
UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

January 29, 2019

Date of report (date of earliest event reported)

LPL Financial Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware

001-34963

20-3717839

(State or other jurisdictions of incorporation
or organization)

(Commission File Number)

(I.R.S. Employer Identification Nos.)

75 State Street, Boston MA 02109

(Address of principal executive offices) (Zip Code)

(617) 423-3644

(Registrant's telephone number, including area code)

N/A

(Former Name or Former Address, if Changed since Last Report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrants under any of the following provisions:

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§240.12b-2 of this chapter)

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.

Item 2.02 Results of Operations and Financial Condition.

On January 31, 2019, LPL Financial Holdings Inc. (collectively with its subsidiaries, the “Company”) issued a press release announcing its financial results for the three and twelve months ended December 31, 2018. A copy of the press release is furnished with this Form 8-K and attached hereto as Exhibit 99.1.

Exhibit 99.1 shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), or otherwise subject to the liabilities under that Section and shall not be deemed to be incorporated by reference into any filing of the Company under the Securities Act of 1933, as amended, or the Exchange Act.

Item 5.02 Departure of Directors or Certain Officers; Election of Directors; Appointment of Certain Officers; Compensatory Arrangements of Certain Officers.

On January 29, 2019, the Company announced that Thomas Gooley, Managing Director, Service, Trading and Operations, will be retiring from the Company in March 2019.

Item 9.01 Financial Statements and Exhibits.

(d) Exhibits

99.1 [Press Release dated January 31, 2019 \("LPL Financial Announces Fourth Quarter and Full Year 2018 Results"\)](#).

SIGNATURE

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 hereunto duly authorized.

LPL FINANCIAL HOLDINGS INC.

By: /s/ Matthew J. Audette

Name: Matthew J. Audette

Title: Chief Financial Officer

Dated: January 31, 2019

LPL Financial Announces Fourth Quarter and Full Year 2018 Results

Fourth Quarter 2018 Key Performance Indicators

- **Earnings per share ("EPS") increased 97% year-over-year to \$1.36.**
 - Net Income increased 88% year-over-year to \$120 million.
- **EPS prior to Amortization of Intangible Assets** increased 96% year-over-year to \$1.49.**
- **Total Brokerage and Advisory Assets increased 2% year-over-year to \$628 billion.**
- **Total Net New Assets were an inflow of \$5.9 billion, translating to a 3.5% annualized growth rate.**
 - Net new advisory assets were an inflow of \$5.0 billion, translating to a 6.5% annualized growth rate.
 - Net new brokerage assets were an inflow of \$0.9 billion, translating to a 1.0% annualized rate.
 - Recruited Assets⁽¹⁾ were \$8.6 billion in Q4, and \$27.3 billion for the year, up 9% from the prior year.
 - Advisor count was 16,109 and production retention rate for the year was 96%.
- **Total client cash sweep balances increased 24% sequentially to \$34.9 billion.**
 - Total client cash sweep balances as a percent of total assets was 5.6%, up from 4.1% in the prior quarter.
- **Gross Profit** increased 26% year-over-year to \$508 million.**
- **EBITDA** increased 67% year-over-year to \$232 million.**
 - EBITDA** as a percentage of Gross Profit** was 46%, up from 35% a year ago.
 - Core G&A** increased 11% year-over-year to \$216 million, up 3% sequentially, including \$2 million of expenses related to the acquisition of AdvisoryWorld.
- **Shareholder capital returns were \$139 million, translating to \$1.58 per share.**
 - Share repurchases were \$118 million for 1.9 million shares at an average purchase price of \$61.19.
 - Weighted average fully diluted share count was 88.2 million, down 2% sequentially and down 5% year-over-year.
 - Dividends were \$22 million.
- **Cash available for corporate use was \$339 million.**
- **Credit Agreement Net Leverage Ratio⁽²⁾ was 2.15x, down 0.09x from the prior quarter.**

Full Year 2018 Key Performance Indicators

- **EPS increased 87% year-over-year to \$4.85.**
 - Net Income increased 84% year-over-year to \$439 million.
- **EPS prior to Amortization of Intangible Assets** increased 88% year-over-year to \$5.33.**
- **Gross Profit** increased 25% year-over-year to \$1,948 million.**
- **EBITDA** increased 40% year-over-year to \$866 million.**
 - EBITDA** as a percentage of Gross Profit** was 44%, up from 40% a year ago.
 - Core G&A** was \$819 million, including \$2 million of expenses related to the acquisition of AdvisoryWorld.
- **Shareholder capital returns were \$506 million, translating to \$5.59 per share.**
 - Share repurchases were \$418 million for 6.5 million shares at an average purchase price of \$63.96.
 - Dividends were \$88 million.

Key Updates

- **Increased fixed ICA balances to ~35% of total ICA portfolio, up from ~10% in Q3.**
- **Updated 2019 Core G&A** Outlook range to \$850 to \$875 million to include ~\$5 million of costs related to AdvisoryWorld.**
- **Provided capital plan updates in 8-K filed on December 4, 2018:**
 - Lowered target credit agreement net leverage ratio to a range of 2.00x to 2.75x, from 3.25x to 3.5x.
 - Increased share repurchase authorization to \$1 billion as of December 31, 2018.

SAN DIEGO - January 31, 2019 — LPL Financial Holdings Inc. (Nasdaq: LPLA) (the “Company”) today announced results for its fourth quarter ended December 31, 2018, reporting net income of \$120 million, or \$1.36 per share. This compares with \$64 million, or \$0.69 per share, in the fourth quarter of 2017 and \$107 million, or \$1.19 per share, in the prior quarter.

“Over the past year, we delivered solid business and financial results as we increased organic growth and completed our acquisition of NPH,” said Dan Arnold, President and CEO. “As we look forward, we remain focused on serving our advisors and helping them differentiate and win in the marketplace. Our efforts include delivering best-in-class digital capabilities and tools, including our acquisition of AdvisoryWorld. We believe our strategy positions us to continue driving long-term growth and shareholder value.”

“In 2018, we grew assets and gross profit, remained disciplined on expenses while increasing our investments in organic growth, and returned capital to shareholders,” said Matt Audette, CFO. “As a result, we grew earnings per share over 80 percent for the year. In Q4, we continued to enhance our financial strength and stability by increasing the duration of our ICA portfolio and lowering our target leverage, while also establishing a new share repurchase authorization. Looking forward, we believe our business results and financial strength position us well to continue creating long-term shareholder value.”

Dividend Declaration

The Company's Board of Directors declared a \$0.25 per share dividend to be paid on March 29, 2019 to all stockholders of record as of March 15, 2019.

