on Form 10-K. See Note 8. *Debt* 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 2018 Annual Report on Form 10-K, for further detail on operating lease obligations and obligations under noncancelable service contracts.

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 2018 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. For the Company’s significant accounting policies affecting leases, see Note 9. *Leases*, within the notes to the unaudited condensed consolidated financial statements. There have been no other material changes to those policies that we consider to be significant since the filing of our 2018 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,	
REVENUES	2019	2018	2019	2018
Commission	$ 479,135	$ 488,085	$ 940,494	$ 962,896
Advisory	481,309	438,917	935,247	861,304
Asset-based	288,551	238,603	584,914	457,939
Transaction and fee	118,335	116,455	240,815	233,104
Interest income, net of interest expense	11,690	10,133	24,011	17,914
Other	10,737	6,611	35,955	7,204
Total net revenues	1,389,757	1,298,804	2,761,436	2,540,361
EXPENSES				
Commission and advisory	838,022	800,619	1,637,720	1,562,316
Compensation and benefits	131,788	122,360	268,700	245,877
Promotional	41,423	43,407	92,772	110,834
Depreciation and amortization	22,584	22,220	46,054	42,921
Amortization of intangible assets	16,249	15,682	32,417	28,904
Occupancy and equipment	33,320	26,904	66,426	54,540
Professional services	18,837	15,922	38,449	38,094
Brokerage, clearing, and exchange	15,994	15,433	32,138	31,310
Communications and data processing	12,532	11,038	24,859	22,212
Other	29,975	30,370	56,378	58,956
Total operating expenses	1,160,724	1,103,955	2,295,913	2,195,964
Non-operating interest expense and other	33,957	31,940	66,673	61,562
INCOME BEFORE PROVISION FOR INCOME TAXES	195,076	162,909	398,850	282,835
PROVISION FOR INCOME TAXES	48,984	44,143	97,360	70,539
NET INCOME	$ 146,092	$ 118,766	$ 301,490	$ 212,296
EARNINGS PER SHARE (Note 13)				
Earnings per share, basic	$ 1.75	$ 1.33	$ 3.59	$ 2.37
Earnings per share, diluted	$ 1.71	$ 1.30	$ 3.50	$ 2.30
Weighted-average shares outstanding, basic	83,247	89,128	83,869	89,560
Weighted-average shares outstanding, diluted	85,350	91,684	86,052	92,236

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, 2019	December 31, 2018
Cash and cash equivalents	$ 403,813	$ 511,096
Cash segregated under federal and other regulations	708,613	985,195
Restricted cash	48,906	65,828
Receivables from:		
Clients, net of allowance of $670 at June 30, 2019 and $640 at December 31, 2018	462,327	412,944
Product sponsors, broker-dealers, and clearing organizations	176,323	166,793
Advisor loans, net of allowance of $4,995 at June 30, 2019 and $5,080 at December 31, 2018	355,077	298,821
Others, net of allowance of $11,302 at June 30, 2019 and $8,099 at December 31, 2018	263,246	248,711
Securities owned:		
Trading — at fair value	29,422	29,267
Held-to-maturity — at amortized cost	11,771	13,001
Securities borrowed	7,246	4,829
Fixed assets, net of accumulated depreciation and amortization of $340,613 at June 30, 2019 and $308,155 at December 31, 2018	485,571	461,418
Operating lease assets	105,390	—
Goodwill	1,490,247	1,490,247
Intangible assets, net of accumulated amortization of $511,736 at June 30, 2019 and $479,319 at December 31, 2018	451,945	484,171
Other assets	364,059	305,147
Total assets	$ 5,363,956	$ 5,477,468
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	$ 184,361	$ 225,034
Payables to clients	760,120	950,946
Payables to broker-dealers and clearing organizations	57,665	76,180
Accrued commission and advisory expenses payable	152,697	164,211
Accounts payable and accrued liabilities	439,679	478,644
Income taxes payable	13,220	32,990
Unearned revenue	94,579	80,524
Securities sold, but not yet purchased — at fair value	82	169
Long-term borrowing, net	2,363,441	2,371,808
Operating lease liabilities	145,602	—
Finance lease liabilities	107,084	—
Leasehold financing and capital lease obligations	—	104,564
Deferred income taxes, net	20,309	18,325
Total liabilities	4,338,839	4,503,395
Commitments and contingencies (Note 10)		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 600,000,000 shares authorized; 125,971,003 shares issued at June 30, 2019 and 124,909,796 shares issued at December 31, 2018	126	125
Additional paid-in capital	1,673,155	1,634,337
Treasury stock, at cost — 43,192,521 shares at June 30, 2019 and 39,820,646 shares at December 31, 2018	(1,984,223)	(1,730,535)
Retained earnings	1,336,059	1,070,146
Total stockholders' equity	1,025,117	974,073
Total liabilities and stockholders' equity	$ 5,363,956	$ 5,477,468

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, 2018

	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, 2018	124,038	$ 124	$ 1,592,436	34,271	$ (1,373,457)	$ —	$ 789,390	$ 1,008,493
Net income and other comprehensive income (loss), net of tax expense						—	118,766	118,766
Issuance of common stock to settle restricted stock units, net	112	—	—	3	(197)			(197)
Treasury stock purchases				1,791	(116,811)			(116,811)
Cash dividends on common stock							(22,345)	(22,345)
Stock option exercises and other	311	—	9,497	(12)	445		214	10,156
Share-based compensation	—	—	8,634					8,634
BALANCE — June 30, 2018	124,461	$ 124	$ 1,610,567	36,053	$ (1,490,020)	$ —	$ 886,025	$ 1,006,696

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 and other comprehensive 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

