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LPL Financial LLC

(SEC I.D. No. 8-17668)

Statement of Financial Condition

June 30, 2013

Unaudited

LPL FINANCIAL LLC
STATEMENT OF FINANCIAL CONDITION
AS OFJUNE 30, 2013
(UNAUDITED)
(Dollars in thousands)

ASSETS		
Cash and cash equivalents	$	286,096
Cash and securities segregated under federal and other regulations		440,118
Receivables from:		
Clients, net of allowance of $521		306,164
Product sponsors, broker-dealers and clearing organizations		169,832
Others, net of allowance of $5,919		200,192
Due from affiliates (Note 10)		962
Securities owned—trading, at fair value (including $900 pledged as collateral)		8,640
Securities borrowed		7,556
Fixed assets, net of accumulated depreciation and amortization of $178,287		90,380
Intangible assets, net of accumulated amortization of $20,250		78,755
Goodwill		52,717
Other assets		51,571
Total assets	$	1,692,983
LIABILITIES AND MEMBER'S EQUITY		
LIABILITIES:		
Drafts payable	$	155,139
Payables to clients		487,769
Payables to broker-dealers and clearing organizations		23,384
Accrued commissions and advisory fees payable		129,583
Accounts payable and accrued liabilities		110,349
Due to affiliates (Note 10)		50,742
Unearned revenue		64,938
Total liabilities		1,021,904
COMMITMENTS AND CONTINGENCIES (Notes 8 and 12)		
MEMBER'S EQUITY		671,079
Total liabilities and member's equity	$	1,692,983

See notes to statement of financial condition.

1. Organization and Description of the Company

LPL Financial LLC ("LPL Financial" or 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 of America. Through its custody and clearing platforms, LPL Financial provides access to diversified financial products and services enabling its advisors to offer independent financial advice and brokerage services, using integrated technology, to retail investors (their "clients").

LPL Financial, headquartered in Boston, Charlotte and San Diego, is a clearing broker-dealer registered with the Financial Industry Regulatory Authority, Inc. ("FINRA") and the Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934 and an investment adviser registered with the SEC pursuant to the Investment Advisers Act of 1940. LPL Financial is also registered as a Futures Commission Merchant with the Commodity Futures Trading Commission ("CFTC") and is a member of the National Futures Association. LPL Financial is a wholly owned subsidiary of LPL Holdings, Inc. ("LPLH"), a Massachusetts holding corporation, which is a wholly owned subsidiary of LPL Financial Holdings Inc. ("LPLFH"), a Delaware holding corporation.

LPL Financial's futures activities are limited to conducting business as a guaranteed introducing broker. As a guaranteed introducing broker, LPL Financial clears commodities and futures products through ADM Investor Services International Limited ("ADM"), and all commodities accounts and related client positions are held by ADM.

2. Summary of Significant Accounting Policies

Basis of Presentation — This unaudited statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which require the Company to make estimates and assumptions regarding the valuations of certain financial instruments, intangible assets, allowance for doubtful accounts, accruals for liabilities, income taxes and other matters that affect the unaudited statement of financial condition and related disclosures. Actual results could differ materially from those estimates under different assumptions or conditions and the difference may be material to the unaudited statement of financial condition. The Company has evaluated subsequent events up to and including the date this unaudited statement of financial condition were issued.

Cash and Cash Equivalents — Cash and cash equivalents are composed of interest-bearing deposits, money market mutual funds and U.S. government obligations that meet the definition of a cash equivalent. Cash equivalents are highly liquid investments with original maturities of less than 90 days that are not required to be segregated under federal or other regulations.

Cash and Securities Segregated Under Federal and Other Regulations — As a broker-dealer carrying client accounts, the Company is subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its clients in accordance with SEC Rule 15c3-3. At June 30, 2013, the Company had $440.1 million in cash segregated in a special reserve bank account for the exclusive benefit of clients. Included within this account balance, the Company holds approximately $62,000 for the Proprietary Accounts of Introducing Brokers.

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. Client receivables, primarily consisting of floating rate margin loans collateralized by client securities, are charged interest at rates similar to such other loans made within the industry.

Receivables from and Payables to Clients — Receivables from and payables to clients include amounts due on cash and margin transactions. The Company extends credit to its clients to finance their purchases of securities on margin. The Company receives income from interest charged on such extensions of credit. Payables to clients represent credit balances in client accounts arising from deposits of funds, proceeds from sales of securities, and dividend and interest payments received on securities held in client accounts. At June 30, 2013, $476.1 million of the balance represents free credit balances which are held pending re-investment by the

clients. The remaining balance of $11.7 million represents funds received from clients to support their trading activities, primarily as collateral for clients' short selling of securities.