Conference Call and Additional Information

The Company will hold a conference call to discuss its results at 5:00 p.m. EST on Thursday, January 31. To listen, call 877-677-9122 (domestic) or 708-290-1401 (international); passcode 4798087, or visit investor.lpl.com (webcast). Replays will be available by phone and on investor.lpl.com beginning two hours after the call and until February 7 and February 21, respectively. For telephonic replay, call 855-859-2056 (domestic) or 404-537-3406 (international); passcode 4798087.

About LPL Financial

LPL Financial is 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. LPL enables them to provide objective guidance to millions of American families seeking wealth management, retirement planning, financial planning and asset management solutions. LPL.com

*Based on total revenues, Financial Planning magazine June 1996-2018.

Securities and Advisory Services offered through LPL Financial. A Registered Investment Advisor, Member FINRA/SIPC.

****Non-GAAP Financial Measures**

Management believes 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 this information to analyze the Company's current performance, prospects, and valuation. Management uses this non-GAAP information internally to evaluate operating performance and in formulating the budget for future periods. Management believes that the non-GAAP financial measures and metrics discussed below are appropriate for evaluating the performance of the Company.

EPS Prior to Amortization of Intangible Assets is defined as GAAP EPS plus the per share impact of Amortization of Intangible Assets. The per share impact is calculated as Amortization of Intangible Assets expense, net of applicable tax benefit, divided by the number of shares outstanding for the applicable period. The Company presents EPS Prior to Amortization of Intangible Assets because management believes that the metric can provide investors with useful insight into the Company's core operating performance by excluding non-cash items that management does not believe impact the Company's ongoing operations. EPS Prior to Amortization of Intangible Assets is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to GAAP EPS or any other performance measure derived in accordance with GAAP. For a reconciliation of EPS Prior to Amortization of Intangible Assets to GAAP EPS, please see footnote 34 on page 20 of this release.

Gross Profit is calculated as net revenues, which were \$1,317 million for the three months ended December 31, 2018, less commission and advisory expenses and brokerage, clearing, and exchange fees, which were \$793 million and \$16 million, respectively, for the three months ended December 31, 2018. All other expense categories, including depreciation and amortization of fixed assets and amortization of intangible assets, are considered general and administrative in nature. Because the Company's gross profit amounts do not include any depreciation and amortization expense, the Company considers its gross profit amounts to be non-GAAP financial measures that may not be comparable to those of others in its industry. Management believes that Gross Profit can provide investors with useful insight into the Company's core operating performance before indirect costs that are general and administrative in nature.

Core G&A consists of total operating expenses, which were \$1,123 million for the three months ended December 31, 2018, excluding the following expenses: commission and advisory, regulatory charges, promotional, employee share-based compensation, depreciation and amortization, amortization of intangible assets, and brokerage, clearing, and exchange. Management presents Core G&A because it believes Core G&A reflects the corporate operating expense categories over which management can generally exercise a measure of control, compared with expense items over which management either cannot exercise control, such as commission and advisory expenses, or which management views as promotional expense necessary to support advisor growth and retention including conferences and transition assistance. Core G&A is not a measure of the Company's total operating expenses as calculated in accordance with GAAP. For a reconciliation of Core G&A against the Company's total operating expenses, please see footnote 5 on page 18 of this release. The Company does not provide an outlook for its total operating expenses because it contains expense components, such as commission and advisory expenses, that are market-driven and over which the Company cannot exercise control. Accordingly a reconciliation of the Company's outlook for Core G&A to an outlook for total operating expenses cannot be made available without unreasonable effort.

EBITDA is defined as net income plus interest expense, income tax expense, depreciation, amortization and loss on extinguishment of debt. The Company presents EBITDA because management believes that it can be a useful financial metric in understanding the Company's earnings from operations. EBITDA is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of profitability or liquidity. In addition, the Company's EBITDA can differ significantly from EBITDA calculated by other companies, depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, and capital investments.

Credit Agreement EBITDA is defined in, and calculated by management in accordance with, the Company's credit agreement ("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, including the Company's acquisition of the broker/dealer network of National Planning Holdings, Inc. ("NPH"). The Company presents Credit Agreement EBITDA because management believes that it can be a useful financial metric in understanding the Company's debt capacity and covenant compliance under its Credit Agreement. Credit Agreement EBITDA is not a measure of the Company's financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance

with GAAP, or as an alternative to cash flows from operating activities as a measure of profitability or liquidity. In addition, the Company's Credit Agreement-defined EBITDA can differ significantly from adjusted EBITDA calculated by other companies, depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, capital investments, and types of adjustments made by such companies.

Forward-Looking Statements

Statements in this press release regarding the Company's future financial and operating results, growth, priorities and business strategies, including forecasts and statements relating to future expenses (including 2019 Core G&A** outlook), enhanced capabilities and tools, long-term growth and shareholder value, and capital deployment, 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 January 31, 2019. Forward-looking statements are not guarantees that the future results, plans, intentions, or expectations expressed or implied 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 cash sweep program, the Company's strategy and success in managing cash sweep program fees; changes in the growth and profitability of the Company's fee-based business; fluctuations in the levels of advisory and brokerage assets and the related impact on revenue; effects of competition in the financial services industry and the success of the Company in attracting and retaining financial advisors and institutions; whether the retail investors served by newly-recruited advisors choose to move their respective assets to new accounts at the Company; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by federal and state securities regulators and self-regulatory organizations; the costs of settling and remediating issues related to regulatory matters or legal proceedings, including actual costs of repurchasing securities from investors in excess of our estimates; changes made to the Company's offerings, services, and pricing, and the effect that such changes may have on the Company's gross profit streams and costs; execution of the Company's plans and its success in realizing the synergies, expense savings, service improvements, and/or efficiencies expected to result from its initiatives and programs, and the other factors set forth in Part I, "Item 1A. Risk Factors" in the Company's 2017 Annual Report on Form 10-K, as may be amended or updated in the Company's 2018 Annual Report on Form 8-K, Quarterly Reports on Form 10-Q or other filings with the SEC. 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 earnings release, 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 press release.

