LPL Financial

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LPL Financial Corporation

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

Statement of Financial Condition

June 30, 2011
Unaudited

LPL FINANCIAL LLC
STATEMENT OF FINANCIAL CONDITION
AS OF JUNE 30, 2011
(UNAUDITED)
(Dollars in thousands)

ASSETS

Cash and cash equivalents	$	269,331
Cash and securities segregated under federal and other regulations		224,695
Receivables from:		
Clients, net of allowance of $656		288,185
Product sponsors, broker-dealers and clearing organizations		153,400
Others, net of allowances of $6,347		123,756
Due from affiliates (Note 11)		20,298
Securities owned—trading (including $900 pledged as collateral)		9,539
Securities borrowed		11,550
Fixed assets, net of accumulated depreciation and amortization of $195,550		64,182
Goodwill		24,187
Intangible assets, net of accumulated amortization of $14,829		60,366
Prepaid expenses		32,156
Other assets		11,203
Total assets	$	1,292,848

LIABILITIES AND MEMBER'S EQUITY

LIABILITIES:		
Drafts payable	$	137,353
Payables to clients		413,615
Payables to broker-dealers and clearing organizations		40,710
Accrued commissions and advisory fees payable		102,022
Accounts payable and accrued liabilities		91,119
Due to affiliates (Note 11)		858
Securities sold but not yet purchased—at fair value		3,635
Unearned revenue		63,029
Total liabilities		852,341
COMMITMENTS AND CONTINGENCIES (Notes 10 and 14)		
MEMBER'S EQUITY		440,507
Total liabilities and member's equity	$	1,292,848

See notes to statement of financial condition.

LPL FINANCIAL LLC
NOTES TO STATEMENT OF FINANCIAL CONDITION
AS OF JUNE 30, 2011
(UNAUDITED)

1. ORGANIZATION AND DESCRIPTION OF THE COMPANY

LPL Financial LLC (“LPL Financial” or the “Company”), 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. The Company is also registered as a Futures Commission Merchant with the Commodity Futures Trading Commission (“CFTC”) and is a member of the National Futures Association. The Company is a wholly owned subsidiary of LPL Holdings, Inc. (“LPLH”), a Massachusetts holding corporation, which is a wholly owned subsidiary of LPL Investment Holdings Inc. (“LPLIH”), a Delaware holding corporation.

The Company provides an integrated platform of technology, 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 proprietary technology, custody and clearing platforms, 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”).

The Company’s futures activities are limited to conducting business as a guaranteed introducing broker. As a guaranteed introducing broker, the Company 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 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 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 statement of financial condition. The Company has evaluated subsequent events up to and including the date this statement of financial condition was 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, 2011, the Company had $224.7 million in cash segregated in a special reserve bank account for the exclusive benefit of clients. Included within this account balance, the Company holds $10,000 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. The Company pays interest on certain client free credit balances held pending investment. Loans to clients are generally fully collateralized by client securities, which are not included in the statement of financial condition.

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 and Securities Sold but not yet Purchased—Securities owned and securities sold but not yet purchased 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 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. At June 30, 2011, the Company had $11.6 million in securities borrowed. The collateral received for securities loaned is generally cash and is adjusted daily through the Depository Trust Company's ("DTC") net settlement process and is included in payables to broker-dealers and clearing organizations in the statement of financial condition. Securities loaned generally represent client securities that can be hypothecated under standard margin loan agreements. At June 30, 2011, the Company had $14.6 million of hypothecated securities loaned under the DTC Stock Borrow Program.

Fixed Assets**—**Furniture, equipment, computers, purchased software, capitalized software and leasehold improvements are recorded at historical cost, net of accumulated depreciation and amortization. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of their useful lives or the terms of the underlying leases. Equipment, furniture, fixtures and purchased software are depreciated over periods of three to seven years. Automobiles have depreciable lives of five years. 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 are charged to operations as incurred. 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 pilot projects and projects where it believes that the future economic benefits are less than probable.

Goodwill and Intangible Assets—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 on a straight-line basis over their useful lives, generally ranging from 5 to 20 years. See Note 7 for further discussion.

Intangible assets with definite lives include relationships with advisors and product sponsors. 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 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, 2011.

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 consists of a two-step process, if necessary. The first step is to compare the fair value of the Company to its carrying value, including goodwill. The Company typically uses discounted cash flow models to determine the fair value. The assumptions used in these models are consistent with those the Company believes hypothetical marketplace participants would use. If the fair value 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 goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill exceeds the 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. No impairment occurred for the six months ended June 30, 2011.

Drafts Payable—Drafts payable represent checks drawn against the Company, which have not yet cleared through the bank. At June 30, 2011, the Company had amounts drawn of $125.0 million related to client activities and $12.4 million of corporate overdrafts.

Legal Reserves—The Company records reserves for legal proceedings in accounts payable and accrued liabilities in the 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.

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 LPLIH and is included in the consolidated federal and certain state income tax returns filed by LPLIH. 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 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 to be 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.

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.

