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Form 10-Q
October 30, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from to

Commission File Number: 001-34963

LPL Financial Holdings Inc.

(Exact name of registrant as specified in its charter)

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

75 State Street, Boston, MA 02109

(Address of Principal Executive Offices) (Zip Code)

(617) 423-3644

(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

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

Large accelerated filer x Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)

Smaller reporting company o

Emerging growth company o

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

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

The number of shares of Common Stock, par value $0.001 per share, outstanding as of October 22, 2018 was 86,711,957.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements, and other information required by the Securities Exchange Act of 1934, as amended ("Exchange Act"), with the Securities and Exchange Commission ("SEC"). You may read and copy any document we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's internet site at *http://www.sec.gov*.

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Quarterly Report on Form 10-Q regarding the Company's future financial and operating results, outlook, growth, plans, business strategies, liquidity, future share repurchases and future dividends, including statements regarding future resolution of regulatory matters, legal proceedings and related costs, future revenues and expenses, and projected savings and anticipated improvements to the Company's operating model, services, and technologies as a result of its initiatives, programs and/or acquisitions, as well as any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. These forward-looking statements are based on the Company's historical performance and its plans, estimates, and expectations as of October 30, 2018. The words "anticipates," "believes," "expects," "may," "plans," "predicts," "will," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future results, plans, intentions, or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive, and other factors, which may cause actual financial or operating results, levels of activity, or the timing of events, to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in general economic and financial market conditions, including retail investor sentiment; changes in interest rates and fees payable by banks participating in the Company's cash sweep program, including the Company's success in negotiating agreements with current or additional counterparties; the Company's strategy in managing cash sweep program fees; fluctuations in the levels of brokerage and advisory assets, including net new assets, and the related impact on fee revenue; effects of competition in the financial services industry; the success of the Company in attracting and retaining financial advisors and institutions, and their ability to market effectively financial products and services; changes in the growth and profitability of the Company's fee-based business; the effect of current, pending, and future legislation, regulation, and regulatory actions, including with respect to retail retirement savings and disciplinary actions imposed by federal and state regulators and self-regulatory organizations; the costs of settling and remediating issues related to past, pending or future regulatory matters or legal proceedings; changes made to the Company's offerings and services in response to current, pending, and future legislation, regulation, and regulatory actions, and the effect that such changes may have on the Company's gross profit streams and costs; execution of the Company's capital management plans, including its

compliance with the terms of its credit agreement and the indenture governing its senior notes; the price, the availability of shares, and trading volumes of the Company's common stock, which will affect the timing and size of future share repurchases by the Company; execution of the Company's plans and its success in realizing the synergies, expense savings and service improvements and efficiencies expected to result from its initiatives and programs, including its acquisition of the broker-dealer network of National Planning Holdings, Inc. and its expense plans and technology initiatives; the performance of third-party service providers to which business processes are transitioned; the Company's ability to control operating risks, information technology systems risks, cybersecurity risks, and sourcing risks; and the other factors set forth in Part I, "Item 1A. Risk Factors" in the Company's 2017 Annual Report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A filed on

February 27, 2018 (collectively, the "2017 Annual Report on Form 10-K"), as may be amended or updated in the Company's Quarterly Reports on Form 10-Q. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this quarterly report, even if its estimates change, and you should not rely on statements contained herein as representing the Company's views as of any date subsequent to the date of this quarterly report.

PART I — FINANCIAL INFORMATION

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

Business Overview

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

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

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

Executive Summary

Financial Highlights

Net income for the third quarter of 2018 was $106.9 million or $1.19 per share, which compares to $58.1 million, or $0.63 per share, in the third quarter of 2017. Increased advisory fee revenue and cash sweep revenue contributed to the earnings per share growth.

Asset Growth Trends

Total brokerage and advisory assets served were $681.0 billion as of September 30, 2018, up 22% from $560.0 billion as of September 30, 2017. Total net new assets were $4.4 billion for the three months ended September 30, 2018, compared to $2.9 billion for the same period in 2017.

Net new advisory assets were $5.1 billion for the three months ended September 30, 2018, compared to $6.9 billion in the same period in 2017. As of September 30, 2018, our advisory assets had grown to $306.1 billion from the prior year balance of $250.2 billion and represented 45% of total brokerage and advisory assets served.

Net new brokerage assets were an outflow of $0.8 billion for the three months ended September 30, 2018, compared to an outflow of $4.0 billion for the same period in 2017. As of September 30, 2018, our brokerage assets had grown to $374.9 billion from $309.8 billion as of September 30, 2017.

Gross Profit Trends

Gross profit, a non-GAAP financial measure, was $493.2 million for the three months ended September 30, 2018, an increase of 27.5% in comparison to $386.9 million for the quarter ended September 30, 2017. Management presents gross profit, which is calculated as net revenues less commission and advisory expenses and brokerage, clearing, and exchange fees, because we believe that measure may be useful to investors in evaluating the Company's core operating performance before indirect costs that are general and administrative in nature. See footnote 8 to the Financial Metrics table within the "How We Evaluate Our Business" section for additional information on gross profit. The increase in period-over-period gross profit was primarily due to increases in cash sweep revenue from the impact of the increases in the target range for the federal funds effective rate in 2017 through September 2018, increases in advisory revenues resulting from net new assets, and market gains as represented by higher levels of the S&P 500 index.

Shareholder Capital Returns

We returned $144.4 million of capital to shareholders during the three months ended September 30, 2018, including $21.9 million of dividends and $122.5 million of share repurchases, representing 1,849,027

shares.

1

Our Sources of Revenue

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

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

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

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

How We Evaluate Our Business

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

Operating Metrics (dollars in billions) (balances may not foot due to rounding)	**Nine Months Ended September 30,**		
	2018	**2017**	**% Change**
Advisory assets[1][2]	$306.1	$250.2	22 %
Brokerage assets[1][3]	374.9	309.8	21 %
Total Brokerage and Advisory Assets served(in billions)[1]	**$681.0**	**$560.0**	**22 %**
Net new advisory assets[4]	$22.6	$18.8	n/m
Net new brokerage assets[5]	23.2	(12.9)	n/m
Total Brokerage and Advisory Net New Assets	**$45.8**	**$5.9**	**n/m**
Insured cash account balances[1]	$21.0	$21.9	(4 %)
Deposit cash account balances[1]	3.9	4.1	(5 %)
Money market account balances[1]	3.3	2.3	43 %
Total Cash Sweep Balances	**$28.2**	**$28.3**	**— %**
Advisors	16,174	14,253	13 %