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

Receivables From Product Sponsors, Broker-Dealers and Clearing Organizations — Receivables from product sponsors, broker-dealers and clearing organizations primarily consist of commission and transaction-related receivables.

Receivables From Others — Receivables from others primarily consists of other accrued fees from product sponsors and advisors. The Company periodically extends credit to its advisors in the form of recruiting loans, commission advances and other loans. The decisions to extend credit to advisors are generally based on either the advisor's credit history, their ability to generate future commissions, or both. Management maintains an allowance for uncollectible amounts using an aging analysis that takes into account the advisors' registration status and the specific type of receivable. The aging thresholds and specific percentages used represent management's best estimates of probable losses. Management monitors the adequacy of these estimates through periodic evaluations against actual trends experienced.

Securities Owned — Trading — Securities owned are reflected on a trade-date basis at fair value.

Securities Borrowed and Securities Loaned — Securities borrowed and securities loaned are accounted for as collateralized financings and are recorded at contract value, the amount of the cash provided for securities borrowed transactions and cash received for securities loaned (generally in excess of market values). The adequacy of the collateral deposited for securities borrowed is continuously monitored and adjusted when considered necessary to minimize the risk associated with this activity. The collateral received for securities loaned is generally cash and is adjusted daily through the National Securities Clearing Corporation's ("NSCC") net settlement process and is classified as payables to broker-dealers and clearing organizations in the unaudited statement of financial condition. Securities loaned generally represent client securities that can be hypothecated under standard margin loan agreements. Securities loaned are included in payables to broker-dealers and clearing organizations in the unaudited statement of financial condition. In May 2013, the Company ended its participation in the NSCC Stock Borrow Program and all pledged collateral was returned to the Company.

Fixed Assets — Furniture, equipment, computers, purchased software, capitalized software and leasehold improvements are recorded at historical cost, net of accumulated depreciation and amortization. Management reviews fixed assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable.

Software Development Costs — Software development costs include costs incurred in the development and enhancement of software used in connection with services provided by the Company that do not otherwise qualify for capitalization. The costs of internally developed software that qualify for capitalization are capitalized as fixed assets and subsequently amortized over the estimated useful life of the software, which is generally three years. The costs of internally developed software are included in fixed assets at the point at which the conceptual formulation, design and testing of possible software project alternatives are complete and management authorizes and commits to funding the project. The Company does not capitalize projects where it believes that the future economic benefits are less than probable.

Intangible Assets and Goodwill — The Company classifies intangible assets into two categories: (1) intangible assets with definite lives subject to amortization and (2) goodwill. The Company determines the useful lives of identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors considered when determining useful lives include the contractual term of any agreement, the history of the asset, the Company's long-term strategy for the use of the asset, any laws or other local

regulations which could impact the useful life of the asset, and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized over their useful lives, generally ranging from 5 - 20 years (see Note 6).

When facts and circumstances indicate that the carrying value of definite-lived intangible assets may not be recoverable, the Company assesses the recoverability of the carrying value by preparing estimates of future cash flows. The Company recognizes an impairment loss if the sum of the expected future cash flows (undiscounted and without interest charges) is less than the carrying amount. The impairment loss recognized is the amount by which the carrying amount exceeds the fair value. The Company uses a variety of methodologies to determine the fair value of these assets, including discounted cash flow models, which are consistent with the assumptions the Company believes hypothetical marketplace participants would use. No impairment occurred for the six months ended June 30, 2013.

Intangible assets with indefinite lives, such as goodwill, are not amortized. The Company tests goodwill for impairment annually, or more frequently if events or circumstances indicate that impairment has occurred. The Company performs its annual impairment review as of the first day of the fourth quarter (October 1). The goodwill impairment test begins with a qualitative assessment performed by management that uses a more-likely-than-not approach to determine whether there is a greater than 50 percent chance that the fair value of the reporting unit is less than the carrying value. If, after performing the qualitative assessment, management determines there is a less than 50 percent chance that the fair value of a reporting unit is less than its carrying amount, then performing the two-step process is unnecessary. No impairment occurred during the six months ended June 30, 2013.

If the Company deems the two-step test is necessary, the first step is to compare the fair value of a reporting unit to its carrying value, including goodwill. The Company typically uses an income approach methodology to determine the fair value of a reporting unit, which includes the discounted cash flow method and the market approach methodology that includes the use of market multiples. The assumptions used in these models are consistent with those the Company believes hypothetical marketplace participants would use. If the fair value of the reporting unit is less than its carrying value, the second step of the impairment test must be performed in order to determine the amount of impairment loss, if any. The second step compares the implied fair value of the reporting unit goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill.