Recently Issued Accounting Pronouncements—In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, *Fair Value Measurement (Topic 820) — Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs* ("ASU 2011-04"), which clarifies the wording and disclosures required in Accounting Standards Codification ("ASC") Topic 820, *Fair Value Measurement* ("ASC 820"), to converge with those used in International Financial Reporting Standards. The update explains how to measure and disclose fair value under ASC 820. However, the FASB does not expect the changes in this standard's update to alter the current application of the requirements in ASC 820. The provisions of ASU 2011-04 are effective for public entities prospectively for interim and annual periods beginning after December 15, 2011, and early adoption is prohibited. Therefore, ASU 2011-04 is effective for the Company during the first quarter of fiscal 2012. The Company does not expect ASU 2011-04 to have a material effect on its statement of financial condition.

In June 2011, the FASB issued ASU No. 2011-05, *Comprehensive Income (ASC Topic 220) Presentation of Comprehensive Income* ("ASU 2011-05"), which amends current comprehensive income guidance by eliminating the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011, with early adoption permitted. The Company does not anticipate the adoption of ASU 2011-05 to have an impact on its statement of financial condition.

3. ACQUISITION OF NATIONAL RETIREMENT PARTNERS, INC.

On July 14, 2010, the Company announced a definitive agreement pursuant to which it would acquire certain assets of National Retirement Partners, Inc. ("NRP"). NRP's advisors offer products and consulting, design and investment services to retirement plan sponsors and participants and comprehensive financial services to high net worth individuals. This strategic acquisition further enhances the capabilities and presence of the Company in the group retirement space.

On February 9, 2011, the transaction closed. The Company paid $17.2 million at the closing of the transaction. As of June 30, 2011, $3.7 million remains in an escrow account subject to adjustment pursuant to the terms of the asset purchase agreement. Such amount has been classified by the Company as restricted cash and is included in other assets on the statement of financial condition.

The Company may be required to pay future consideration to former shareholders of NRP that is contingent upon the achievement of certain revenue-based milestones in the third year following the acquisition. There is no maximum amount of contingent consideration; however, as of the acquisition date, the Company estimates the total fair value of contingent consideration to be $5.3 million. At the acquisition date, $2.0 million of the contingent liability had been paid in advance and the remainder of $3.3 million was recorded within accounts payable and accrued liabilities on the statement of financial condition. Including the provisional contingent consideration, the total consideration for the acquisition was $24.2 million.

Set forth below is a reconciliation of NRP assets acquired and liabilities assumed during the six months ended June 30, 2011 (in thousands):

Goodwill	$ 12,574
Intangibles	11,800
Accounts payable and accrued liabilities	(190)
Net assets acquired	$ 24,184

The Company preliminarily allocated the estimated purchase price of NRP to specific amortizable intangible asset categories as follows (dollars in thousands):

	Amortization Period	Amount Assigned
Client relationships	11.0 years	4,730
Advisor relationships	9.0 years	4,080
Product sponsor relationships	4.0 years	2,990
Total intangible assets acquired from NRP		$ 11,800

Pro-forma information related to the acquisition was not included because the impact on the Company's statement of financial condition was not considered to be material.

4. 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.

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, 2011, 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, 2011, the Company did not adjust prices received from the independent third-party pricing services.

Accounts Payable and Accrued Liabilities — The Company's accounts payable and accrued liabilities include contingent consideration from its acquisition of NRP. See Note 3 for more information regarding the acquisition and related contingent consideration.

There have been no transfers of assets or liabilities between fair value measurement classifications during the six months ended June 30, 2011.

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at June 30, 2011 (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	$ 143,565	$ —	$ —	$ 143,565
Securities owned—trading:				
Money market funds	529	—	—	529
Mutual funds	7,262	—	—	7,262
Equity securities	10	—	—	10
Debt securities	—	838	—	838
U.S. treasury obligations	900	—	—	900
Total securities owned	8,701	838	—	9,539
Total assets at fair value	$ 152,266	$ 838	$ —	$ 153,104
Liabilities				
Securities sold but not yet purchased:				
Mutual funds	$ 3,313	$ —	$ —	$ 3,313
Equity securities	162	—	—	162
Certificates of deposit	—	25	—	25
Debt securities	—	135	—	135
Total securities sold but not yet purchased	3,475	160	—	3,635
Accounts payable and accrued liabilities	—	—	3,569	3,569
Total liabilities at fair value	$ 3,475	$ 160	$ 3,569	$ 7,204

Changes in Level 3 Recurring Fair Value Measurements

Set forth below is a reconciliation of contingent consideration classified as accounts payable and accrued liabilities on the unaudited consolidated statement of financial condition and measured at fair value on a recurring basis using significant unobservable inputs (Level 3). Contingent consideration is measured by discounting, to present value, the contingent payments expected to be made based on the Company's estimates of certain financial targets expected to result from the acquisitions.