Financial Metrics (dollars in millions, except per share data)	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
	2018	**2017**	**2018**	**2017**
Total net revenues	$1,331.0	$1,064.1	$3,871.4	$3,165.0
Recurring gross profit rate (trailing twelve months)[6]	85.0 %	82.2 %	85.0 %	82.2 %
Pre-tax income	$147.4	$96.6	$430.2	$284.7
Net income	$106.9	$58.1	$319.2	$174.8
Earnings per share, diluted	$1.19	$0.63	$3.49	$1.90
Non-GAAP Financial Measures[7]				
Gross profit[8]	$493.2	$386.9	$1,439.9	$1,151.6
Gross profit growth from prior period[8]	27.5 %	11.5 %	25.0 %	9.9 %
Gross profit as a % of net revenue[8]	37.1 %	36.4 %	37.2 %	36.4 %

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

(2) Advisory assets consists of total advisory assets under custody at our broker-dealer subsidiary, LPL Financial LLC (“LPL Financial”), consisting of total assets on LPL Financial's corporate advisory platform serviced by investment advisor representatives of LPL Financial and 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. See “Results of Operations” for a tabular presentation of advisory assets.

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

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

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

(6) Recurring gross profit rate refers to the percentage of our gross profit, a non-GAAP financial measure, that was recurring for the trailing twelve months ended September 30, 2018 or September 30, 2017, as applicable. We track recurring gross profit, a characterization of gross profit and a statistical measure, which is defined to include our revenues from asset-based fees, advisory fees, trailing commissions, cash sweep programs, and certain other fees that are based upon the number of client accounts and advisors, less the expenses associated with such revenues and certain other recurring expenses not specifically associated with a revenue line. We allocate such other recurring expenses, such as non-GDC sensitive production expenses, on a pro-rata basis against specific revenue lines at our discretion. Because certain sources of recurring gross profit are associated with asset balances, they will fluctuate depending on the market values and current interest rates. Accordingly, our recurring gross profit can be negatively impacted by adverse external market conditions. However, we believe that recurring gross profit is meaningful despite these fluctuations because it is not dependent upon transaction volumes or other activity-based revenues, which are more difficult to predict, particularly in declining or volatile markets.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
Gross Profit (in millions)	**2018**	**2017**	**2018**	**2017**
Total net revenues	$1,331.0	$1,064.1	$3,871.4	$3,165.0
Commission and advisory expense	822.0	663.8	2,384.3	1,971.9
Brokerage, clearing, and exchange fees	15.8	13.4	47.2	41.5
Gross profit	**$493.2**	**$386.9**	**$1,439.9**	**$1,151.6**

Legal & Regulatory Matters

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

subsidiary, which is chartered with the insurance commissioner in the state of Tennessee. Assessing the probability of a loss occurring and the timing and amount of any loss related to a regulatory matter or a legal proceeding is inherently difficult and requires judgments based on a variety of factors and assumptions. There are particular uncertainties and complexities involved when assessing the potential liabilities that are self-insured by our captive insurance subsidiary.

Our accruals, including those established through the captive insurance subsidiary at September 30, 2018, include estimated costs for significant regulatory matters, generally relating to the adequacy of our compliance and

supervisory systems and procedures and other controls, for which we believe losses are both probable and reasonably estimable. For example, on May 1, 2018, we agreed to a settlement structure with the North American Securities Administrators Association related to our historical compliance with certain state “blue sky” laws. We are in the process of entering into separate administrative orders with 53 jurisdictions, which would result in aggregate fines of approximately $26.4 million. As part of the settlement structure, we agreed to engage independent third party consultants to conduct a historical review of certain equity and fixed income securities transactions, as well as an operational review of our systems for complying with blue sky securities registration requirements. We also agreed to offer remediation to customers who purchased certain equity and fixed-income securities since October 2006. We expect to incur costs related to this matter over the next few years, and we expect the majority of these costs to be covered by our captive insurance subsidiary or expense plans as of September 30, 2018.

The outcome of regulatory matters could result in legal liability, regulatory fines, or monetary penalties in excess of our accruals and insurance, which could have a material adverse effect on our business, results of operations, cash flows, or financial condition. For more information on management’s loss contingency policies, see Note 9. *Commitments and Contingencies*, within the notes to the unaudited condensed consolidated financial statements.

In June 2018, the U.S. Court of Appeals for the Fifth Circuit issued a mandate invalidating regulations previously enacted by the U.S. Department of Labor (“DOL”) that expanded the definition of “fiduciary” and would have resulted in significant new restrictions on our servicing of certain retirement plan accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and individual retirement accounts (“IRAs”), including compliance with expanded prohibited transaction requirements under section 4975 of the Internal Revenue Code (the “DOL Rule”). However, in April 2018, the SEC introduced a proposal for a best interest standard for retail brokerage accounts (the “SEC Rule”). Certain state securities and insurance regulators have adopted or are considering adopting similar laws and regulations. In addition, it is unclear how and whether other regulators – including FINRA, banking regulators, and the state securities and insurance regulators – may respond to or attempt to enforce similar issues addressed by the former DOL Rule and the proposed SEC Rule.

Because ERISA plans and IRAs comprise a significant portion of our business, we continue to expect that compliance with current and future laws and regulations governing retail retirement savings, including reliance on prohibited transaction exemptions under such laws and regulations, will require increased legal, compliance, information technology, and other costs and could lead to a greater risk of class action lawsuits and other litigation. Moreover, uncertainty regarding the status of further guidance or rulemaking from the DOL, as well as pending and future laws and regulations, including the SEC Rule and state rules, relating to the standards of conduct applicable to both retirement and non-retirement accounts, impacts on our business in ways which cannot be anticipated or planned for, and which may have further impact on our products and services, and results of operations.

Acquisitions, Integrations, and Divestitures

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

On August 15, 2017, LPL Financial entered into an asset purchase agreement (the “Asset Purchase Agreement”) with National Planning Holdings, Inc. (“NPH”), and its four broker-dealer subsidiaries (collectively with NPH, the “NPH Sellers”) to acquire certain assets and rights of the NPH Sellers, including business relationships with financial advisors who became affiliated with LPL Financial (the “NPH Acquisition”). We paid $325 million to the NPH Sellers at closing, which occurred on August 15, 2017, and agreed to a potential contingent payment of up to $122.8 million. The conversion period under the Asset Purchase Agreement concluded in the first quarter of 2018, and no resulting contingent payment was due to the NPH Sellers. We incurred increased costs related to this transaction, including compensation and benefits expense related to the additional staffing, as well as contingent labor costs, needed to support the onboarding of NPH advisors and their clients to our systems, and fees for account closure and transfers

that we agreed to pay on behalf of NPH advisors under the Asset Purchase Agreement. Although these onboarding costs were substantially complete prior to the third quarter of 2018, we expect to continue to incur increased costs related to providing ongoing support to the increased numbers of advisors, clients, and total assets served on our platform, as well as financial assistance costs for advisors that joined LPL Financial. See Note 4 *Acquisitions*, within the notes to the unaudited condensed consolidated financial statements for further detail.