As part of the qualitative assessment, the Company considers macroeconomic conditions such as general deterioration in economic conditions, limitations on accessing capital and other developments in equity and credit markets. The Company evaluates industry and market considerations for any deterioration in the environment in which the Company operates, the increased competitive environment, a decline in market-dependent multiples or metrics (considered in both absolute terms and relative to peers), any change in the market for products or services and regulatory and political developments. The Company assesses its overall financial performance, cost factors that would have a negative effect on earnings and prior quantitative assessments. No impairment occurred for the six months ended June 30, 2013.

Drafts Payable — Drafts payable represent checks drawn against the Company, which have not yet cleared through the bank. At June 30, 2013, the Company had amounts drawn of $146.7 million related to client activities and $8.4 million of corporate overdrafts.

Legal Reserves — The Company records reserves for legal proceedings in accounts payable and accrued liabilities in the unaudited statement of financial condition. The determination of these reserve amounts requires significant judgment on the part of management. Management considers many factors including, but not limited to, future legal expenses, the amount of the claim, the amount of the loss in the client's account, the basis and validity of the claim, the possibility of wrongdoing on the part of an advisor, likely insurance coverage, previous results in similar cases, and legal precedents and case law. Each legal proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management.

Commitments and Contingencies — The Company recognizes liabilities for contingencies when analysis indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. When a range of probable loss can be estimated, the Company accrues the most likely amount.

Income Taxes — As a single member limited liability corporation, the Company is considered similar to a corporate division and recognizes an allocation of income taxes in its financial statements because it has an income tax allocation agreement (the "Tax Agreement") with LPLH and LPLFH and is included in the consolidated federal and certain state income tax returns filed by LPLFH. In accordance with the terms of the Tax Agreement, the Company shall pay to or receive from LPLH an amount equal to the total provision for income taxes that the Company discloses on its financial statements, less the amount of certain income tax benefits that are excluded from the calculation of the total provision for income taxes in accordance with GAAP. Since the Tax Agreement calls for a cash settlement based on the total income tax provision, the Company does not reflect a separate deferred income tax provision and corresponding deferred tax assets or liabilities.

The Company recognizes the tax effects of a position in the unaudited statement of financial condition only if it is more-likely-than-not to be sustained based solely on its technical merits, otherwise no benefits of the position are recognized. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. Moreover, each tax position meeting the recognition threshold is required to be measured as the largest amount that is greater than 50 percent likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information.

Employee Healthcare Self-Insurance — The Company participates in self-insured employee healthcare programs administered by LPLH. LPLH estimates self-insurance costs with the assistance of insurance actuaries, based on historical experience and trends related to claims and payments, information provided by the insurance broker and industry experience. Self insurance costs are allocated to the Company based on rates comparable to market rates as set by LPLH's insurance actuaries. The Company is not liable for unfavorable claims and does not benefit from favorable experience.

Recently Issued Accounting Pronouncements — There were no recently issued accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2013, that are of significance, or potential significance, to the Company.

3. 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 fair value measurement classifications during the six months ended June 30, 2013.

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, 2013, 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 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. treasuries, mutual funds, certificates of deposit, traded equity securities 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 next interest reset dates. At June 30, 2013, the Company did not adjust prices received from the independent third-party pricing services. Securities sold, but not yet purchased are included in accounts payable and accrued liabilities in the unaudited statement of financial condition.

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at June 30, 2013 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurements
Assets				
Cash equivalents	$ 71,350	$ —	$ —	$ 71,350
Securities owned—trading:				
Money market funds	409	—	—	409
Mutual funds	5,820	—	—	5,820
Equity securities	118	—	—	118
Debt securities	—	787	—	787
U.S. treasury obligations	1,506	—	—	1,506
Total securities owned	7,853	787	—	8,640
Total assets at fair value	$ 79,203	$ 787	$ —	$ 79,990
Liabilities				
Securities sold but not yet purchased:				
Mutual funds	$ 9	—	—	$ 9
Equity securities	130	—	—	130
Debt securities	—	48	—	48
Certificates of deposit	—	45	—	45
Total securities sold but not yet purchased	139	93	—	232
Total liabilities at fair value	$ 139	$ 93	$ —	$ 232

4. Receivables from Product Sponsors, Broker-Dealers and Clearing Organizations and Payables to Broker-Dealers and Clearing Organizations

At June 30, 2013, receivables from product sponsors, broker-dealers and clearing organizations and payables to broker-dealers and clearing organizations are as follows (in thousands):

Receivables:	
Commissions receivable from product sponsors and others	$ 113,121
Receivables from clearing organizations	41,462
Securities failed-to-deliver	11,289
Receivables from broker-dealers	3,960
Total receivables	$ 169,832
Payables:	
Payables to clearing organizations	$ 12,250
Payables to broker-dealers	7,908
Securities failed-to-receive	3,226
Total payables	$ 23,384

The Company clears commodities transactions for its advisors through another broker-dealer on a fully disclosed basis. The amount payable to broker-dealers relates to the aforementioned transactions and is collateralized by securities owned by the Company.