LPL Financial Holdings Inc.
Condensed Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---------------------------------|-------------------------|-------------|--------------------------|--------------------------|------------|
| | 2018 | 2017 | % Change | 2018 | 2017 | % Change |
| REVENUES | | | | | | |
| Commission | \$ 469,923 | \$ 425,943 | 10% | \$ 1,919,694 | \$ 1,670,824 | 15% |
| Advisory | 474,102 | 375,928 | 26% | 1,793,493 | 1,409,247 | 27% |
| Asset-based | 265,681 | 193,707 | 37% | 972,515 | 708,333 | 37% |
| Transaction and fee | 119,254 | 103,145 | 16% | 471,299 | 424,667 | 11% |
| Interest income, net of interest expense | 11,784 | 6,542 | 80% | 40,210 | 24,473 | 64% |
| Other | (23,702) | 11,177 | n/m | (8,811) | 43,937 | n/m |
| Total net revenues | <u>1,317,042</u> | <u>1,116,442</u> | 18% | <u>5,188,400</u> | <u>4,281,481</u> | 21% |
| EXPENSES | | | | | | |
| Commission and advisory | 793,310 | 697,725 | 14% | 3,177,576 | 2,669,599 | 19% |
| Compensation and benefits | 132,766 | 119,748 | 11% | 506,650 | 456,918 | 11% |
| Promotional | 45,141 | 60,066 | (25%) | 208,603 | 171,661 | 22% |
| Depreciation and amortization | 21,897 | 20,138 | 9% | 87,656 | 84,071 | 4% |
| Amortization of intangible assets | 15,672 | 9,997 | 57% | 60,252 | 38,293 | 57% |
| Occupancy and equipment | 30,750 | 26,343 | 17% | 115,598 | 97,332 | 19% |
| Professional services | 24,428 | 20,675 | 18% | 85,651 | 71,407 | 20% |
| Brokerage, clearing and exchange | 16,000 | 15,480 | 3% | 63,154 | 57,047 | 11% |
| Communications and data processing | 11,776 | 12,416 | (5%) | 46,322 | 44,941 | 3% |
| Other | 31,103 | 25,070 | 24% | 119,278 | 96,210 | 24% |
| Total operating expenses | <u>1,122,843</u> | <u>1,007,658</u> | 11% | <u>4,470,740</u> | <u>3,787,479</u> | 18% |
| Non-operating interest expense | 31,756 | 28,894 | 10% | 125,023 | 107,025 | 17% |
| Loss on extinguishment of debt | — | — | n/m | — | 22,407 | n/m |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 162,443 | 79,890 | 103% | 592,637 | 364,570 | 63% |
| PROVISION FOR INCOME TAXES | 42,145 | 15,792 | 167% | 153,178 | 125,707 | 22% |
| NET INCOME | <u>\$ 120,298</u> | <u>\$ 64,098</u> | 88% | <u>\$ 439,459</u> | <u>\$ 238,863</u> | 84% |
| EARNINGS PER SHARE | | | | | | |
| Earnings per share, basic | <u>\$ 1.40</u> | <u>\$ 0.71</u> | 97% | <u>\$ 4.99</u> | <u>\$ 2.65</u> | 88% |
| Earnings per share, diluted | <u>\$ 1.36</u> | <u>\$ 0.69</u> | 97% | <u>\$ 4.85</u> | <u>\$ 2.59</u> | 87% |
| Weighted-average shares outstanding, basic | <u>85,976</u> | <u>89,921</u> | (4%) | <u>88,119</u> | <u>90,002</u> | (2%) |
| Weighted-average shares outstanding, diluted | <u>88,163</u> | <u>92,386</u> | (5%) | <u>90,619</u> | <u>92,115</u> | (2%) |

LPL Financial Holdings Inc.
Condensed Consolidated Statements of Income Trend
(In thousands, except per share data)
(Unaudited)

| | Quarterly Results | | |
|--|-------------------|-------------------|-------------------|
| | Q4 2018 | Q3 2018 | Q2 2018 |
| REVENUES | | | |
| Commission | \$ 469,923 | \$ 486,875 | \$ 488,085 |
| Advisory | 474,102 | 458,087 | 438,917 |
| Asset-based | 265,681 | 248,895 | 238,603 |
| Transaction and fee | 119,254 | 118,941 | 116,455 |
| Interest income, net of interest expense | 11,784 | 10,512 | 10,133 |
| Other | (23,702) | 7,687 | 6,611 |
| Total net revenues | <u>1,317,042</u> | <u>1,330,997</u> | <u>1,298,804</u> |
| EXPENSES | | | |
| Commission and advisory | 793,310 | 821,950 | 800,619 |
| Compensation and benefits | 132,766 | 128,007 | 122,360 |
| Promotional | 45,141 | 52,628 | 43,407 |
| Depreciation and amortization | 21,897 | 22,838 | 22,220 |
| Amortization of intangible assets | 15,672 | 15,676 | 15,682 |
| Occupancy and equipment | 30,750 | 30,308 | 26,904 |
| Professional services | 24,428 | 23,129 | 15,922 |
| Brokerage, clearing and exchange expense | 16,000 | 15,844 | 15,433 |
| Communications and data processing | 11,776 | 12,334 | 11,038 |
| Other | 31,103 | 29,219 | 30,370 |
| Total operating expenses | <u>1,122,843</u> | <u>1,151,933</u> | <u>1,103,955</u> |
| Non-operating interest expense | <u>31,756</u> | <u>31,705</u> | <u>31,940</u> |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 162,443 | 147,359 | 162,909 |
| PROVISION FOR INCOME TAXES | <u>42,145</u> | <u>40,494</u> | <u>44,143</u> |
| NET INCOME | <u>\$ 120,298</u> | <u>\$ 106,865</u> | <u>\$ 118,766</u> |
| EARNINGS PER SHARE | | | |
| Earnings per share, basic | <u>\$ 1.40</u> | <u>\$ 1.22</u> | <u>\$ 1.33</u> |
| Earnings per share, diluted | <u>\$ 1.36</u> | <u>\$ 1.19</u> | <u>\$ 1.30</u> |
| Weighted-average shares outstanding, basic | <u>85,976</u> | <u>87,426</u> | <u>89,128</u> |
| Weighted-average shares outstanding, diluted | <u>88,163</u> | <u>89,878</u> | <u>91,684</u> |

LPL Financial Holdings Inc.
Condensed Consolidated Statements of Financial Condition
(Dollars in thousands, except par value)
(Unaudited)