Economic Overview and Impact of Financial Market Events

Our business is directly and indirectly sensitive to several macroeconomic factors and the state of the U.S. financial markets. In the United States, economic data continued to point to steady economic growth through September 30, 2018. According to the most recent estimate by the Bureau of Economic Analysis, real gross domestic product ("GDP") grew at an annualized rate of 4.2% in the second quarter of 2018 and 3.0% compared to the second quarter a year ago. Data received in the third quarter suggest continued steady growth with a healthy labor market, stable consumer spending, signs of improved business investment, and low interest rates relative to historical rates. U.S. business and consumer confidence remained elevated, with only modest declines since the run-up following the U.S. elections in November 2016. Inflation picked up with improved economic growth but remained contained. While the overall data were largely positive, concerns about U.S. trade policy increased, with some anecdotal evidence that uncertainty led some businesses to scale back capital spending plans. The Federal Reserve's ("Fed") most recent median projection for 2018 GDP put growth at 3.1%, with slower but still above-trend 2.5% growth in 2019. Growth in this range could further tighten the labor market, push wages higher, and increase the probability the Fed will follow through on its median projection of four rate hikes in total in 2018 and three in 2019.

U.S. stocks returned 7.7% during the third quarter, based on the S&P 500 Index, bringing the year-to-date total return for the index to 10.6% through September 30, 2018. U.S. stocks outpaced international developed and, in particular, emerging market stocks as measured by MSCI indexes. Emerging market stocks fell over the quarter and entered bear market territory (a price decline of more than 20%) in September. Bonds were flat during the quarter in the face of rising interest rates, based on the Bloomberg Barclays Aggregate Bond Index. The 10-year Treasury yield continued to push higher, ending the third quarter above 3.0%. At the same time, credit spreads for high yield corporate bonds finished the quarter near their tightest of the expansion, signaling investor confidence in the ability of bond issuers to meet their obligations.

Our business is also sensitive to current and expected short-term interest rates, which are largely driven by Fed policy. Please consult the Risks Related to Our Business and Industry section within Part I, "Item 1A. Risk Factors" in our 2017 Annual Report on Form 10-K for more information about the risks associated with significant interest rate changes, and the potential related effects on our profitability and financial condition. Following the conclusion of its September 25-26, 2018 policy meeting, the Fed's policy arm, the Federal Open Market Committee ("FOMC") raised the target range of the federal funds rate to 2.00 - 2.25%, its third hike of 2018 and eighth of the expansion. Projection materials that accompanied the statement indicated a median expectation of one additional rate hike in 2018 and three in 2019. Growth expectations rose slightly from the prior set of forecasts for 2018 and 2019, while inflation expectations were largely unchanged. The policy statement indicated that the current policy of gradual rate increases was expected to continue but would remain data dependent.

Results of Operations

The following discussion presents an analysis of our results of operations for the three and nine months ended September 30, 2018 and 2017. Where appropriate, we have identified specific events and changes that affect comparability or trends, and where possible and practical, have quantified the impact of such items.

	Three Months Ended September 30,			Nine Months Ended September 30,		
(In thousands)	**2018**	**2017**	**% Change**	**2018**	**2017**	**% Change**
REVENUES						
Commission	$486,875	$403,011	20.8 %	$1,449,771	$1,244,881	16.5 %
Advisory	458,087	356,945	28.3 %	1,319,391	1,033,319	27.7 %
Asset-based	248,895	183,953	35.3 %	706,834	514,626	37.3 %
Transaction and fee	118,941	103,999	14.4 %	352,045	321,522	9.5 %
Interest income, net of interest expense	10,512	6,162	70.6 %	28,426	17,931	58.5 %
Other	7,687	10,038	(23.4)%	14,891	32,760	(54.5)%
Total net revenues	1,330,997	1,064,108	25.1 %	3,871,358	3,165,039	22.3 %
EXPENSES						
Commission and advisory	821,950	663,765	23.8 %	2,384,266	1,971,874	20.9 %
Compensation and benefits	128,007	113,659	12.6 %	373,884	337,170	10.9 %
Promotional	52,628	42,935	22.6 %	163,462	111,595	46.5 %
Depreciation and amortization	22,838	21,996	3.8 %	65,759	63,933	2.9 %
Amortization of intangible assets	15,676	9,352	67.6 %	44,580	28,296	57.5 %
Occupancy and equipment	30,308	22,803	32.9 %	84,848	70,989	19.5 %
Professional services	23,129	16,438	40.7 %	61,223	50,732	20.7 %
Brokerage, clearing, and exchange	15,844	13,491	17.4 %	47,154	41,567	13.4 %
Communications and data processing	12,334	10,866	13.5 %	34,546	32,525	6.2 %
Other	29,219	24,376	19.9 %	88,175	71,140	23.9 %
Total operating expenses	1,151,933	939,681	22.6 %	3,347,897	2,779,821	20.4 %
Non-operating interest expense	31,705	26,519	19.6 %	93,267	78,131	19.4 %
Loss on extinguishment of debt	—	1,268	(100.0)%	—	22,407	(100.0)%
INCOME BEFORE PROVISION FOR INCOME TAXES	147,359	96,640	52.5 %	430,194	284,680	51.1 %
PROVISION FOR INCOME TAXES	40,494	38,498	5.2 %	111,033	109,915	1.0 %
NET INCOME	$106,865	$58,142	83.8 %	$319,161	$174,765	82.6 %

Revenues

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers: Topic 606*, to supersede nearly all existing revenue recognition guidance under accounting principles generally accepted in the United States ("GAAP"). We adopted the provisions of this guidance on January 1, 2018 using the modified retrospective approach. The adoption did not have a material impact on the timing or amounts of our revenue recognition but impacted the disclosures within the notes to the consolidated financial statements.

Commission Revenues

We generate two types of commission revenues: sales-based commissions and trailing commissions. Sales-based commission revenues, which occur when clients trade securities or purchase various types of investment products, primarily represent gross commissions generated by our advisors. The levels of sales-based commission revenues can vary from period to period based on the overall economic environment, number of trading days in the reporting period, and investment activity of our advisors' clients. Trailing commission revenues (commissions that are paid over time, such as 12(b)-1 fees) are recurring in nature and are earned based on the market value of investment holdings in trail eligible assets. We earn trailing commission revenues primarily on mutual funds and variable annuities held by clients of our advisors. See Note 3*. Revenues,* within the notes to the unaudited condensed consolidated financial statements for further detail regarding our commission revenue by product category.