5. Fixed Assets

The components of fixed assets at June 30, 2013, are as follows (in thousands):

Internally developed software	$ 137,985
Computers and software	73,927
Leasehold improvements	43,866
Furniture and equipment	12,889
Total fixed assets	268,667
Accumulated depreciation and amortization	(178,287)
Fixed assets—net	$ 90,380

Internally developed software, computers and purchased software have useful lives of three to seven years. Automobiles have useful lives of five years. Leasehold improvements are amortized over the lesser of their useful lives or the terms of the underlying leases.

6. Intangible Assets

At June 30, 2013, intangible assets are as follows (in thousands):

	Weighted Average Life Remaining (in years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Advisor relationships	13.3	$ 59,462	$ (11,553)	$ 47,909
Product sponsor relationships	13.1	27,917	(6,255)	21,662
Client relationships	11.4	11,626	(2,442)	9,184
Total		$ 99,005	$ (20,250)	$ 78,755

7. Bank Loans Payable

The Company maintains three uncommitted lines of credit. Two of the lines have an unspecified limit, and are primarily dependent on the Company's ability to provide sufficient collateral. The other line has a $200.0 million limit and allows for both collateralized and uncollateralized borrowings. The lines were utilized during the year; however, there were no balances outstanding at June 30, 2013.

8. Commitments and Contingencies

Leases — The Company leases certain office space and equipment at its headquarters locations under various operating leases. These leases are generally subject to scheduled base rent and maintenance cost increases, which are recognized on a straight-line basis over the period of the leases.

Service Contracts — The Company is party to certain long-term contracts for systems and services that enable its back office trade processing and clearance.

Future minimum payments under leases, lease commitments and other noncancellable contractual obligations with remaining terms greater than one year as of June 30, 2013, are approximately as follows (in thousands):

2013 — remainder	$	6,879
2014		22,679
2015		16,193
2016		14,752
2017		7,088
Thereafter		18,986
Total(1)	$	86,577

(1) In June 2013, the Company entered into a long-term contractual obligation with a third-party service provider to enhance the quality, speed and cost of processes that support the Company by outsourcing certain functions. The table above includes the minimum payments due over the duration of the contract. The contractual obligation may be canceled, subject to a termination penalty that is approximately equal to the initial annual minimum payment. The termination penalty steps down ratably through the passage of time. Minimum payments have not been reduced by this termination penalty.

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.

The Company also 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 may 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.

Litigation — The Company has been named as a defendant in various legal actions, substantially all of which are arbitrations. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, the Company cannot predict with certainty what the eventual loss or range of loss related to such matters will be. The Company recognizes a legal liability when it believes it is probable a liability has occurred and the amount can be reasonably estimated.

Other Commitments — As of June 30, 2013, the Company had received collateral primarily in connection with client margin loans with a market value of approximately $331.0 million, which it can sell or repledge. Of this amount, $24.8 million was pledged with client-owned securities to the Options Clearing Corporation as collateral to secure client obligations related to options positions. Additionally, approximately $132.9 million are held at banks in connection with unutilized secured margin lines of credit; these securities may be used as collateral for loans from these banks. The remainder of $173.3 million has not been re-pledged or sold, and as of June 30, 2013 there are no restrictions that materially limit the Company's ability to re-pledge or sell the $306.2 million of client collateral. In May 2013, the Company ended its participation in the NSCC Stock Borrow Program and all pledged collateral was returned to the Company.

As part of its brokerage operations, the Company periodically enters into when-issued and delayed delivery transactions on behalf of its clients. Settlement of these transactions after June 30, 2013, did not have a material impact on the Company's unaudited statement of financial condition.

The Company provides brokerage, clearing and custody services on a fully disclosed basis; offers its investment advisory programs and platforms; and provides technology and additional processing and related services to the financial advisors of the broker-dealer subsidiary of a large global insurance company and their

clients under a multi-year agreement. Termination fees may be payable by a terminating or breaching party, depending on the specific cause of termination.