Continued on following page

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

	Six Months Ended June 30, 2018							
	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE — December 31, 2017	123,030	$ 123	$ 1,556,117	33,262	$ (1,309,568)	$ —	$ 718,336	$ 965,008
Net income and other comprehensive income (loss), net of tax expense						—	212,296	212,296
Issuance of common stock to settle restricted stock units, net	309	—	—	58	(3,795)			(3,795)
Treasury stock purchases				2,759	(177,608)			(177,608)
Cash dividends on common stock							(44,906)	(44,906)
Stock option exercises and other	1,122	1	38,219	(26)	951		299	39,470
Share-based compensation	—		16,231					16,231
BALANCE — June 30, 2018	124,461	$ 124	$ 1,610,567	36,053	$ (1,490,020)	$ —	$ 886,025	$ 1,006,696

	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 and other comprehensive 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

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,	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 301,490	$ 212,296
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	46,054	42,921
Amortization of intangible assets	32,417	28,904
Amortization of debt issuance costs	2,150	2,061
Share-based compensation	17,062	16,231
Provision for bad debts	3,532	3,267
Deferred income tax provision	8	(129)
Loan forgiveness	43,564	32,736
Other	(3,429)	(1,252)
Changes in operating assets and liabilities:		
Receivables from clients	(49,413)	(17,502)
Receivables from product sponsors, broker-dealers, and clearing organizations	(9,531)	8,110
Advisor loans	(99,763)	(42,821)
Receivables from others	(17,887)	(14,894)
Securities owned	633	(7,638)
Securities borrowed	(2,417)	7,498
Operating leases	(548)	—
Other assets	(44,452)	(28,191)
Drafts payable	(40,673)	(31,747)
Payables to clients	(190,826)	(204,755)
Payables to broker-dealers and clearing organizations	(18,515)	8,814
Accrued commission and advisory expenses payable	(11,514)	11,444
Accounts payable and accrued liabilities	(6,545)	(1,896)
Income taxes receivable/payable	(19,770)	18,994
Unearned revenue	14,055	18,781
Securities sold, but not yet purchased	(87)	(1,104)
Net cash (used in) provided by operating activities	(54,405)	60,128
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(63,504)	(48,782)
Purchase of securities classified as held-to-maturity	(1,238)	(3,667)
Proceeds from maturity of securities classified as held-to-maturity	2,500	2,500
Net cash used in investing activities	(62,242)	(49,949)

Continued on following page

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

	Six Months Ended June 30,	
	2019	**2018**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of senior secured term loans	(7,500)	(7,500)
Payment of debt issuance costs	(2,660)	—
Tax payments related to settlement of restricted stock units	(4,607)	(3,795)
Repurchase of common stock	(250,067)	(169,606)
Dividends on common stock	(41,906)	(44,906)
Proceeds from stock option exercises and other	23,347	39,470
Principal payment of finance leases and obligations	(747)	(1,948)
Net cash used in financing activities	(284,140)	(188,285)
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(400,787)	(178,106)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	1,562,119	1,625,655
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — End of period	$ 1,161,332	$ 1,447,549
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 66,170	$ 60,067
Income taxes paid	$ 117,121	$ 51,469
NONCASH DISCLOSURES:		
Capital expenditures included in accounts payable and accrued liabilities	$ 14,434	$ 27,990
Lease assets obtained in exchange for operating lease liabilities	$ 108,539	$ —
Pending settlement of treasury stock purchases	$ —	$ 8,002

The following table provides a reconciliation of cash, cash equivalent, 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,	
	2019	**2018**
Cash and cash equivalents	$ 403,813	$ 817,560
Cash segregated under federal and other regulations	708,613	568,903
Restricted cash	48,906	61,086
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$ 1,161,332	$ 1,447,549

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. Fortigent Holdings Company, Inc. and LPL Insurance Associates, Inc. (“LPLIA”), as well as a series 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.

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.

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

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

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

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 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, 2018, contained in the Company’s Annual Report on Form 10-K as filed with the SEC.

For the Company’s significant accounting policies affecting leases, see Note 9. *Leases*. 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, 2018. There have been no other significant changes to these accounting policies during the first six months of 2019.

Consolidation

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

Reportable Segment

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

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, 2019, the carrying amount and fair value of the Company’s indebtedness was approximately $2,373.8 million and $2,400.6 million, respectively. As of December 31, 2018, the carrying amount and fair value was approximately $2,381.3 million and $2,271.9 million, respectively.

Recently Issued Accounting Pronouncements

In June 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-13, *“Financial Instruments-Credit Losses (Topic 326)”*, 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. The ASU 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 expects to adopt the provisions of this guidance on January 1, 2020 and is currently in the process of evaluating the impact of the adoption on its consolidated financial statements and related disclosures.

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. Early adoption is permitted. The Company expects to adopt the provisions of this guidance on January 1, 2020 and is currently evaluating the impact that ASU 2018-13 will have on its related disclosures.

Recently Adopted Accounting Pronouncements

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. The new standard also requires disclosures that provide additional information on recorded lease arrangements. In July 2018, the FASB issued ASU 2018-11, *Leases – Targeted Improvements,* which provides an optional transition method that allows entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company adopted the provisions of this guidance, including the optional transition method, on January 1, 2019. Operating lease assets and corresponding lease liabilities were recognized on the Company's unaudited condensed consolidated statements of financial condition. There was no material impact to its consolidated statements of income. Refer to Note 9. *Leases,* for additional disclosure and significant accounting policies affecting leases.

In June 2018, the FASB issued ASU 2018-07, *Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting,* which expands the scope of Topic 718 to include share-based payments granted to non-employees. Consistent with the requirement for employee share-based payment awards, non-employee share-based payment awards within the scope of Topic 718 will be measured at grant-date fair value of the equity instruments. The Company adopted the provisions of this guidance on January 1, 2019 and will no longer mark-to-market advisor and financial institution equity awards in the consolidated statements of income.