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

	Three Months Ended September 30,				
	2018	**2017**	**$ Change**	**% Change**	
Sales-based	$193,545	$160,098	$33,447	20.9	%
Trailing	293,330	242,913	50,417	20.8	%
Total commission revenue	$486,875	$403,011	$83,864	20.8	%

The increase in sales-based commission revenue for the three months ended September 30, 2018, compared with the same period in 2017 was primarily due to the impact of the NPH Acquisition. The remaining increase was attributable to growth in the brokerage environment, which includes product innovation in annuities related to rising interest rates.

The increase in trailing revenues for the three months ended September 30, 2018, compared with the same period in 2017 was due to additional assets onboarded from NPH advisors, improved investor engagement, and market appreciation resulting in an increase in the market value of the underlying assets.

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

	Nine Months Ended September 30,				
	2018	**2017**	**$ Change**	**% Change**	
Sales-based	$577,308	$528,516	$48,792	9.2	%
Trailing	872,463	716,365	156,098	21.8	%
Total commission revenue	$1,449,771	$1,244,881	$204,890	16.5	%

The increase in sales-based commission revenue for the nine months ended September 30, 2018, compared with the same period in 2017 was primarily due to the impact of the NPH Acquisition. The remaining increase was attributable to growth in the demand for variable and fixed annuities and fixed income products as a result of market volatility and rising interest rates.

The increase in trailing revenues for the nine months ended September 30, 2018, compared with the same period in 2017 was due to additional assets onboarded from NPH advisors, improved investor engagement, and market appreciation resulting in an increase in the market value of the underlying assets.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance - Beginning of period	$367.5	$305.2	$342.1	$297.8
Net new brokerage assets	(0.8)	(4.0)	23.2	(12.9)
Market impact[(1)]	8.2	8.6	9.6	24.9
Balance - End of period	$374.9	$309.8	$374.9	$309.8

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

Advisory Revenues

Advisory revenues primarily represent fees charged on our corporate RIA platform provided through LPL Financial to clients of our advisors based on the value of their advisory assets. Advisory fees are billed to clients on either a calendar quarter or non-calendar quarter basis of their choice, at the beginning of that period, and are recognized as revenue ratably during the quarter. The majority of our accounts are billed in advance using values as of the last business day of each immediately preceding calendar quarter. The value of the assets in an advisory account on the billing date determines the amount billed, and accordingly, the revenues earned in the following three month period. Advisory revenues collected on our corporate advisory platform are proposed by the advisor and agreed to by the client and average 1.0% of the underlying assets with a maximum of 3.0% of the underlying assets as of September 30, 2018.

We also support Hybrid RIAs, through our independent advisory platform, which allows advisors to engage us for technology, clearing, and custody services, as well as access to the capabilities of our investment platforms. The assets held under a Hybrid RIA's investment advisory accounts custodied with LPL Financial are included in our brokerage and advisory assets, net new advisory assets, and advisory assets under custody metrics. However, we charge separate fees to Hybrid RIAs for technology, clearing, administrative, oversight, and custody services. The administrative fees collected on our independent advisory platform vary and can reach a maximum of 0.6% of the underlying assets as of September 30, 2018.

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

The following table summarizes activity in advisory assets (in billions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Balance - Beginning of period	$291.5	$236.8	$273.0	$211.6
Net new advisory assets	5.1	6.9	22.6	18.8
Market impact[(1)]	9.5	6.5	10.5	19.8
Balance - End of period	$306.1	$250.2	$306.1	$250.2

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

Net new advisory assets for the three and nine months ended September 30, 2018 and 2017 had a limited impact on our advisory fee revenue for those respective periods. Rather, net new advisory assets are a primary driver of future advisory fee revenue. The revenue for any particular quarter is primarily driven by the value of each of the prior quarter’s month-end advisory assets under custody.

The growth in advisory revenue for the three and nine months ended September 30, 2018 compared to the same period in 2017 was due to net new advisory assets resulting from our recruiting efforts, the NPH

Acquisition, and strong advisor productivity, as well as market gains as represented by higher levels of the S&P 500 index.

The following table summarizes the composition of total advisory assets as of September 30, 2018 and 2017 (in billions):

	September 30,				
	2018	2017	$ Change	% Change	
Corporate platform advisory assets	$184.8	$145.0	$ 39.8	27.4	%
Hybrid platform advisory assets	121.3	105.2	16.1	15.3	%
Total advisory assets[(1)]	$306.1	$250.2	$ 55.9	22.3	%

(1) Balances may not foot due to rounding.

Asset-Based Revenues

Asset-based revenues are comprised of our sponsorship programs with financial product manufacturers, omnibus processing and networking services, collectively referred to as recordkeeping, and fees from our cash sweep program. We receive fees from certain financial product manufacturers in connection with sponsorship programs that support our marketing and sales education and training efforts. Omnibus processing revenues are paid to us by mutual fund product sponsors and are based on the value of custodied assets in advisory accounts and the number of brokerage accounts in which the related mutual fund positions are held. Networking revenues on brokerage assets are correlated to the number of positions we administer and are paid to us by mutual fund and annuity product manufacturers. Pursuant to contractual arrangements, uninvested cash balances in our advisors' client accounts are swept into either insured cash accounts at various banks or third-party money market funds, for which we receive fees, including administrative and recordkeeping fees based on account type and the invested balances.

Asset-based revenues for the three and nine months ended September 30, 2018 increased compared to the same periods in 2017 primarily due to increased revenues from our cash sweep program and recordkeeping and sponsorship programs.

Cash sweep revenue for the three and nine months ended September 30, 2018 increased compared to the same periods in 2017 due to the impact of increases in the target range for the federal funds effective rate. For the three months ended September 30, 2018, our average cash sweep balances increased slightly as compared to the same period in 2017, with balances of $28.2 billion and $28.0 billion, respectively. For the nine months ended September 30, 2018, our average cash sweep balances remained unchanged compared to the same period in 2017, with balances of $28.7 billion as of the end of both periods.

Revenues for our recordkeeping and sponsorship programs for the three and nine months ended September 30, 2018, which are largely based on the market value of the underlying assets, increased compared to the same periods in 2017 due to the impact of market appreciation on the value of those underlying assets and additional assets onboarded from NPH advisors.