9. Employee Benefit Plans

The Company has a 401(k) defined contribution plan. All employees meeting minimum age and length of service requirements are eligible to participate. The Company has an employer matching program whereby employer contributions are made to the 401(k) plan in an amount equal to 30% of the first 10% of the amount designated by the employee for withholding from their total compensation. Employees are eligible for matching contributions after completing one year of service.

10. Related-Party Transactions

In addition to transactions discussed elsewhere in the notes to the unaudited statement of financial condition, the Company has a variety of relationships with LPLFH and its subsidiaries under which it earns revenues for services provided and incurs expenses for services received. Unless a right of offset exists, the Company records intercompany transactions on a gross basis and amounts are classified on the unaudited statement of financial condition as due from or due to affiliates.

The Company has an intercompany service agreement to provide various infrastructure and broker-dealer support services to affiliates that are subsidiaries of LPLFH. As part of the agreement, the Company also receives client support services. In addition to the intercompany service agreement, the Company is party to other transactions that create additional intercompany balances. Intercompany activities for the six months ended June 30, 2013, included but were not limited to the Company's Tax Agreement resulting in a payable to LPLH, periodic settlement of allocated employee healthcare self-insurance costs and various other business transactions with commonly controlled entities of LPLFH.

Set forth below is a reconciliation of the Company's due from affiliates and due to affiliates as of June 30, 2013 (in thousands):

	Due from Affiliates	Due to Affiliates
LPL Holdings, Inc.	$ —	$ 50,711
UVEST Financial Services Group, Inc.	94	—
LPL Independent Advisor Services Group LLC	48	—
LPL Insurance Associates, Inc.	458	—
Independent Advisers Group Corporation	9	—
Concord Capital Partners, Inc.	—	31
Fortigent Holdings, Inc.	259	—
PTC Holdings, Inc.	21	—
NestWise LLC	73	—
Total	$ 962	$ 50,742

The Company transacts with certain entities in which its parent, LPLFH, has an equity interest or an affiliation through a majority shareholder, as described below:

Artisan Partners Limited Partnership (“Artisan”), a company with a minority interest by one of LPLFH's significant shareholders, pays fees to the Company in exchange for product distribution and record-keeping services. As of June 30, 2013, the Company had a receivable from Artisan of $1.0 million, which is included in receivables from product sponsors, broker-dealers and clearing organizations in the unaudited statement of financial condition.

11. Net Capital and Regulatory Requirements

As a registered broker-dealer, the Company is subject to the SEC's Uniform Net Capital Rule, which requires the maintenance of minimum net capital. The Company uses the alternative method, permitted by the rule, which requires that it maintain minimum net capital, as defined, equal to the greater of $250,000 or 2% of aggregate debit balances arising from clients' transactions. The Company is also subject to the National Futures Association's ("NFA") financial requirements and is required to maintain net capital that is in excess of or equal to the greatest of its minimum financial requirements. Currently the highest NFA requirement is the minimum net capital calculated pursuant to the SEC's Uniform Net Capital Rule. At June 30, 2013, the Company had net capital of $181.1 million, which was $175.1 million in excess of its minimum required net capital.

The Company operates in a highly regulated industry. Applicable laws and regulations restrict permissible activities and investments. These policies require compliance with various financial and client-related regulations. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions. In addition, the Company is also subjected to comprehensive examinations and supervision by various governmental and self-regulatory agencies. These regulatory agencies generally have broad discretion to prescribe greater limitations on the operations of a regulated entity for the protection of investors or public interest. Furthermore, where the agencies determine that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with the laws and regulations or with the supervisory policies, greater restrictions may be imposed.

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

The Company's client securities activities are transacted on either a cash or margin basis. In margin transactions, the Company extends credit to the 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, the Company 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, the Company monitors margin levels daily and clients are required to deposit additional collateral, or reduce positions, when necessary.

The Company is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligation to the Company. Clients are required to complete their transactions on the settlement date, generally three business days after the trade date. If clients do not fulfill their contractual obligations, the Company 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. The Company has established procedures to reduce this risk by generally requiring that clients deposit cash and/or securities into their account prior to placing an order.

The Company may at times maintain inventories in equity securities on both a long and short basis that are recorded in the unaudited statement of financial condition at market value. While long inventory positions represent the Company's ownership of securities, short inventory positions represent obligations of the Company 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 the Company 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 the Company.

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Statement of Financial Condition filed pursuant to Rule 17a-5(e)(3) under the Securities Exchange Act of 1934 is available for inspection at the principal office of the Company and at the Boston Regional Office of the Commission.