| ASSETS | December 31, 2018 | December 31, 2017 |
|--|---------------------|---------------------|
| Cash and cash equivalents | \$ 511,096 | \$ 811,136 |
| Cash segregated under federal and other regulations | 985,195 | 763,831 |
| Restricted cash | 65,828 | 50,688 |
| Receivables from: | | |
| Clients, net of allowance of \$640 at December 31, 2018 and \$466 at December 31, 2017 | 412,944 | 344,230 |
| Product sponsors, broker-dealers, and clearing organizations | 166,793 | 196,207 |
| Advisor loans, net of allowance of \$5,080 at December 31, 2018 and \$3,264 at December 31, 2017 | 298,821 | 219,157 |
| Others, net of allowance of \$8,099 at December 31, 2018 and \$6,115 at December 31, 2017 | 248,711 | 228,986 |
| Securities owned: | | |
| Trading — at fair value | 29,267 | 17,879 |
| Held-to-maturity — at amortized cost | 13,001 | 11,833 |
| Securities borrowed | 4,829 | 12,489 |
| Fixed assets, net of accumulated depreciation and amortization of \$308,155 at December 31, 2018 and \$427,344 at December 31, 2017 | 461,418 | 412,684 |
| Goodwill | 1,490,247 | 1,427,769 |
| Intangible assets, net of accumulated amortization of \$479,319 at December 31, 2018 and \$419,066 at December 31, 2017 | 484,171 | 414,093 |
| National Planning Holdings acquisition | — | 162,500 |
| Other assets | 305,147 | 285,269 |
| Total assets | \$ 5,477,468 | \$ 5,358,751 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| LIABILITIES: | | |
| Drafts payable | \$ 225,034 | \$ 185,929 |
| Payables to clients | 950,946 | 962,891 |
| Payables to broker-dealers and clearing organizations | 76,180 | 54,262 |
| Accrued commission and advisory expenses payable | 164,211 | 147,095 |
| Accounts payable and accrued liabilities | 478,644 | 461,149 |
| Income taxes payable | 32,990 | 469 |
| Unearned revenue | 80,524 | 72,222 |
| Securities sold, but not yet purchased — at fair value | 169 | 1,182 |
| Long-term borrowing, net of unamortized debt issuance cost of \$19,525 at December 31, 2018 and \$22,812 at December 31, 2017 | 2,371,808 | 2,385,022 |
| Leasehold financing and capital lease obligations | 104,564 | 107,518 |
| Deferred income taxes, net | 18,325 | 16,004 |
| Total liabilities | 4,503,395 | 4,393,743 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, \$.001 par value; 600,000,000 shares authorized; 124,909,796 shares issued at December 31, 2018 and 123,030,383 shares issued at December 31, 2017 | 125 | 123 |
| Additional paid-in capital | 1,634,337 | 1,556,117 |
| Treasury stock, at cost — 39,820,646 shares at December 31, 2018 and 33,262,115 shares at December 31, 2017 | (1,730,535) | (1,309,568) |
| Retained earnings | 1,070,146 | 718,336 |
| Total stockholders' equity | 974,073 | 965,008 |
| Total liabilities and stockholders' equity | \$ 5,477,468 | \$ 5,358,751 |

LPL Financial Holdings Inc.
Management's Statements of Operations⁽³⁾
(In thousands, except per share data)
(Unaudited)

Certain information presented on pages 8-17 of this release is presented as reviewed by the Company's management and includes information derived from the Company's Unaudited Condensed Consolidated Statements of Income, non-GAAP financial measures, and operational and performance metrics. For information on non-GAAP financial measures, please see the section titled "Non-GAAP Financial Measures" that begins on page 3 of this release.

| | Quarterly Results | | | | |
|--|-------------------|-------------------|------------|------------------|-------------|
| | Q4 2018 | Q3 2018 | % Change | Q4 2017 | % Change |
| Gross Profit⁽³⁾ | | | | | |
| Sales-based commissions | \$ 199,468 | \$ 193,545 | 3% | \$ 174,052 | 15% |
| Trailing commissions | 270,455 | 293,330 | (8%) | 251,891 | 7% |
| Advisory | 474,102 | 458,087 | 3% | 375,928 | 26% |
| Commission and advisory fees | 944,025 | 944,962 | —% | 801,871 | 18% |
| Commission and advisory expense | (793,310) | (821,950) | (3%) | (697,725) | 14% |
| Commission and advisory fees, net of payout | 150,715 | 123,012 | 23% | 104,146 | 45% |
| Cash sweep | 147,774 | 127,174 | 16% | 88,333 | 67% |
| Other asset-based ⁽⁴⁾ | 117,907 | 121,721 | (3%) | 105,374 | 12% |
| Transaction and fee | 119,254 | 118,941 | —% | 103,145 | 16% |
| Interest income and other | (11,918) | 18,199 | n/m | 17,719 | n/m |
| Total net commission and advisory fees and attachment revenue | 523,732 | 509,047 | 3% | 418,717 | 25% |
| Brokerage, clearing, and exchange expense | (16,000) | (15,844) | 1% | (15,480) | 3% |
| Gross Profit⁽³⁾ | 507,732 | 493,203 | 3% | 403,237 | 26% |
| G&A Expense | | | | | |
| Core G&A ⁽⁵⁾ | 216,185 | 209,244 | 3% | 194,607 | 11% |
| Regulatory charges | 9,593 | 7,421 | n/m | 5,433 | n/m |
| Promotional | 45,141 | 52,628 | (14%) | 60,066 | (25%) |
| Employee share-based compensation | 5,045 | 6,332 | (20%) | 4,212 | 20% |
| Total G&A | 275,964 | 275,625 | —% | 264,318 | 4% |
| EBITDA⁽³⁾ | 231,768 | 217,578 | 7% | 138,919 | 67% |
| Depreciation and amortization | 21,897 | 22,838 | (4%) | 20,138 | 9% |
| Amortization of intangible assets | 15,672 | 15,676 | —% | 9,997 | 57% |
| Non-operating interest expense | 31,756 | 31,705 | —% | 28,894 | 10% |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 162,443 | 147,359 | 10% | 79,890 | 103% |
| PROVISION FOR INCOME TAXES | 42,145 | 40,494 | 4% | 15,792 | 167% |
| NET INCOME | \$ 120,298 | \$ 106,865 | 13% | \$ 64,098 | 88% |
| Earnings per share, diluted | \$ 1.36 | \$ 1.19 | 14% | \$ 0.69 | 97% |
| Weighted-average shares outstanding, diluted | 88,163 | 89,878 | (2%) | 92,386 | (5%) |
| EPS Prior to Amortization of Intangible Assets | \$ 1.49 | \$ 1.32 | 13% | \$ 0.76 | 96% |