Transaction and Fee Revenues

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

Transaction and fee revenues increased for the three and nine months ended September 30, 2018 compared to the same periods in 2017 primarily due to a higher volume of fixed income transactions related to the federal funds rate increases and higher transaction volumes in trades in advisory accounts that generate transaction-based revenue, which resulted from an increase in brokerage to advisory conversions by our existing advisors as well as the impact from the NPH Acquisition.

Interest Income, Net of Interest Expense

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

Interest Income, net of interest expense increased for the three and nine months ended September 30, 2018, compared to the same periods in 2017 primarily due to the impact of rising interest rates.

Other Revenues

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

Other revenues decreased for the three and nine months ended September 30, 2018 compared to the same periods in 2017 primarily due to unrealized losses on assets held in our advisor non-qualified deferred compensation plan, which are based on the market performance of the underlying investment allocations chosen by advisors in the plan, offset by increases in dividend income on assets held in our advisor non-qualified deferred compensation plan.

Expenses

Commission and Advisory Expenses

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

The following table shows the components of our production payout and total payout ratios, each of which is a statistical or operating measure:

	Three Months Ended September 30,		Change	Nine Months Ended September 30,		Change
	2018	2017		2018	2017	
Base payout rate[(1)]	83.02%	83.01%	1 bps	82.87%	82.98%	(11 bps)
Production based bonuses	3.36 %	3.04 %	32 bps	2.75 %	2.44 %	31 bps
GDC sensitive payout	86.38%	86.05%	33 bps	85.62%	85.42%	20 bps
Non-GDC sensitive payout[(2)]	0.60 %	1.29 %	(69 bps)	0.48 %	1.13 %	(65 bps)
Total payout ratio	86.98%	87.34%	(36 bps)	86.10%	86.55%	(45 bps)

(1) Our base payout rate is calculated as commission and advisory expenses, divided by GDC (see description above).

(2) Non-GDC sensitive payout includes share-based compensation expense from equity awards granted to advisors and financial institutions and mark-to-market gains or losses on amounts designated by advisors as deferred.

Our total payout ratio, a statistical or operating measure, decreased for the three and nine months ended September 30, 2018 compared with the same periods in 2017 primarily due to a decrease in non-GDC sensitive payout, which includes advisor deferred compensation and advisor share-based compensation.

Compensation and Benefits Expense

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	Change	2018	2017	Change
Average number of employees	4,078	3,508	16.2%	3,947	3,397	16.2%

Compensation and benefits expense increased for the three and nine months ended September 30, 2018 compared with the same periods in 2017 due to an increase in salary and employee benefit expenses resulting from an increase in headcount.

Promotional Expense

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

The increase in promotional expense for the three and nine months ended September 30, 2018 compared with the same periods in 2017 was primarily driven by increases in costs associated with advisor transition assistance, recruiter and advisor promotions related to the onboarding of NPH advisors, and increases in business development expenses associated with broker training and education.

Depreciation and Amortization Expense

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

Depreciation and amortization expense remained relatively flat for the three and nine months ended September 30, 2018 compared with the same periods in 2017, as increases in internally developed software were offset by decreases in leasehold improvements.

Amortization of Intangible assets

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

The increase in amortization of intangible assets for the three and nine months ended September 30, 2018 compared with the same periods in 2017 was due to the intangible assets recorded as part of the NPH Acquisition.

Occupancy and Equipment Expense

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

The increase in occupancy and equipment expense for the three months ended September 30, 2018 compared with the same period in 2017 was primarily due to an increase in costs related to repairs and maintenance and software licensing fees in support of our service and technology investments.

The increase in occupancy and equipment expense for the nine months ended September 30, 2018 compared with the same period in 2017 was primarily due to an increase in costs related to non-capitalized software and software licensing fees in support of our service and technology investments.

Professional Services

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

The increase in professional services for the three months ended September 30, 2018 compared with the same period in 2017 was primarily due to increases in costs related to our service and technology projects during the period.

The increase in professional services for the nine months ended September 30, 2018 compared with the same period in 2017 was primarily due to an increase in costs related to our service and technology projects, offset by decreases in outsourced service and technology projects during the period.

Brokerage, Clearing, and Exchange Fees

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

The increase in brokerage, clearing, and exchange fees is relatively consistent with the volume of sales and trading activity for the three and nine months ended September 30, 2018, compared with the same periods in 2017.

Communications and Data Processing

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

The increase in communications and data processing expense for the three and nine months ended September 30, 2018 compared with the same periods in 2017 was primarily due to an increase in costs related to customer statements.

Other Expenses

Other expenses include the estimated costs of the investigation, settlement, and resolution of regulatory matters (including customer restitution and remediation), licensing fees, insurance, broker-dealer regulator fees, and other miscellaneous expenses. We expect other expenses to increase in 2018 compared to 2017, including as a result of the greater size and scale of our business resulting from the NPH Acquisition. Our other expenses in 2018 will depend on the size and timing of resolving regulatory matters and the availability of self-insurance coverage, which depends in part on the amount and timing of resolving historical claims. There are particular uncertainties and complexities involved when assessing the potential costs and timing of regulatory matters, including whether loss reserves at our captive insurance subsidiary will be adequate to cover such losses.

The increase in other expenses for the three and nine months ended September 30, 2018 compared with the same periods in 2017 was primarily driven by higher costs associated with the investigation, settlement, and resolution of regulatory matters.

Non-Operating Interest Expense

Non-operating interest expense represents expense for our senior secured credit facilities and senior unsecured notes issued in March and September 2017 (the "Notes"). Period over period increases correspond to higher LIBOR rates and the issuance of the Notes during 2017.

Loss on Extinguishment of Debt

On September 21, 2017, we entered into a second amendment (“the Amendment”) which amended and restated the existing credit agreement of our subsidiary LPL Holdings, Inc. In connection with the execution of the Amendment, we accelerated the recognition of $1.3 million of unamortized debt issuance costs as a loss on extinguishment of debt in our unaudited condensed consolidated statements of income in the third quarter of 2017.

In March 2017, we closed a refinancing of our senior secured credit facilities with a new seven year Term Loan B facility. The refinancing led to the extinguishment of the previous Term Loan A and B facilities, which required that we accelerate the recognition of $21.1 million of related unamortized debt issuance costs as a loss on extinguishment of debt in our unaudited condensed consolidated statements of income in the first quarter of 2017.

Provision for Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (H.R. 1), the tax reform bill (the "Tax Act"), was signed into law. The Tax Act provided a permanent reduction in our federal corporate income tax rate from 35% to 21%, effective January 1, 2018. We will continue to analyze the Tax Act to determine the full effects that the new law, including the new lower corporate tax rate, has on our financial statements.