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,	
	2019	**2018**	**2019**	**2018**
Variable annuities	$ 196,884	$ 196,496	$ 384,290	$ 396,539
Mutual funds	149,380	161,340	290,042	315,086
Alternative investments	5,273	6,704	12,059	12,271
Fixed annuities	50,992	46,116	102,565	80,171
Equities	19,700	19,388	38,064	42,989
Fixed income	30,821	30,898	60,563	61,222
Insurance	17,009	17,344	35,081	35,838
Group annuities	8,795	9,619	17,269	18,512
Other	281	180	561	268
Total commission revenue	$ 479,135	$ 488,085	$ 940,494	$ 962,896

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, this variable consideration is constrained until the market value is determinable.

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,	
	2019	2018	2019	2018
Sales-based				
Variable annuities	$ 58,158	$ 57,095	$ 108,286	$ 110,997
Mutual funds	38,095	37,533	72,726	74,591
Alternative investments	2,077	1,805	3,967	3,635
Fixed annuities	43,977	39,333	88,207	67,669
Equities	19,700	19,388	38,064	42,989
Fixed income	24,604	24,474	48,799	48,829
Insurance	15,449	15,578	31,473	32,443
Group annuities	1,190	1,144	2,447	2,342
Other	281	180	561	268
Total sales-based revenue	$ 203,531	$ 196,530	$ 394,530	$ 383,763
Trailing				
Variable annuities	$ 138,726	$ 139,401	$ 276,004	$ 285,542
Mutual funds	111,285	123,807	217,316	240,495
Alternative investments	3,196	4,899	8,092	8,636
Fixed annuities	7,015	6,783	14,358	12,502
Fixed income	6,217	6,424	11,764	12,393
Insurance	1,560	1,766	3,608	3,395
Group annuities	7,605	8,475	14,822	16,170
Total trailing revenue	$ 275,604	$ 291,555	$ 545,964	$ 579,133
Total commission revenue	$ 479,135	$ 488,085	$ 940,494	$ 962,896

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, carries the inventory risk and has control over determining the fees. Advisors assist the Company in performing its obligations.

Asset-Based Revenue

Asset-based revenue is comprised 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 generally calculated as a fixed fee, or as a percentage of the average annual amount of product sponsor assets held in advisors' clients' accounts, or as a percentage of new sales, or a combination. As the value of product sponsor assets held in advisor's clients' accounts is susceptible to unpredictable market changes, this revenue includes variable consideration and is constrained until the date that the fees are determinable. The Company is the principal in these arrangements as it is responsible for and determines the level of servicing and marketing support it provides to the product sponsors.

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, such as the last date of the contract period in which the market value of the respective product sponsor assets for the period is available.

Depending on the contract, the Company is both principal and 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,	
	2019	2018	2019	2018
Asset-based revenue				
Client cash	$ 161,815	$ 121,386	$ 334,954	$ 225,470
Sponsorship programs	62,472	55,282	124,556	110,010
Recordkeeping	64,264	61,935	125,404	122,459
Total asset-based revenue	$ 288,551	$ 238,603	$ 584,914	$ 457,939

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 individual retirement account ("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 a fee is charged 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,	
	2019	2018	2019	2018
Transaction and Fee Revenue				
Point-in-time(1)	$ 52,215	$ 53,928	$ 106,896	$ 108,093
Over time(2)	66,120	62,527	133,919	125,011
Total transaction and fee revenue	$ 118,335	$ 116,455	240,815	233,104

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

(2) Transaction and fee revenue recognized over time includes revenue such as error and omission insurance fees, IRA custodian fees, and licensing 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 months ended June 30, 2019 and 2018 did not exceed $1.0 million.

Other Revenue

Other revenue primarily includes mark-to-market 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.

Arrangement 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, 2019 is primarily driven by cash payments received or due in advance of satisfying the Company's performance obligations, offset by $76.6 million of revenues recognized that were included in the unearned revenue balance as of December 31, 2018.

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 May 17, 2019, the Company entered into a purchase agreement to acquire all of the outstanding equity interests of Allen & Company of Florida, Inc. ("Allen & Company"), a broker-dealer and registered investment adviser. Under the transaction structure, Allen & Company advisors and staff will join the Company as employees and Allen & Company will maintain its operations and brand. The transaction is expected to close in the third quarter of 2019, with a total purchase price in the mid-$30.0 million range, including a base payment payable at closing and an additional contingent payment payable six months after closing based on transferred assets.

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, 2019.

The Company's fair value measurements are evaluated within the fair value hierarchy, based on the nature of inputs used to determine the fair value at the measurement date. At June 30, 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, 2019, the Company did not adjust prices received from the independent third-party pricing services.

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

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at June 30, 2019 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$ 90,668	$ —	$ —	$ 90,668
Securities owned — trading:				
Money market funds	105	—	—	105
Mutual funds	7,326	—	—	7,326
Equity securities	1,177	—	—	1,177
Debt securities	—	101	—	101
U.S. treasury obligations	20,713	—	—	20,713
Total securities owned — trading	29,321	101	—	29,422
Other assets	233,909	11,233	—	245,142
Total assets at fair value	$ 353,898	$ 11,334	$ —	$ 365,232
Liabilities				
Securities sold, but not yet purchased:				
Equity securities	$ 30	$ —	$ —	$ 30
Debt securities	—	52	—	52
Total securities sold, but not yet purchased	30	52	—	82
Total liabilities at fair value	$ 30	$ 52	$ —	$ 82