Six Months Ended June 30, 2011 (in thousands):

Fair value at December 31, 2010	$ —
Issuances of contingent consideration	5,300
Total unrealized losses included in earnings	269
Payments	(2,000)
Fair value at June 30, 2011	$ 3,569

5. RECEIVABLES FROM PRODUCT SPONSORS, BROKER-DEALERS AND CLEARING ORGANIZATIONS AND PAYABLES TO BROKER-DEALERS AND CLEARING ORGANIZATIONS

At June 30, 2011, 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	$ 98,470
Receivables from clearing organizations	43,933
Receivables from broker-dealers	2,210
Securities failed-to-deliver	8,787
Total receivables	$ 153,400
Payables:	
Securities loaned	$ 14,607
Securities failed-to-receive	11,668
Payables to broker-dealers	428
Payables to clearing organizations	14,007
Total payables	$ 40,710

Securities loaned represent amounts due to DTC for collateral received in participation with its stock borrow program.

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.

6. FIXED ASSETS

The components of fixed assets at June 30, 2011, are as follows (in thousands):

Internally developed software	$ 124,616
Computers and software	81,603
Leasehold improvements	39,093
Furniture and equipment	14,420
Total fixed assets	259,732
Accumulated depreciation and amortization	(195,550)
Fixed assets—net	$ 64,182

7. GOODWILL AND INTANGIBLE ASSETS

A summary of the activity in goodwill is presented below (in thousands):

Balance at December 31, 2010	$ 11,613
Acquisition of NRP (Note 3)	12,574(1)
Balance at June 30, 2011	$ 24,187

(1) This is a provisional amount and is subject to change (see Note 3).

At June 30, 2011, intangible assets are as follows (in thousands):

	Gross Carrying Amount	Accumulated Amortization	Net Carrying Value
Advisor relationships	$ 51,708	$ (12,774)	$ 38,934
Client relationships	4,730	(236)	4,494
Product sponsor relationships	18,757	(1,819)	16,938
Total intangible assets	$ 75,195	$ (14,829)	$ 60,366

8. 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 $150.0 million limit and allows for both collateralized and uncollateralized borrowings. The lines were utilized during the six months ended June 30, 2011; however, there were no balances outstanding at June 30, 2011.

9. 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, 2011, are approximately as follows (in thousands):

2011	$ 13,861
2012	22,621
2013	13,582
2014	8,455
2015	6,168
Thereafter	5,724
Total	$ 70,411

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, including 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

Other Commitments—The Company is required to maintain deposits with certain clearing organizations. At June 30, 2011, the Company had pledged $16.1 million and $14.6 million of client-owned securities with the Options Clearing Corporation and DTC, respectively.

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, 2011, did not have a material impact on the Company's statement of financial condition.

LPL Financial provides a large global insurance company with 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 its advisors and their clients. The agreements were entered into in 2006 with five year terms, subject to additional 24-month extensions upon mutual agreement by the parties. Termination fees may be payable by a terminating or breaching party depending on the specific cause of termination.

10. 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% designated by the employee for withholding.

11. RELATED-PARTY TRANSACTIONS

In addition to transactions discussed elsewhere in the notes to the statement of financial condition, the Company has a variety of relationships with LPLIH and its subsidiaries. Unless a right of offset exists, the Company records intercompany transactions on a gross basis and amounts are classified on the 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 indirect wholly owned subsidiaries of LPLH. 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, 2011, included but were not limited to the Company's Tax Agreement resulting in receipts from LPLH, periodic settlement of allocated employee healthcare self-insurance costs, settlement for the transfer of intangible assets from UVEST and various other business transactions with commonly controlled entities of LPLIH.

Set forth below is a reconciliation of the Company's due from affiliates and due to affiliates as of June 30, 2011 (in thousands):

	Due from Affiliates	Due to Affiliates
LPL Holdings, Inc.	$ 18,986	—
UVEST Financial Services Group, Inc.	786	—
LPL Insurance Associates, Inc.	—	185
Independent Advisers Group Corporation	59	—
PTC Holdings, Inc.	55	—
Mutual Service Corporation	—	648
Associated Financial Group, Inc.	12	—
Associated Securities Corp.	—	25
Waterstone Financial Group, Inc.	400	—
Total	$ 20,298	$ 858

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

Artisan Partners Limited Partnership ("Artisan"), a company majority-owned by one of LPLIH's majority shareholders, pays fees to the Company in exchange for product distribution and record-keeping services. As of June 30, 2011, the Company had a receivable from Artisan of $0.8 million, which is included in receivables from product sponsors, broker-dealers and clearing organizations in the statement of financial condition.

12. 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 plus 1% of net commission payable, as defined. The Company is also subject to the CFTC's minimum financial requirements, which require that it maintain net capital, as defined, equal to 4% of client funds required to be segregated pursuant to the Commodity Exchange Act, less the market value of certain commodity options, all as defined. At June 30, 2011, the Company had net capital of $93.0 million, which was $86.6 million in excess of its minimum required net capital.

The Company operates in a highly regulated industry. Applicable laws and regulation 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.

13. 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. 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 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 and Regulation 1.10(g) under the Commodity Exchange Act is available for inspection at the principal office of the Company and at the Boston Regional Office of the Commission.