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

Our effective tax rate was 27.5% and 39.8% for the three months ended September 30, 2018 and 2017, respectively.

Our effective tax rate was 25.8% and 38.6% for the nine months ended September 30, 2018 and 2017, respectively.

The decrease in our effective income tax rate for the three and nine months ended September 30, 2018 compared with the same periods in 2017 was primarily due to the tax benefit associated with the federal rate reduction under the Tax Act, stock option exercises under ASC 718, and the reduction of settlement contingencies.

Liquidity and Capital Resources

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

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

	Nine Months Ended September 30,	
	2018	2017
Net cash flows (used in) provided by:		
Operating activities	$196,063	$123,608
Investing activities	(86,353)	(413,554)
Financing activities	(341,937)	109,206
Net decrease in cash, cash equivalents and restricted cash	(232,227)	(180,740)
Cash, cash equivalents and restricted cash — beginning of period	1,625,655	1,558,608
Cash, cash equivalents and restricted cash — end of period	$1,393,428	$1,377,868

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

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

The increase in cash flows provided by operating activities for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily attributable to an increase in draft payable, payables to broker-dealers and clearing organizations, accrued commission and advisory expenses payable and income tax payable due to the timing of payments made, and a decrease in securities borrowed. These were partially offset by a decrease in payables to clients due to the timing of payments, and an increase in receivables from clients and advisor loans.

The decrease in cash flows used in investing activities for the nine months ended September 30, 2018 compared to the same period in 2017 was due to the NPH Acquisition in 2017.

The increase in cash flows used in financing activities for the nine months ended September 30, 2018 compared to the same period in 2017 was primarily attributable to an increase in repurchases of our common stock, partially offset by a decrease in payment of debt issuance costs. Financing activities provided cash for the same period in 2017 due to proceeds received from senior secured term loans and senior notes.

We believe that based on current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, which include three uncommitted lines of credit available and the revolving credit facility established through our senior secured credit agreement (the "Credit Agreement"), will be adequate to satisfy our working capital needs, the payment of all of our obligations, and the funding of anticipated capital expenditures for the foreseeable future. In addition, we have certain capital adequacy requirements related to our registered broker-dealer subsidiary and bank trust subsidiary and have met all such requirements and expect to continue to do so for the foreseeable future. We regularly evaluate our existing indebtedness, including refinancing thereof, based on a number of factors, including our capital requirements, future prospects, contractual restrictions, the availability of refinancing

on attractive terms, and general market conditions.

Share Repurchases

We engage in share repurchase programs, which are approved by our board of directors ("Board of Directors"), pursuant to which we may repurchase our issued and outstanding shares of common stock from time to

time. Purchases may be effected in open market or privately negotiated transactions, including transactions with our affiliates, with the timing of purchases and the amount of stock purchased generally determined at our discretion within the constraints of our Credit Agreement, the indenture governing our Notes, and general liquidity needs. See Note 10. *Stockholders' Equity*, within the notes to unaudited condensed consolidated financial statements for additional information regarding our share repurchases.

During the nine months ended September 30, 2018, we repurchased a total of 4,608,020 shares of our common stock at a weighted-average price of $65.12 per share for a total cost of $300.1 million. As of September 30, 2018, the Company was authorized to purchase up to an additional $200.0 million of shares pursuant to the share repurchase programs approved by the Board of Directors.

Dividends

The payment, timing, and amount of any dividends are subject to approval by the Board of Directors as well as certain limits under our Credit Agreement and the indenture governing our Notes. See Note 10. *Stockholders' Equity*, within the notes to the unaudited condensed consolidated financial statements for additional information regarding our dividends.

Operating Capital Requirements

Our primary requirement for working capital relates to funds we loan to our advisors' clients for trading conducted on margin and funds that we are required to maintain for regulatory capital and reserves based on the requirements of our regulators and clearing organizations, which also consider client balances and trading activities. We have several sources of funds that enable us to meet increases in working capital requirements that relate to increases in client margin activities and balances. These sources include cash and cash equivalents on hand, cash segregated under federal and other regulations, and proceeds from re-pledging or selling client securities in margin accounts. When an advisor's client purchases securities on margin or uses securities as collateral to borrow from us on margin, we are permitted, pursuant to the applicable securities industry regulations, to repledge, loan, or sell securities, up to 140% of the client's margin loan balance, that collateralize those margin accounts. As of September 30, 2018, we had approximately $293.5 million of client margin loans, collateralized with securities having a fair value of approximately $410.9 million that we can re-pledge, loan, or sell. Of these securities, approximately $56.5 million were client-owned securities pledged to the Options Clearing Corporation as collateral to secure client obligations related to options positions. As of September 30, 2018, there were no restrictions that materially limited our ability to re-pledge, loan, or sell the remaining $354.3 million of client collateral.

Our other working capital needs are primarily related to advisor loans and timing associated with receivables and payables, which we have satisfied in the past from internally generated cash flows. Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from the delayed receipt of client funds associated with the settlement of client transactions in securities markets. These timing differences are funded either with internally generated cash flow or, if needed, with funds drawn on our uncommitted lines of credit at LPL Financial, or under our revolving credit facility.

Our registered broker-dealer, LPL Financial, is subject to the SEC's Uniform Net Capital Rule, which requires the maintenance of minimum net capital. LPL Financial computes net capital requirements under the alternative method, which requires firms to maintain minimum net capital, as defined, equal to the greater of $250,000 or 2.0% of aggregate debit balances arising from client transactions. At September 30, 2018, LPL Financial had net capital of $166.1 million with a minimum net capital requirement of $8.5 million. LPL Financial's ability to pay dividends greater than 10% of its excess net capital during any 35 day rolling period requires approval from the Financial Industry Regulatory Authority ("FINRA"). In addition, payment of dividends is restricted if LPL Financial's net capital would be less than 5% of aggregate customer debit balances.

LPL Financial also acts as an introducing broker for commodities and futures. Accordingly, its trading activities are subject to the National Futures Association's ("NFA") financial requirements and it is required to maintain net capital that is in excess of or equal to the greatest of NFA's minimum financial requirements. The NFA was designated by the Commodity Futures Trading Commission as LPL Financial's

primary regulator for such activities. Currently, the highest NFA requirement is the minimum net capital calculated and required pursuant to the SEC's Net Capital Rule.