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at December 31, 2018 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$ 26,657	$ —	$ —	$ 26,657
Securities owned — trading:				
Money market funds	194	—	—	194
Mutual funds	7,434	—	—	7,434
Equity securities	1,931	—	—	1,931
Debt securities	—	1	—	1
U.S. treasury obligations	19,707	—	—	19,707
Total securities owned — trading	29,266	1	—	29,267
Other assets	181,974	9,420	—	191,394
Total assets at fair value	$ 237,897	$ 9,421	$ —	$ 247,318
Liabilities				
Securities sold, but not yet purchased:				
Equity securities	$ 163	$ —	$ —	$ 163
Debt securities	—	6	—	6
Total securities sold, but not yet purchased	163	6	—	169
Total liabilities at fair value	$ 163	$ 6	$ —	$ 169

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 (loss), and fair value of securities held-to-maturity were as follows (in thousands):

	June 30, 2019	December 31, 2018
Amortized cost	$ 11,771	$ 13,001
Gross unrealized gain (loss)	75	(56)
Fair value	$ 11,846	$ 12,945

At June 30, 2019, 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	$ 4,988	$ 6,783	$ —	$ 11,771
U.S. government notes — at fair value	$ 4,980	$ 6,866	$ —	$ 11,846

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 2018 Annual Report on Form 10-K for a discussion of the components of goodwill and additional information regarding intangible assets.

8. Debt

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

	June 30, 2019			December 31, 2018			
Long-Term Borrowings	**Balance**	**Applicable Margin**	**Interest Rate**	**Balance**	**Applicable Margin**	**Interest rate**	**Maturity**
Revolving Credit Facility	$ —	LIBOR+125bps	—%	$ —	LIBOR+125bps	—%	9/21/2022
Senior Secured Term Loan B(1)	1,473,750	LIBOR+225 bps	4.65%	1,481,250	LIBOR+225 bps	4.73%	9/21/2024
Senior Unsecured Notes(1)(2)	900,000	Fixed Rate	5.75%	900,000	Fixed Rate	5.75%	9/15/2025
Total long-term borrowings	2,373,750			2,381,250			
Plus: Unamortized Premium	9,333			10,083			
Less: Unamortized Debt Issuance Cost	(19,642)			(19,525)			
Net Carrying Value	$ 2,363,441			$ 2,371,808			

(1) No leverage or interest coverage maintenance covenants.

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

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

Borrowings under the Term Loan B facility bear interest at a rate per annum of 225 basis points over the Eurodollar Rate or 125 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).

As of June 30, 2019, the Company had $3.7 million of irrevocable letters of credit, with an applicable interest rate margin of 1.25%, which were supported by the credit facility.

The Credit Agreement subjects the Company to certain financial and non-financial covenants. As of June 30, 2019, the Company was in compliance with such covenants.

Bank Loans Payable

The Company maintained three uncommitted lines of credit as of June 30, 2019. Two of the lines have unspecified limits, which are primarily dependent on the Company's ability to provide sufficient collateral. The third line has a $200.0 million limit and allows for both collateralized and uncollateralized borrowings. The Company drew $35.0 million on one of the lines of credit at an interest rate of 4.00% during the three months ended June 30, 2019 and drew a total of $225.0 million at a weighted average interest rate of 3.98% on two of the lines of credit during the six months ended June 30, 2019. There were no balances outstanding at June 30, 2019 or December 31, 2018.

9. Leases

Adoption of ASC Topic 842, Leases

On January 1, 2019, the Company adopted ASC Topic 842, Leases ("Topic 842"). Results for reporting periods beginning after January 1, 2019 are presented under Topic 842, while prior period amounts are not adjusted and continue to be reported in accordance with historic accounting guidance, ASC Topic 840.

The Company previously recorded a build-to-suit related asset and liability for a lease in Fort Mill, South Carolina. The asset and liability were derecognized and reevaluated as a result of the adoption. The Fort Mill lease was determined to be a finance lease under Topic 842 and the changes in values from the derecognition and reevaluation were recorded to retained earnings under cumulative effect of accounting change in the unaudited condensed consolidated statements of stockholders' equity.

Lease Recognition

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 3 years to 17 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, 2019 were $108.4 million.

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

	Three Months Ended June 30,	Six Months Ended June 30,
	2019	2019
Operating lease cost	$ 4,551	8,853
Finance lease cost:		
Amortization of right-of-use assets	$ 1,164	$ 2,329
Interest on lease liabilities	2,092	4,184
Total finance lease cost	$ 3,256	$ 6,513

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

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

Supplemental weighted average information related to leases was as follows:

	June 30, 2019
Weighted-average remaining lease term (years):	
Finance leases	26.9
Operating leases	9.6
Weighted-average discount rate:	
Finance leases	7.79%
Operating leases	7.26%

Maturities of lease liabilities as of June 30, 2019 were as follows (in thousands):

	Operating Leases	Finance Leases
2019 - remainder	$ 9,683	$ 4,012
2020	19,776	9,084
2021	20,359	9,227
2022	20,884	8,429
2023	20,501	8,577
Thereafter	114,778	242,366
Total lease payments	205,981	281,695
Less imputed interest	60,379	174,611
Total	$ 145,602	107,084

Maturities of lease liabilities as of December 31, 2018 under ASC Topic 840 were as follows (in thousands):

2019	$ 30,010
2020	30,731
2021	30,590
2022	31,238
2023	30,265
Thereafter	239,118
Total(1)	$ 391,952

(1) Amounts above exclude $75.7 million related to non-lease commitments from the schedule included in Note 13. *Commitments and Contingencies*, in the Company's audited consolidated financial statements and the related notes in the 2018 Annual Report on Form 10-K.

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 certain types of 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 commitments at June 30, 2019.

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 (NASAA) related to the Company's historical compliance with certain state “blue sky” laws, which will result in aggregate fines of approximately $26.4 million. As part of the settlement structure, the Company engaged independent third party consultants to conduct a historical review of securities transactions and an operational review of the Company's systems for complying with blue sky securities registration requirements. The Company also agreed to offer customers remediation in the form of reimbursement for any actual losses, plus interest. The Company believes the Captive Insurance Subsidiary has adequate loss reserves to cover the aggregate fines and the costs of remediation. As of the date of this Quarterly Report on Form 10-Q, however, the historical review of transactions has not been completed and, as a result, the scope and costs of potential customer remediation cannot be estimated at this time. The actual costs of reimbursing customers for losses could exceed the Company's reserves.