LPL Financial Holdings Inc.
Management's Statements of Operations Trend ⁽³⁾
(In thousands, except per share data)
(Unaudited)

| | Quarterly Results | | |
|--|-------------------|-------------------|-------------------|
| | Q4 2018 | Q3 2018 | Q2 2018 |
| Gross Profit(3) | | | |
| Sales-based commissions | \$ 199,468 | \$ 193,545 | \$ 196,530 |
| Trailing commissions | 270,455 | 293,330 | 291,555 |
| Advisory | 474,102 | 458,087 | 438,917 |
| Commission and advisory fees | 944,025 | 944,962 | 927,002 |
| Commission and advisory expense | (793,310) | (821,950) | (800,619) |
| Commission and advisory fees, net of payout | 150,715 | 123,012 | 126,383 |
| Cash sweep | 147,774 | 127,174 | 121,386 |
| Other asset-based(4) | 117,907 | 121,721 | 117,217 |
| Transaction and fee | 119,254 | 118,941 | 116,455 |
| Interest income and other | (11,918) | 18,199 | 16,744 |
| Total net commission and advisory fees and attachment revenue | 523,732 | 509,047 | 498,185 |
| Brokerage, clearing, and exchange expense | (16,000) | (15,844) | (15,433) |
| Gross Profit(3) | 507,732 | 493,203 | 482,752 |
| G&A Expense | | | |
| Core G&A(5) | 216,185 | 209,244 | 192,148 |
| Regulatory charges | 9,593 | 7,421 | 8,321 |
| Promotional | 45,141 | 52,628 | 43,407 |
| Employee share-based compensation | 5,045 | 6,332 | 6,125 |
| Total G&A | 275,964 | 275,625 | 250,001 |
| EBITDA(3) | 231,768 | 217,578 | 232,751 |
| Depreciation and amortization | 21,897 | 22,838 | 22,220 |
| Amortization of intangible assets | 15,672 | 15,676 | 15,682 |
| Non-operating interest expense | 31,756 | 31,705 | 31,940 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 162,443 | 147,359 | 162,909 |
| PROVISION FOR INCOME TAXES | 42,145 | 40,494 | 44,143 |
| NET INCOME | \$ 120,298 | \$ 106,865 | \$ 118,766 |
| Earnings per share, diluted | \$ 1.36 | \$ 1.19 | \$ 1.30 |
| Weighted-average shares outstanding, diluted | 88,163 | 89,878 | 91,684 |
| EPS Prior to Amortization of Intangible Assets | \$ 1.49 | \$ 1.32 | \$ 1.42 |

LPL Financial Holdings Inc.
Operating Measures⁽³⁾
(Dollars in billions, except where noted) (Unaudited)

| | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change |
|---|-----------------|-----------------|-------------|-----------------|-----------|
| Market Drivers | | | | | |
| S&P 500 Index (end of period) | 2,507 | 2,914 | (14%) | 2,674 | (6%) |
| Fed Funds Daily Effective Rate (FFER) (average bps) | 222 | 192 | 30bps | 120 | 102bps |
| Assets | | | | | |
| Advisory Assets(6) | \$ 282.0 | \$ 306.1 | (8%) | \$ 273.0 | 3% |
| Brokerage Assets(7) | 346.0 | 374.9 | (8%) | 342.1 | 1% |
| Total Brokerage and Advisory Assets | \$ 628.1 | \$ 681.0 | (8%) | \$ 615.1 | 2% |
| Advisory % of Total Brokerage and Advisory Assets | 44.9% | 44.9% | —% | 44.4% | 50bps |
| Assets by Platform | | | | | |
| Corporate Platform Advisory Assets(8) | \$ 172.3 | \$ 184.8 | (7%) | \$ 160.0 | 8% |
| Hybrid Platform Advisory Assets(9) | 109.7 | 121.3 | (10%) | 113.0 | (3%) |
| Brokerage Assets | 346.0 | 374.9 | (8%) | 342.1 | 1% |
| Total Brokerage and Advisory Assets | \$ 628.1 | \$ 681.0 | (8%) | \$ 615.1 | 2% |
| Centrally Managed Assets | | | | | |
| Centrally Managed Assets(10) | \$ 38.5 | \$ 40.8 | (6%) | \$ 32.9 | 17% |
| Centrally Managed % of Total Advisory Assets | 13.7% | 13.3% | 40bps | 12.1% | 160bps |

LPL Financial Holdings Inc.
Operating Measures⁽³⁾
(Dollars in billions, except where noted) (Unaudited)

| | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change |
|--|----------------|----------------|--------------|----------------|--------------|
| Net New Assets (NNA) | | | | | |
| Net New Advisory Assets(11) | \$ 5.0 | \$ 5.1 | n/m | \$ 14.0 | n/m |
| Net New Brokerage Assets(12) | 0.9 | (0.8) | n/m | 23.5 | n/m |
| Total Net New Assets | \$ 5.9 | \$ 4.4 | n/m | \$ 37.5 | n/m |
| Net Brokerage to Advisory Conversions(13) | \$ 1.4 | \$ 1.7 | n/m | \$ 2.1 | n/m |
| Advisory NNA Annualized Growth(14) | 6% | 7% | n/m | 22% | n/m |
| Total NNA Annualized Growth(14) | 3% | 3% | n/m | 27% | n/m |
| Net New Advisory Assets | | | | | |
| Corporate Platform Net New Advisory Assets(15) | \$ 5.1 | \$ 5.9 | n/m | \$ 11.1 | n/m |
| Hybrid Platform Net New Advisory Assets(16) | (0.2) | (0.8) | n/m | 2.9 | n/m |
| Total Net New Advisory Assets | \$ 5.0 | \$ 5.1 | n/m | \$ 14.0 | n/m |
| Centrally Managed Net New Advisory Assets(17) | \$ 1.4 | \$ 1.8 | n/m | \$ 2.5 | n/m |
| Cash Sweep Balances | | | | | |
| Insured Cash Account Balances | \$ 24.8 | \$ 21.0 | 18% | \$ 22.9 | 8% |
| Deposit Cash Account Balances | 5.1 | 3.9 | 31% | 4.2 | 21% |
| Money Market Account Cash Balances | 4.9 | 3.3 | 48% | 2.7 | 81% |
| Total Cash Sweep Balances | \$ 34.9 | \$ 28.2 | 24% | \$ 29.8 | 17% |
| Cash Sweep % of Total Assets | 5.6% | 4.1% | 150bps | 4.8% | 80bps |
| Cash Sweep Average Fees | | | | | |
| Insured Cash Account Average Fee - bps(18) | 215 | 189 | 26 | 132 | 83 |
| Deposit Cash Account Fee Average Fee - bps(18) | 207 | 198 | 9 | 113 | 94 |
| Money Market Account Average Fee - bps(18) | 75 | 75 | — | 69 | 6 |
| Total Cash Sweep Average Fee - bps(18) | 196 | 178 | 18 | 124 | 72 |
| Net Buy (Sell) Activity(19) | \$ 2.3 | \$ 9.2 | (75%) | \$ 7.3 | (68%) |