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

Debt and Related Covenants

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

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

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

Credit Agreement EBITDA, a non-GAAP financial measure, is defined in, and calculated by management in accordance with, the Credit Agreement as “Consolidated EBITDA”, which is Consolidated Net Income (as defined in the Credit Agreement) plus interest expense, tax expense, depreciation and amortization, and further adjusted to exclude certain non-cash charges and other adjustments (including unusual or non-recurring charges and gains), and to include future expected cost savings, operating expense reductions or other synergies from certain transactions, including the NPH Acquisition. We present Credit Agreement EBITDA because we believe that it can be a useful financial metric in understanding our debt capacity and covenant compliance. However, Credit Agreement EBITDA is not a measure of our 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, our 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.

Set forth below is a reconciliation from our net income to Credit Agreement EBITDA for the trailing twelve months ended September 30, 2018 (in thousands):

Net income	$383,259
Non-operating interest expense	122,161
Provision for income taxes	126,825
Depreciation and amortization	85,897
Amortization of intangible assets	54,577
EBITDA	772,719
Credit Agreement Adjustments:	
Employee share-based compensation expense(1)	22,274
Advisor share-based compensation expense(2)	7,886
NPH run-rate EBITDA accretion(3)	92,000
Realized NPH EBITDA Offset(4)	(50,500)
NPH onboarding costs	70,132
Other(5)	17,294
Credit Agreement EBITDA(6)	$931,805

(1) Represents share-based compensation for equity awards granted to employees, officers, and directors. Such awards are measured based on the grant-date fair value and recognized over the requisite service

period of the individual awards, which generally equals the vesting period.

(2) Represents share-based compensation for equity awards granted to advisors and to financial institutions based on the fair value of the awards at each reporting period.

(3) 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.

(4) 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.

(5) 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.

(6) In calculating Credit Agreement EBITDA for a twelve month period at the end of each quarter, management may make adjustments to prior quarters.

Our Credit Agreement and the indenture governing the Notes prohibit us from paying dividends and distributions or repurchasing our capital stock except for limited purposes or in limited amounts. In addition, our revolving credit facility requires compliance with a maximum Consolidated Total Debt to Consolidated EBITDA Ratio ("Leverage Test", as defined in the Credit Agreement) and a minimum Consolidated EBITDA to Consolidated Interest Expense Ratio ("Interest Coverage", as defined in the Credit Agreement), tested as of the last day of each fiscal quarter. The breach of this covenant is subject to certain equity cure rights. As of September 30, 2018, we were in compliance with both of our financial covenants. The maximum permitted ratios under our financial covenants and actual ratios were as follows:

Financial Ratio	Covenant Requirement	Actual Ratio
Leverage Test (Maximum)	5.00	2.24
Interest Coverage (Minimum)	3.00	8.09

Off-Balance Sheet Arrangements

We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our advisors' clients. These arrangements include Company commitments to extend credit. For information on these arrangements, see Note 9. *Commitments and Contingencies* and Note 16. *Financial Instruments with Off-Balance-Sheet Credit Risk and Concentrations of Credit Risk,* within the notes to the unaudited condensed consolidated financial statements.

Contractual Obligations

During the nine months ended September 30, 2018, there have been no material changes in our contractual obligations, other than in the ordinary course of business, from those disclosed in our 2017 Annual Report on Form 10-K. See Note 8. *Debt* and Note 9. *Commitments and Contingencies,* within the notes to the unaudited condensed consolidated financial statements, as well as the Contractual Obligations section within Part II, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our2017 Annual Report on Form 10-K, for further detail on operating lease obligations and obligations under noncancelable service contracts.

Fair Value of Financial Instruments

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

Critical Accounting Policies and Estimates

In the notes to our consolidated financial statements and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our2017 Annual Report on Form 10-K, we have disclosed those accounting policies that we consider to be significant in determining our results of operations and financial condition. For the Company's significant accounting policies affecting revenue from

contracts with customers, see Note 3. *Revenues*, within the notes to the unaudited condensed consolidated financial statements.

There have been no other material changes to those policies that we consider to be significant since the filing of our 2017 Annual Report on Form 10-K. The accounting principles used in preparing our unaudited condensed consolidated financial statements conform in all material respects to GAAP.

Recently Issued Accounting Pronouncements

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

Item 1. Financial Statements (unaudited)
LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Income
(Unaudited)
(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
REVENUES	**2018**	**2017**	**2018**	**2017**
Commission	$486,875	$403,011	$1,449,771	$1,244,881
Advisory	458,087	356,945	1,319,391	1,033,319
Asset-based	248,895	183,953	706,834	514,626
Transaction and fee	118,941	103,999	352,045	321,522
Interest income, net of interest expense	10,512	6,162	28,426	17,931
Other	7,687	10,038	14,891	32,760
Total net revenues	1,330,997	1,064,108	3,871,358	3,165,039
EXPENSES				
Commission and advisory	821,950	663,765	2,384,266	1,971,874
Compensation and benefits	128,007	113,659	373,884	337,170
Promotional	52,628	42,935	163,462	111,595
Depreciation and amortization	22,838	21,996	65,759	63,933
Amortization of intangible assets	15,676	9,352	44,580	28,296
Occupancy and equipment	30,308	22,803	84,848	70,989
Professional services	23,129	16,438	61,223	50,732
Brokerage, clearing, and exchange	15,844	13,491	47,154	41,567
Communications and data processing	12,334	10,866	34,546	32,525
Other	29,219	24,376	88,175	71,140
Total operating expenses	1,151,933	939,681	3,347,897	2,779,821
Non-operating interest expense	31,705	26,519	93,267	78,131
Loss on extinguishment of debt	—	1,268	—	22,407
INCOME BEFORE PROVISION FOR INCOME TAXES	147,359	96,640	430,194	284,680
PROVISION FOR INCOME TAXES	40,494	38,498	111,033	109,915
NET INCOME	$106,865	$58,142	$319,161	$174,765
EARNINGS PER SHARE (Note 12)				
Earnings per share, basic	$1.22	$0.65	$3.59	$1.94
Earnings per share, diluted	$1.19	$0.63	$3.49	$1.90
Weighted-average shares outstanding, basic	87,426	89,967	88,841	90,029
Weighted-average shares outstanding, diluted	89,878	92,042	91,447	92,027

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
NET INCOME	$106,865	$58,142	$319,161	$174,765
Other comprehensive income, net of tax:				
Unrealized gain on cash flow hedges, net of tax expense of $0, $0, $0 and $187 for the three and nine months ended September 30, 2018 and 2017, respectively	—	—	—	293
Reclassification adjustment for realized gain on cash flow hedges included in the condensed consolidated statements of income, net of tax expense of $0, $0, $0 and $406 for the three and nine months ended September 30, 2018 and 2017, respectively	—	—	—	(608)
Total other comprehensive income, net of tax	—	—	—	(315)
TOTAL COMPREHENSIVE INCOME	$106,865	$58,142	$319,161	$174,450

See notes to unaudited condensed consolidated financial statements.