On April 22, 2019, a putative class action lawsuit filed against the Company and certain of its executive officers in federal district court was dismissed with prejudice.

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, 2019, 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, 2019.

Other Commitments

As of June 30, 2019, the Company had approximately $348.9 million of client margin loans that were collateralized with securities having a fair value of approximately $488.4 million that it can repledge, loan, or sell. Of these securities, approximately $64.8 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, 2019, there were no restrictions that materially limited the Company's ability to repledge, loan, or sell the remaining $423.6 million of client collateral.

Trading securities on the unaudited condensed consolidated statements of financial condition includes $5.7 million and $4.7 million pledged to clearing organizations at June 30, 2019 and December 31, 2018, respectively.

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 Indenture. 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):

	2019		2018	
	Dividend per Share	Total Cash Dividend	Dividend per Share	Total Cash Dividend
First quarter	$ 0.25	$ 21.1	$ 0.25	$ 22.6
Second quarter	$ 0.25	$ 20.8	$ 0.25	$ 22.3

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, 2019, the Company was authorized to purchase up to an additional $750.0 million of shares pursuant to share repurchase programs approved by the Board of Directors.

The Company had the following activity under its approved share repurchase programs (dollars in millions, except per share data):

	2019		
	Total Number of Shares Purchased	Weighted-Average Price Paid Per Share	Total Cost(1)(2)
First quarter	1,747,116	$ 71.57	$ 125.0
Second quarter	1,591,950	$ 78.54	$ 125.0
	3,339,066	$ 74.89	$ 250.1

(1) Included in the total cost of shares purchased is a commission fee of $0.02 per share.

(2) Total may not foot due to rounding.

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, 2019, there were 20,055,945 shares authorized for grant under the 2010 Plan. There were 6,153,400 shares reserved for exercise or conversion of outstanding awards granted, and 5,227,330 shares remaining available for future issuance, under the 2010 Plan as of June 30, 2019.

Stock Options and Warrants

The following table presents the weighted-average assumptions used in the Black-Scholes valuation model by the Company in calculating the fair value of its employee and officer stock options that have been granted during the six months ended June 30, 2019:

Expected life (in years)		5.43
Expected stock price volatility		35.80%
Expected dividend yield		1.49%
Risk-free interest rate		2.47%
Fair value of options	$	24.41

The following table summarizes the Company's stock option and warrant activity as of and for the six months ended June 30, 2019:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding — December 31, 2018	3,588,067	$ 35.38		
Granted	422,397	$ 77.53		
Exercised	(728,612)	$ 29.83		
Forfeited and Expired	(64,847)	$ 40.93		
Outstanding — June 30, 2019	3,217,005	$ 42.06	6.02	$ 127,107
Exercisable — June 30, 2019	2,356,473	$ 33.47	4.95	$ 113,341
Exercisable and expected to vest — June 30, 2019	3,145,366	$ 41.34	5.94	$ 126,529

The following table summarizes information about outstanding stock options and warrants as of June 30, 2019:

	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
$18.01 - $25.00	706,068	$ 20.37	5.88	706,068	$ 20.37
$25.01 - $35.00	877,803	$ 31.40	2.65	875,729	$ 31.40
$35.01 - $45.00	491,382	$ 39.57	7.62	304,579	$ 39.63
$45.01 - $65.00	351,369	$ 48.73	5.33	351,369	$ 48.73
$65.01 - $75.00	374,825	$ 65.56	8.66	117,363	$ 65.56
$75.01 - $85.00	415,558	$ 77.53	9.67	1,365	$ 77.53
	3,217,005	$ 42.06	6.02	2,356,473	$ 33.47

The Company recognized share-based compensation related to the vesting of stock options awarded to employees and officers of $2.2 million and $2.0 million during the three months ended June 30, 2019 and 2018, respectively, and $5.2 million and $4.1 million for the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, total unrecognized compensation cost related to non-vested stock options granted to employees and officers was $11.8 million, which is expected to be recognized over a weighted-average period of 2.16 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, 2019:

	Restricted Stock Awards		Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Outstanding — December 31, 2018	7,057	$ 70.26	874,388	$ 46.63
Granted	9,366	$ 81.99	240,065	$ 83.89
Vested	(8,127)	$ 71.81	(337,361)	$ 32.35
Forfeited	—	$ —	(22,252)	$ 49.49
Nonvested — June 30, 2019	8,296	$ 81.99	754,840	$ 64.78
Expected to vest — June 30, 2019	8,296	$ 81.99	694,637	$ 63.65

The Company grants restricted stock awards and deferred stock units to its directors, restricted stock units to its employees and officers, and performance stock units to its 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 $4.6 million and $3.8 million of share-based compensation related to the vesting of these restricted stock awards and stock units during the three months ended June 30, 2019 and 2018, respectively, and $9.2 million and $7.1 million during the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, total unrecognized compensation cost for restricted stock awards and stock units was $27.4 million, which is expected to be recognized over a weighted-average remaining period of 2.16 years.