LPL Financial Holdings Inc.
Monthly Metrics⁽³⁾
(Dollars in billions, except where noted)
(Unaudited)

| | December 2018 | November 2018 | Nov to Dec Change | October 2018 | September 2018 |
|--|------------------|------------------|----------------------|-----------------|-------------------|
| <u>Assets Served</u> | | | | | |
| Advisory Assets(6) | \$ 282.0 | \$ 297.0 | (5.1%) | \$ 291.7 | \$ 306.1 |
| Brokerage Assets(7) | 346.0 | 362.7 | (4.6%) | 357.5 | 374.9 |
| Total Brokerage and Advisory Assets | \$ 628.1 | \$ 659.7 | (4.8%) | \$ 649.3 | \$ 681.0 |
| <u>Net New Assets</u> | | | | | |
| Net New Advisory Assets(11) | \$ 0.9 | \$ 2.0 | n/m | \$ 2.1 | \$ 2.2 |
| Net New Brokerage Assets(12) | (0.1) | 0.9 | n/m | 0.1 | 0.5 |
| Total Net New Assets | \$ 0.8 | \$ 2.9 | n/m | \$ 2.2 | \$ 2.7 |
| Net Brokerage to Advisory Conversions(13) | \$ 0.3 | \$ 0.5 | n/m | \$ 0.6 | \$ 0.5 |
| <u>Cash Sweep Balances</u> | | | | | |
| Insured Cash Account Balances | \$ 24.8 | \$ 21.8 | 13.8% | \$ 21.4 | \$ 21.0 |
| Deposit Cash Account Balances | 5.1 | 4.3 | 18.6% | 4.2 | 3.9 |
| Money Market Account Cash Balances | 4.9 | 3.9 | 25.6% | 3.5 | 3.3 |
| Total Client Cash Sweep Balances | \$ 34.9 | \$ 29.9 | 16.7% | \$ 29.1 | \$ 28.2 |
| <u>Market Indices</u> | | | | | |
| S&P 500 Index (end of period) | 2,507 | 2,760 | (9.2%) | 2,712 | 2,914 |
| Fed Funds Effective Rate (average bps) | 227 | 220 | 7bps | 219 | 195 |

LPL Financial Holdings Inc.
Financial Measures
(Dollars in thousands, except where noted)
(Unaudited)

| | Q4 2018 | Q3 2018 | % Change | Q4 2017 | % Change |
|--|-------------------|-------------------|-------------|-------------------|------------|
| Commission Revenue by Product | | | | | |
| Variable annuities | \$ 188,439 | \$ 201,075 | (6%) | \$ 174,209 | 8% |
| Mutual funds | 145,780 | 155,579 | (6%) | 137,316 | 6% |
| Alternative investments | 5,414 | 6,331 | (14%) | 6,547 | (17%) |
| Fixed annuities | 50,807 | 47,117 | 8% | 32,054 | 59% |
| Equities | 22,752 | 19,082 | 19% | 20,659 | 10% |
| Fixed income | 29,201 | 32,144 | (9%) | 26,373 | 11% |
| Insurance | 19,232 | 16,155 | 19% | 19,998 | (4%) |
| Group annuities | 7,966 | 9,064 | (12%) | 8,638 | (8%) |
| Other | 332 | 328 | 1% | 149 | 123% |
| Total commission revenue | \$ 469,923 | \$ 486,875 | (3%) | \$ 425,943 | 10% |
| Commission Revenue by Sales-based and Trailing Commission | | | | | |
| Sales-based commissions | | | | | |
| Variable annuities | \$ 54,744 | \$ 57,491 | (5%) | \$ 51,523 | 6% |
| Mutual funds | 33,687 | 33,319 | 1% | 32,318 | 4% |
| Alternative investments | 2,049 | 1,822 | 12% | 2,940 | (30%) |
| Fixed annuities | 43,744 | 40,040 | 9% | 26,767 | 63% |
| Equities | 22,752 | 19,082 | 19% | 20,659 | 10% |
| Fixed income | 23,504 | 25,757 | (9%) | 20,548 | 14% |
| Insurance | 17,703 | 14,433 | 23% | 18,512 | (4%) |
| Group annuities | 953 | 1,273 | (25%) | 636 | 50% |
| Other | 332 | 328 | 1% | 149 | 123% |
| Total sales-based commissions | \$ 199,468 | \$ 193,545 | 3% | \$ 174,052 | 15% |
| Trailing commissions | | | | | |
| Variable annuities | \$ 133,695 | \$ 143,584 | (7%) | \$ 122,686 | 9% |
| Mutual funds | 112,093 | 122,260 | (8%) | 104,998 | 7% |
| Alternative investments | 3,365 | 4,509 | (25%) | 3,607 | (7%) |
| Fixed annuities | 7,063 | 7,077 | —% | 5,287 | 34% |
| Fixed income | 5,697 | 6,387 | (11%) | 5,825 | (2%) |
| Insurance | 1,529 | 1,722 | (11%) | 1,486 | 3% |
| Group annuities | 7,013 | 7,791 | (10%) | 8,002 | (12%) |
| Total trailing commissions | \$ 270,455 | \$ 293,330 | (8%) | \$ 251,891 | 7% |
| Total commission revenue | \$ 469,923 | \$ 486,875 | (3%) | \$ 425,943 | 10% |

LPL Financial Holdings Inc.
Financial Measures⁽³⁾
(Dollars in thousands, except where noted)
(Unaudited)

| | <u>Q4 2018</u> | <u>Q3 2018</u> | <u>Change</u> | <u>Q4 2017</u> | <u>Change</u> |
|---|----------------|----------------|-----------------|----------------|-----------------|
| Payout Rate | | | | | |
| Base Payout Rate | 82.75 % | 83.02% | (27bps) | 82.56% | 19bps |
| Production Based Bonuses | 3.88 % | 3.36% | 52bps | 3.28% | 60bps |
| GDC Sensitive Payout | 86.63 % | 86.38% | 25bps | 85.84% | 79bps |
| Non-GDC Sensitive Payout | (2.60)% | 0.60% | (320bps) | 1.17% | (377bps) |
| Total Payout Ratio | 84.03 % | 86.98% | (295bps) | 87.01% | (298bps) |
| Production Based Bonuses Ratio (Trailing Twelve Months) | 3.03 % | 2.88% | 15bps | 2.65% | 38bps |