The Company also grants restricted stock units to its advisors and to financial institutions. The Company recognized share-based compensation of $0.8 million and $2.5 million related to the vesting of these awards during the three months ended June 30, 2019 and 2018, respectively, and $1.8 million and $4.5 million during the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019, total unrecognized compensation cost for restricted stock units granted to advisors and financial institutions was $2.5 million, which is expected to be recognized over a weighted-average remaining period of 1.53 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,	
	2019	2018	2019	2018
Net income	$ 146,092	$ 118,766	$ 301,490	$ 212,296
Basic weighted-average number of shares outstanding	83,247	89,128	83,869	89,560
Dilutive common share equivalents	2,103	2,556	2,183	2,676
Diluted weighted-average number of shares outstanding	85,350	91,684	86,052	92,236
Basic earnings per share	$ 1.75	$ 1.33	$ 3.59	$ 2.37
Diluted earnings per share	$ 1.71	$ 1.30	$ 3.50	$ 2.30

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, 2019 and 2018, stock options, warrants, and stock units representing common share equivalents of 590,751 shares and 472,125 shares, respectively, were anti-dilutive. For the six months ended June 30, 2019 and 2018, stock options, warrants, and restricted stock units representing common share equivalents of 549,029 shares and 338,450 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 25.1% and 27.1% for the three months ended June 30, 2019 and 2018, respectively, and 24.4% and 24.9% for the six months ended June 30, 2019 and 2018, 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

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

The Company recognized revenue for services provided to these related parties of $1.0 million and $0.9 million during the three months ended June 30, 2019 and 2018, respectively, and $1.9 million and $1.6 million during the six months ended June 30, 2019 and 2018, respectively. The Company incurred expenses for the services provided by these related parties of $0.4 million and $0.3 million during the three months ended June 30, 2019 and 2018, respectively, and $0.8 million and $1.2 million during the six months ended June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, receivables 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 FINRA to the extent they exceed defined levels, even though such withdrawals would not cause net capital to be less than minimum requirements. Net capital and the related net capital requirement may fluctuate on a daily basis. LPL Financial is a clearing broker-dealer and had net capital of $107.2 million with a minimum net capital requirement of $9.5 million as of June 30, 2019.

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 to PTC’s operations.

As of June 30, 2019 and December 31, 2018, 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 24, 2019, 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 23, 2019 to all stockholders of record on August 13, 2019.

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 incidences 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, 2019, the fair value of our trading securities owned was $29.4 million and securities sold, but not yet purchased were immaterial. The fair value of securities included within other assets was $245.1 million as of June 30, 2019. 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, 2019, $1.47 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):

		Annual Impact of an Interest Rate Increase of			
Senior Secured Credit Facilities	**Outstanding Variable Interest Rates at June 30, 2019**	**10 Basis Points**	**25 Basis Points**	**50 Basis Points**	**100 Basis Points**
Term Loan B	$ 1,473,750	$ 1,468	$ 3,670	$ 7,341	$ 14,681
Revolving Credit Facility	—	—	—	—	—
Variable Rate Debt Outstanding	$ 1,473,750	$ 1,468	$ 3,670	$ 7,341	$ 14,681

See Note 8. *Debt*, 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, 2019 we offered our advisors and their clients two primary cash sweep vehicles that are interest rate sensitive: our insured cash account ("ICA") for individuals, trusts and sole proprietorships, and entities organized or operated to make a profit, such as corporations, partnerships, associations, business trusts, and other organizations, and an insured deposit cash account ("DCA") for advisory individual retirement accounts. In addition, we offered 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; 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 client's 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 client's account. 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 client's account 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, 2019 and 2018. 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, or other 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 2018 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.

Regulatory and Legal Risk

The regulatory environment in which we operate is discussed in detail within Part I, “Item 1. Business” in our 2018 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, DOL 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 2018 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 framework (“ERM”) 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 is comprised 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 is comprised of certain departments within Compliance, Legal and Risk (“CLR”), STO, Technology, Finance, and Human Capital, and this second line of defense 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; the Risk Oversight Committee of LPL Financial (the “ROC”) and its subcommittees; the Internal Audit department and the CLR department of LPL Financial; 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 Risk Officer of LPL Financial serves as chair of the ROC, which generally meets on a monthly basis with *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. These individuals include, but are not limited to, the Chief Compliance Officer, Chief Information Security Officer, and the Chief Anti-Money Laundering Officer. 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 Risk 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 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 and the Chief Risk Officer, who review 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

Our Disclosure Committee, 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, 2019, 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.

On April 22, 2019, a putative class action lawsuit filed against the Company and certain of its executive officers in federal district court was dismissed with prejudice.

Item 1A. Risk Factors

There have been no material changes in the information regarding the Company's risks, as set forth under Part I, "Item 1A. Risk Factors" in the Company's 2018 Annual Report on Form 10-K.

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

The table below sets forth information regarding repurchases, reported on a trade date basis, during the three months ended June 30, 2019:

Period	Total Number of Shares Purchased	Weighted-Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs (millions)(1)
April 1, 2019 through April 30, 2019	684,848	$ 73.15	684,848	$ 824.9
May 1, 2019 through May 31, 2019	593,147	$ 81.94	593,147	$ 776.3
June 1, 2019 through June 30, 2019	313,955	$ 83.87	313,955	$ 750.0
Total	1,591,950		1,591,950	

(1) See Note 11. *Stockholders' Equity*, within the notes to the unaudited condensed consolidated financial statements for additional information.

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. (1)
3.2	Certificate of Ownership and Merger Merging LPL Financial Holdings Inc. with and into LPL Investment Holdings Inc., dated June 14, 2012. (2)
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of LPL Financial Holdings Inc., dated May 8, 2014. (3)
3.4	Fifth Amended and Restated Bylaws of LPL Financial Holdings Inc. (4)
10.1	Third Amendment, dated April 25, 2019, among LPL Financial Holdings Inc., LPL Holdings, Inc. ("LPLH"), certain subsidiaries of LPLH, as Guarantors, JP Morgan Chase Bank, N.A., as administrative agent, and the lenders party to the credit agreement referenced therein.*
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.INS	XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Label
101.PRE	XBRL Taxonomy Extension Presentation
101.DEF	XBRL Taxonomy Extension Definition

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* Filed herewith.

(1) Incorporated by reference to Amendment No. 2 to the Registration Statement on Form S-1 filed on July 9, 2010.

(2) Incorporated by reference to the Form 8-K filed on June 19, 2012.

(3) Incorporated by reference to the Form 8-K filed on May 9, 2014.

(4) Incorporated by reference to the Form 8-K filed on March 12, 2014.

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: July 30, 2019	By: /s/ DAN H. ARNOLD Dan H. Arnold President and Chief Executive Officer
Date: July 30, 2019	By: /s/ MATTHEW J. AUDETTE Matthew J. Audette Chief Financial Officer

THIRD AMENDMENT

This THIRD AMENDMENT (this "Agreement"), dated as of April 25 2019, is made by and among LPL Holdings, Inc., a Massachusetts corporation (the "Borrower"), LPL Financial Holdings Inc., a Delaware corporation ("Holdings"), each subsidiary of the Borrower listed on the signature pages hereto (the "Subsidiary Guarantors"; the Subsidiary Guarantors, together with Holdings, the "Guarantors"; and the Guarantors, together with the Borrower, the "Credit Parties"), JPMorgan Chase Bank, N.A. ("JPMorgan"), as administrative agent for the Lenders (as defined below) under the Amended Credit Agreement (as defined below) (the "Administrative Agent"), and the Lenders party hereto.

PRELIMINARY STATEMENTS:

(1) *Credit Agreement*. The Borrower, Holdings, the Administrative Agent, the arrangers and other agents party thereto, JPMorgan, Goldman Sachs Bank USA, and Morgan Stanley Bank, N.A. ("MSB"), as swingline lenders, JPMorgan, MSB and Bank of America, N.A., as letter of credit issuers, and the banks and other financial institutions from time to time party thereto as lenders (the "Lenders") are parties to that certain Amended and Restated Credit Agreement, dated as of March 10, 2017 (as amended by that certain Amendment Agreement, dated as of June 20, 2017, that certain Second Amendment, dated as of September 21, 2017, and as otherwise amended, restated, amended and restated, extended, supplemented or otherwise modified in writing from time to time prior to the date hereof, the "Credit Agreement", and as further amended by this Agreement, the "Amended Credit Agreement"). Capitalized terms not otherwise defined in this Agreement have the same meanings as specified in the Amended Credit Agreement;

(2) *Amendments*. The Borrower desires to effect the Amendments (as defined below) as hereinafter set forth;

(3) The Borrower, the other Credit Parties, and the Lenders party hereto (which Lenders constitute the Required Lenders) have agreed, subject to the terms and conditions set forth below, to amend the Credit Agreement as hereinafter set forth in accordance with Section 13.1 of the Credit Agreement.

SECTION 1. **Amendments.** Pursuant to Section 13.1 of the Credit Agreement, and subject to the satisfaction of the conditions precedent set forth in Section 2 hereof, effective on and as of the Third Amendment Effective Date, each of the parties hereto hereby agrees as follows:

(a) Section 1.1 of the Credit Agreement is hereby amended by amending and restating clause (a)(i) of the definition of "Consolidated EBITDA" as follows:

> (i) total interest expense and, to the extent not reflected in such total interest expense, any losses on Hedging Obligations or other derivative instruments entered into for the purpose of hedging interest rate risk, net of interest income from Cash Equivalents and gains on such Hedging Obligations or such derivative instruments, bank and letter of credit fees, amortization of deferred financing fees or costs and costs

of surety bonds in connection with financing activities (but excluding interest expense in respect of Indebtedness outstanding under any Margin Lines of Credit),

(b) Section 1.1 of the Credit Agreement is hereby amended by including the following definition in the appropriate alphabetical order:

"**Liquidity Lines of Credit**" shall mean any lines of credit established and used by LPL Financial, LLC and any other Broker-Dealer Regulated Subsidiary for operational liquidity purposes in the ordinary course of the "broker-dealer" business of such Broker-Dealer Regulated Subsidiary (and in any event excluding any lines of credit (and commitments thereunder and proceeds thereof) used as regulatory capital for computation of Net Capital (as defined in SEC Rule 15c3-1)).

(c) Section 1.1 of the Credit Agreement is hereby amended by amending and restating the definition of "Margin Lines of Credit" as follows:

"**Margin Lines of Credit**" shall mean any lines of credit established and used by the Borrower and its Subsidiaries consistent with ordinary course practice to fund or support loans and advances (including Margin Loans) to customers of the Borrower or any of its Subsidiaries, including customers of financial advisors, made in accordance with Applicable Law and the applicable rules and guidance promulgated by the Board and the U.S. Financial Industry Regulatory Authority (FINRA) with respect to extensions of credit by the Broker-Dealer Regulated Subsidiaries , and any replacement lines established on substantially similar terms and conditions.

(d) Section 10.1(q) of the Credit Agreement is hereby amended and restated as follows:

(q) (i) Indebtedness in respect of Margin Lines of Credit, (ii) Indebtedness in respect of Liquidity Lines of Credit and (iii) Indebtedness arising in connection with securities lending arrangements entered into in the ordinary course of business;

(e) Section 10.5(y) of the Credit Agreement is hereby amended by deleting the text "2.5:1.0" and replacing it with the text "2.75:1.00"; and

(f) Section 10.6(i) of the Credit Agreement is hereby amended by deleting the text "2.0:1.0" and replacing it with the text "2.75:1.00".