LPL Financial Holdings Inc.
Capital Management Measures⁽³⁾
(Dollars in thousands, except where noted)
(Unaudited)

| | Q4 2018 | Q3 2018 |
|--|---------------------|---------------------|
| Credit Agreement EBITDA Trailing Twelve Months(3)(20) | | |
| Net income | \$ 439,459 | \$ 383,259 |
| Non-operating interest expense | 125,023 | 122,161 |
| Provision for income taxes | 153,178 | 126,825 |
| Depreciation and amortization | 87,656 | 85,897 |
| Amortization of intangible assets | 60,252 | 54,577 |
| EBITDA(3) | \$ 865,568 | \$ 772,719 |
| Credit Agreement Adjustments: | | |
| Employee share-based compensation expense | \$ 23,108 | \$ 22,274 |
| Advisor share-based compensation expense | 6,054 | 7,886 |
| NPH run-rate EBITDA accretion(21) | 92,000 | 92,000 |
| Realized NPH EBITDA Offset(22) | (75,500) | (50,500) |
| NPH onboarding costs | 41,789 | 70,132 |
| Other(23) | 16,269 | 17,294 |
| Credit Agreement EBITDA Trailing Twelve Months(3)(20) | \$ 969,288 | \$ 931,805 |
| Cash Available for Corporate Use(24) | | |
| Cash at Parent | \$ 272,450 | \$ 276,657 |
| Excess Cash at Broker-Dealer subsidiary per Credit Agreement | 56,248 | 105,578 |
| Other Available Cash | 10,302 | 9,373 |
| Total Cash Available for Corporate Use | \$ 339,000 | \$ 391,608 |
| Credit Agreement Net Leverage | | |
| Total Debt (does not include unamortized premium) | \$ 2,381,250 | \$ 2,385,000 |
| Cash Available (up to \$300 million) | 300,000 | 300,000 |
| Credit Agreement Net Debt | \$ 2,081,250 | \$ 2,085,000 |
| Credit Agreement EBITDA Trailing Twelve Months(20) | \$ 969,288 | \$ 931,805 |
| Credit Agreement Net Leverage Ratio | 2.15x | 2.24x |

LPL Financial Holdings Inc.
Debt Schedule
(Dollars in thousands, except where noted)
(Unaudited)

| Total Debt | Outstanding (end of period) | Current Applicable Margin | Yield At Issuance | Interest Rate (end of period) | Maturity |
|---------------------------------|------------------------------------|----------------------------------|--------------------------|--------------------------------------|-----------------|
| Revolving Credit Facility(a) | \$ — | LIBOR+125bps(b) | | —% | 9/21/2022 |
| Senior Secured Term Loan B | 1,481,250 | LIBOR+225 bps(b) | | 4.73% | 9/21/2024 |
| Senior Unsecured Notes(c) | 500,000 | 5.75% Fixed | 5.750% | 5.75% | 9/15/2025 |
| Senior Unsecured Notes(c) | 400,000 (d) | 5.75% Fixed | 5.115% | 5.75% | 9/15/2025 |
| Total / Weighted Average | \$ 2,381,250 | | | 5.12% | |

(a) The Revolving Credit Facility has a borrowing capacity of \$500 million.

(b) The LIBOR rate option is one-month LIBOR rate and subject to an interest rate floor of 0 basis points.

(c) The Senior Unsecured Notes were issued in two separate transactions; \$500 million in notes were issued in March 2017 at par; the remaining \$400 million were issued in September 2017 and priced at 103% of the aggregate principal amount.

(d) Does not include unamortized premium of approximately \$10.1 million as of December 31, 2018.

LPL Financial Holdings Inc.
Key Business and Financial Metrics⁽³⁾
(Dollars in thousands, except where noted)
(Unaudited)

| | Q4 2018 | Q3 2018 | Change | Q4 2017 | Change |
|--|-----------------|-----------------|-------------|----------------|-------------|
| Advisors | | | | | |
| Advisors | 16,109 | 16,174 | —% | 15,210 | 6% |
| Net New Advisors | (65) | 125 | n/m | 957 | n/m |
| Annualized commission and advisory fees per Advisor(25) | \$ 234 | \$ 235 | —% | \$ 218 | 7% |
| Average Total Assets per Advisor (\$ in millions)(26) | \$ 39.0 | \$ 42.1 | (7%) | \$ 40.4 | (3%) |
| Transition assistance loan amortization(\$ in millions)(27) | \$ 21.3 | \$ 19.2 | 11% | \$ 14.5 | 47% |
| Total client accounts (in millions) | 5.4 | 5.4 | —% | 4.8 | 13% |
| | | | | | |
| Employees - period end | 4,229 | 4,101 | 3% | 3,736 | 13% |
| Productivity Metrics | | | | | |
| Annualized Advisory Revenue as a percentage of Corporate Advisory Assets | 1.03% | 1.05% | (2bps) | 1.04% | (1bps) |
| Gross Profit ROA(28) | 31.5bps | 29.2bps | 2.3bps | 27.5bps | 4.0bps |
| OPEX ROA(29) | 19.4bps | 18.6bps | 0.8bps | 20.1bps | (0.7bps) |
| EBIT ROA(30) | 12.1bps | 10.6bps | 1.5bps | 7.4bps | 4.7bps |
| Production Retention Rate (YTD annualized)(31) | 95.9% | 96.1% | (20bps) | 95.0% | 90bps |
| Recurring Gross Profit Rate (trailing twelve months) (32) | 86.7% | 85.0% | 170bps | 82.6% | 410bps |
| EBITDA as a percentage of Gross Profit | 45.6% | 44.1% | 150bps | 34.5% | 1,110bps |
| | | | | | |
| Capital Expenditure (\$ in millions) | \$ 47.5 | \$ 36.4 | 30% | \$ 26.3 | 81% |
| | | | | | |
| Share Repurchases | \$ 117.8 | \$ 122.5 | (4%) | \$ 30.0 | 293% |
| Dividends | 21.5 | 21.9 | (2%) | 22.5 | (4%) |
| Total Capital Allocated | \$ 139.3 | \$ 144.4 | (4%) | \$ 52.5 | 165% |
| Weighted-average Share Count, Diluted | 88.2 | 89.9 | (2%) | 92.4 | (5%) |
| Total Capital Allocated per Share(33) | \$ 1.58 | \$ 1.61 | (2%) | \$ 0.57 | 177% |

Endnote Disclosures

- (1) Represents the estimated total brokerage and advisory assets expected to transition to the Company's broker-dealer subsidiary, LPL Financial LLC ("LPL Financial"), associated with advisors who transferred their licenses to LPL Financial during the period. The estimate is based on prior business reported by the advisors, which has not been independently and fully verified by LPL Financial. The actual transition of assets to LPL Financial generally occurs over several quarters including the initial quarter of the transition, and the actual amount transitioned may vary from the estimate.
- (2) Compliance with the Credit Agreement Leverage Ratio is only required under the revolving credit facility.
- (3) Certain information presented on pages 8-17 includes non-GAAP financial measures and operational and performance metrics. For more information on non-GAAP financial measures, please see the section titled "Non-GAAP Financial Measures" on page 3.
- (4) Consists of revenues from the Company's sponsorship programs with financial product manufacturers and omnibus processing and networking services, but does not include fees from cash sweep programs. Other asset-based revenues are a component of asset-based revenues and are derived from the Company's Unaudited Condensed Consolidated Statements of Income.
- (5) Core G&A is a non-GAAP financial measure. Please see a description of Core G&A under "Non-GAAP Financial Measures" on page 3 of this release for additional information. Below is a reconciliation of Core G&A against the Company's total operating expense for the periods presented:

| | Q4 2018 | Q3 2018 | Q2 2018 | Q4 2017 |
|--|---------------------|---------------------|---------------------|---------------------|
| Operating Expense Reconciliation (in thousands) | | | | |
| Core G&A | \$ 216,185 | \$ 209,244 | \$ 192,148 | \$ 194,607 |
| Regulatory charges | 9,593 | 7,421 | 8,321 | 5,433 |
| Promotional | 45,141 | 52,628 | 43,407 | 60,066 |
| Employee share-based compensation | 5,045 | 6,332 | 6,125 | 4,212 |
| Total G&A | 275,964 | 275,625 | 250,001 | 264,318 |
| Commissions and advisory | 793,310 | 821,950 | 800,619 | 697,725 |
| Depreciation & amortization | 21,897 | 22,838 | 22,220 | 20,138 |
| Amortization of intangible assets | 15,672 | 15,676 | 15,682 | 9,997 |
| Brokerage, clearing and exchange | 16,000 | 15,844 | 15,433 | 15,480 |
| Total operating expense | \$ 1,122,843 | \$ 1,151,933 | \$ 1,103,955 | \$ 1,007,658 |

- (6) Consists of total advisory assets under custody at LPL Financial.
- (7) Consists of brokerage assets serviced by advisors licensed with LPL Financial.
- (8) Consists of total assets on LPL Financial's corporate advisory platform serviced by investment advisor representatives of LPL Financial.
- (9) Consists of total assets on LPL Financial's independent advisory platform serviced by investment advisor representatives of separate investment advisor firms ("Hybrid RIAs"), rather than of LPL Financial.
- (10) Represents those Advisory Assets in LPL Financial's Model Wealth Portfolios, Optimum Market Portfolios, Personal Wealth Portfolios, and Guided Wealth Portfolios platforms.
- (11) Consists of total client deposits into advisory accounts less total client withdrawals from advisory accounts. The Company considers conversions from and to brokerage accounts as deposits and withdrawals respectively.
- (12) Consists of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts. The Company considers conversions from and to advisory accounts as deposits and withdrawals respectively.
- (13) Consists of existing custodied assets that converted from brokerage to advisory, less existing custodied assets that converted from advisory to brokerage.
- (14) Calculated as annualized current period net new assets divided by preceding period assets in their respective categories of advisory assets or total brokerage and advisory assets.

- (15) Consists of total client deposits into advisory accounts on LPL Financial's corporate advisory platform (FN 8) less total client withdrawals from advisory accounts on its corporate advisory platform.
- (16) Consists of total client deposits into advisory accounts on LPL Financial's independent advisory platform (FN 9) less total client withdrawals from advisory accounts on its independent advisory platform.
- (17) Consists of total client deposits into Centrally Managed Assets accounts (FN 10) less total client withdrawals from Centrally Managed Assets accounts.
- (18) Calculated by dividing revenue for the period by the average balance during the period.
- (19) Represents the amount of securities purchased less the amount of securities sold in client accounts custodied with LPL Financial. Reported activity does not include any other cash activity, such as deposits, withdrawals, dividends received, or fees paid.
- (20) Under the Credit Agreement, management calculates Credit Agreement EBITDA for a trailing twelve month period at the end of each fiscal quarter, and in doing so may make further adjustments to prior quarters.
- (21) Represents estimated potential future cost savings, operating expense reductions or other synergies included in Credit Agreement EBITDA in accordance with the Credit Agreement relating to the acquisition of NPH. Such amounts do not represent actual performance and there can be no assurance that any such cost savings, operating expense reductions or other synergies will be realized.
- (22) Represents the portion of Credit Agreement EBITDA that management estimates to be attributable to the NPH acquisition, which is added back to offset NPH run-rate EBITDA accretion, in accordance with the Credit Agreement.
- (23) Represents items that are adjustable in accordance with the Credit Agreement to calculate Credit Agreement EBITDA, including employee severance costs, employee signing costs, employee retention or completion bonuses, and other non-recurring costs.
- (24) Consists of cash unrestricted by the Credit Agreement and other regulations available for operating, investing, and financing uses.
- (25) Calculated based on the average advisor count from the current period and prior period.
- (26) Calculated based on the end of period Total Brokerage and Advisory Assets divided by end of period Advisor count.
- (27) Represents the amortization expense amount of forgivable loans for transition assistance to advisors and financial institutions.
- (28) Represents annualized Gross Profit (FN 3) for the period, divided by average month-end Total Brokerage and Advisory Assets for the period.
- (29) Represents annualized operating expenses for the period, excluding production-related expense, divided by average month-end Total Brokerage and Advisory Assets for the period. Production-related expense includes commissions and advisory expense and brokerage, clearing and exchange expense. For purposes of this metric, operating expenses includes Core G&A (FN 5), Regulatory, Promotional, Employee Share Based Compensation, Depreciation & Amortization, and Amortization of Intangible Assets.
- (30) EBIT ROA is calculated as Gross Profit ROA less OPEX ROA.
- (31) Reflects retention of commission and advisory revenues, calculated by deducting the prior year production of the annualized year-to-date attrition rate, over the prior year total production.
- (32) Recurring Gross Profit Rate refers to the percentage of the Company's gross profit, a non-GAAP financial measure, that was recurring for the trailing twelve month period. Management tracks recurring gross profit, a characterization of gross profit and a statistical measure, which is defined to include the Company's revenues from asset-based fees, advisory fees, trailing commissions, cash sweep programs, and certain other fees that are based upon client accounts and advisors, less the expenses associated with such revenues and certain other recurring expenses not specifically associated with a revenue line. Management allocates such other recurring expenses, such as non-GDC sensitive production expenses, on a pro-rata basis against specific revenue lines at its discretion.
- (33) Capital Allocation per Share equals the amount of capital allocated for share repurchases and cash dividends divided by the diluted weighted-average shares outstanding.
- (34) EPS prior to amortization of intangible assets is a non-GAAP financial measure. Please see a description of EPS prior to amortization of intangible assets under "Non-GAAP Financial Measures" on page 3 of this release for additional information. Below is a reconciliation of EPS prior to amortization of intangible assets to the Company's GAAP EPS for the periods presented:

| EPS Reconciliation (in thousands, except per share data) | Q4 2018 |
|---|----------------|
| EPS | \$ 1.36 |
| Amortization of Intangible Assets | 15,672 |
| Tax Benefit | (4,388) |
| Amortization of Intangible Assets Net of Tax Benefit | \$ 11,284 |
| Diluted Share Count | 88,163 |
| EPS Impact | \$ 0.13 |
| EPS Prior to Amortization of Intangible Assets | \$ 1.49 |