SECTION 2. **<u>Conditions to Effectiveness.</u>** This Agreement shall become effective on and as of the first Business Day on which the following conditions shall have been satisfied (the "<u>Third Amendment Effective Date</u>"):

(a) the Administrative Agent shall have received counterparts of this Agreement, duly executed and delivered by, or on behalf of, (A) the Borrower, (B) Holdings, (C) each Subsidiary Guarantor, and (D) the Required Lenders;

(b) payment by the Borrower to each Lender that delivers an executed copy of a counterpart to this Agreement on or before 5 p.m., New York City time, on April 22, 2019, an amendment fee (the "Amendment Fee") in an amount equal to 0.125% of the sum of (i) the outstanding principal amount of such Lender's Term Loans and (ii) such Lender's Revolving Credit Commitments, in each case as of the Third Amendment Effective Date;

(c) the representations and warranties contained (i) in Section 3 of this Agreement, and (ii) in Section 8 of the Credit Agreement and in the other Credit Documents, shall, in each case, be true and correct in all material respects, on and as of the Third Amendment Effective Date, except to the extent such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date; provided that any representation and warranty that is qualified as to "materiality", "Material Adverse Effect" or similar language shall be true and correct in all respects on the Third Amendment Effective Date or on such earlier date, as the case may be (after giving effect to such qualification); and

(d) no Default or Event of Default exists immediately before or immediately after giving effect to this Agreement.

SECTION 3. **Representations and Warranties.** Each of the Credit Parties hereby represents and warrants, on and as of the Third Amendment Effective Date, to the Administrative Agent and the Lenders, that:

(a) The representations and warranties set forth in the Amended Credit Agreement and in the other Credit Documents are true and correct in all material respects with the same effect as though such representations and warranties had been made on and as of the Third Amendment Effective Date, in each case except to the extent such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall have been true and correct in all material respects as of such earlier date; provided that any representation and warranty that is qualified as to "materiality", "Material Adverse Effect" or similar language shall be true and correct in all respects on the Effective Date, or on such earlier date, as the case may be (after giving effect to such qualification).

(b) It has the corporate or other organizational power to execute, deliver and perform this Agreement, and it has taken all necessary corporate or other organizational action required to be taken by it to authorize the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby.

(c) At the time of and after giving effect to this Agreement, no Default or Event of Default has occurred and is continuing.

SECTION 4. **Reference to and Effect on the Credit Agreement; Confirmation of Guarantors.**

(a) On and after the effectiveness of this Agreement, each reference in the Amended Credit Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Credit Agreement, shall mean and be a reference to the Credit Agreement, as amended by, and after giving effect to, this Agreement.

(b) Each Credit Document, after giving effect to this Agreement, is and shall continue to be in full force and effect and is hereby in all respects ratified and confirmed, except that, on and after the effectiveness of this Agreement, each reference in each of the Credit Documents (including the Security Agreement and the other Security Documents) to the "Credit Agreement", "thereunder", "thereof" or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Credit Agreement. Without limiting the generality of the foregoing, the Security Documents and all of the Collateral described therein do and shall continue to secure the payment of all Obligations, including under the Credit Documents, as amended by, and after giving effect to, this Agreement, in each case subject to the terms thereof.

(c) Each Credit Party hereby (i) ratifies and reaffirms all of its payment and performance obligations, contingent or otherwise, under each of the Credit Documents to which it is a party, (ii) ratifies and reaffirms each grant of a lien on, or security interest in, its property made pursuant to the Credit Documents (including, without limitation, the grant of security made by such Credit Party pursuant to the Security Agreement) and confirms that such liens and security interests continue to secure the Obligations, including under the Credit Documents, including, without limitation, all Obligations resulting from or incurred pursuant to the Tranche B Term Loan Facility and Revolving Credit Facility made pursuant hereto, in each case subject to the terms thereof, and (iii) in the case of each Guarantor, ratifies and reaffirms its guaranty of the Obligations pursuant to its respective Guarantee.

(d) The execution, delivery and effectiveness of this Agreement shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of any Lender or any Agent under any of the Credit Documents, or constitute a waiver of any provision of any of the Credit Documents or serve to effect a novation of the Obligations.

SECTION 5. **Costs, Expenses.** The Borrower agrees to pay on demand all reasonable and documented out-of-pocket costs and expenses of the Administrative Agent in connection with the preparation, execution and delivery of this Agreement and the other instruments and documents to be delivered hereunder (including, without limitation, the reasonable and documented fees and expenses of counsel for the Administrative Agent) in accordance with the terms of Section 13.5 of the Credit Agreement.

SECTION 6. **Execution in Counterparts.** This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute but one and the same agreement. Delivery of an executed counterpart of a signature page to this Agreement by telecopier (or other electronic transmission) shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 7. **WAIVER OF JURY TRIAL.** EACH PARTY HERETO HEREBY IRREVOCABLY AND UNCONDITIONALLY WAIVES TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING RELATING TO THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT AND FOR ANY COUNTERCLAIM THEREIN.

SECTION 8. **Governing Law.** THIS AGREEMENT AND THE RIGHTS AND

OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE LAW OF THE STATE OF NEW YORK.

[SIGNATURE PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have caused this Third Amendment to be executed by their respective officers thereunto duly authorized, as of the date and year first written above.

LPL HOLDINGS, INC.,
as Borrower

By: /s/ Matthew Audette
Name: Matthew Audette
Title: Chief Financial Officer

LPL FINANCIAL HOLDINGS INC.,
as Holdings

By: /s/ Matthew Audette
Name: Matthew Audette
Title: Chief Financial Officer

INDEPENDENT ADVISERS GROUP CORPORATION,
LPL INDEPENDENT ADVISOR SERVICES GROUP LLC and
LPL INSURANCE ASSOCIATES, INC.,
each as a Subsidiary Guarantor

By: /s/ Christopher M. Mitchell
Name: Christopher M. Mitchell
Title: Assistant Treasurer

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

By: /s/ Courtney Furillo
Name: Courtney Furillo
Title: Vice President

[Lender signature pages on file with Administrative Agent]

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: July 30, 2019

/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: July 30, 2019

/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, 2019 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: July 30, 2019

/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, 2019 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: July 30, 2019

/s/ Matthew J. Audette

Matthew J. Audette
Chief Financial Officer