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

ASSETS	**September 30, 2018**	**December 31, 2017**
Cash and cash equivalents	$ 768,546	$ 811,136
Cash segregated under federal and other regulations	566,128	763,831
Restricted cash	58,754	50,688
Receivables from:		
Clients, net of allowance of $621 at September 30, 2018 and $466 at December 31, 2017	435,133	344,230
Product sponsors, broker-dealers, and clearing organizations	213,887	196,207
Advisor loans, net of allowance of $3,539 at September 30, 2018 and $3,264 at December 31, 2017	261,214	219,157
Others, net of allowance of $8,997 at September 30, 2018 and $6,115 at December 31, 2017	236,480	228,986
Securities owned:		
Trading — at fair value	32,455	17,879
Held-to-maturity — at amortized cost	13,005	11,833
Securities borrowed	6,274	12,489
Fixed assets, net of accumulated depreciation and amortization of $489,209 at September 30, 2018 and $427,344 at December 31, 2017	441,072	412,684
Goodwill	1,476,775	1,427,769
Intangible assets, net of accumulated amortization of $463,646 at September 30, 2018 and $419,066 at December 31, 2017	482,234	414,093
National Planning Holdings acquisition	—	162,500
Other assets	297,856	285,269
Total assets	$ 5,289,813	$ 5,358,751
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	$ 195,343	$ 185,929
Payables to clients	804,797	962,891
Payables to broker-dealers and clearing organizations	54,360	54,262
Accrued commission and advisory expenses payable	168,176	147,095
Accounts payable and accrued liabilities	486,573	461,149
Income taxes payable	22,531	469
Unearned revenue	82,546	72,222
Securities sold, but not yet purchased — at fair value	333	1,182
Long-term borrowing, net of unamortized debt issuance cost of $20,345 at September 30, 2018 and $22,812 at December 31, 2017	2,375,113	2,385,022
Leasehold financing and capital lease obligations	105,057	107,518
Deferred income taxes, net	15,517	16,004
Total liabilities	4,310,346	4,393,743
Commitments and contingencies (Note 9)		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 600,000,000 shares authorized; 124,611,205 shares issued at September 30, 2018 and 123,030,383 shares issued at December 31, 2017	124	123
Additional paid-in capital	1,621,020	1,556,117
Treasury stock, at cost — 37,901,990 shares at September 30, 2018 and 33,262,115 shares at December 31, 2017	(1,612,847)	(1,309,568)
Retained earnings	971,170	718,336
Total stockholders' equity	979,467	965,008
Total liabilities and stockholders' equity	$ 5,289,813	$ 5,358,751

See notes to unaudited condensed consolidated financial statements.

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

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE — December 31, 2016	119,918	$ 120	$1,445,256	30,621	$(1,194,645)	$ 315	$569,949	$ 820,995
Net income and other comprehensive income (loss), net of tax expense						(315)	174,765	174,450
Issuance of common stock to settle restricted stock units, net	350	—	—	79	(3,155)			(3,155)
Treasury stock purchases				2,017	(83,721)			(83,721)
Cash dividends on common stock							(67,765)	(67,765)
Stock option exercises and other	2,558	3	76,287	(51)	1,821		(235)	77,876
Share-based compensation	—		21,885					21,885
BALANCE — September 30, 2017	122,826	$ 123	$1,543,428	32,666	$(1,279,700)	$ —	$676,714	$ 940,565
BALANCE — December 31, 2017	123,030	$ 123	$1,556,117	33,262	$(1,309,568)	$ —	$718,336	$ 965,008
Net income and other comprehensive income, net of tax expense						—	319,161	319,161
Issuance of common stock to settle restricted stock units, net	356	—	—	70	(4,536)			(4,536)
Treasury stock purchases				4,608	(300,091)			(300,091)
Cash dividends on common stock							(66,847)	(66,847)
Stock option exercises and other	1,225	1	41,379	(38)	1,348		520	43,248
Share-based compensation			23,524					23,524
BALANCE — September 30, 2018	124,611	$ 124	$1,621,020	37,902	$(1,612,847)	$ —	$971,170	$ 979,467

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(Unaudited)
(In thousands)

	Nine Months Ended September 30,	
	2018	**2017**
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$319,161	$174,765
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	65,759	63,933
Amortization of intangible assets	44,580	28,296
Amortization of debt issuance costs	3,090	3,272
Share-based compensation	23,524	21,885
Provision for bad debts	5,335	2,993
Deferred income tax provision	(487)	(68)
Loss on extinguishment of debt	—	22,407
Loan forgiveness	50,695	39,713
Other	(334)	(11,875)
Changes in operating assets and liabilities:		
Receivables from clients	(91,058)	(49,360)
Receivables from product sponsors, broker-dealers, and clearing organizations	(17,680)	(4,454)
Advisor loans	(92,253)	(31,323)
Receivables from others	(10,377)	(18,103)
Securities owned	(15,446)	(1,347)
Securities borrowed	6,215	(11,096)
Other assets	(18,084)	6,305
Drafts payable	9,414	(45,473)
Payables to clients	(158,093)	(96,515)
Payables to broker-dealers and clearing organizations	98	(9,793)
Accrued commission and advisory expenses payable	21,081	4,656
Accounts payable and accrued liabilities	19,388	17,239
Income taxes receivable/payable	22,061	6,833
Unearned revenue	10,324	10,766
Securities sold, but not yet purchased	(850)	(48)
Net cash provided by operating activities	$196,063	$123,608
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(85,198)	(85,597)
Proceeds from disposal of fixed assets	—	12
Purchase of securities classified as held-to-maturity	(4,905)	(5,969)
Proceeds from maturity of securities classified as held-to-maturity	3,750	3,000
National Planning Holdings acquisition payment	—	(325,000)
Net cash used in investing activities	$(86,353)	$(413,554)

Continued on following page

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

	Nine Months Ended September 30,	
	2018	**2017**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of senior secured term loans	(11,250)	(2,401,610)
Proceeds from senior secured term loans and senior notes	—	2,611,594
Payment of debt issuance costs	—	(22,676)
Tax payments related to settlement of restricted stock units	(4,536)	(3,155)
Repurchase of common stock	(300,091)	(83,721)
Dividends on common stock	(66,847)	(67,765)
Proceeds from stock option exercises and other	43,248	77,876
Payment of leasehold financing obligation	(2,461)	(1,337)
Net cash (used in) provided by financing activities	$(341,937)	$109,206
NET DECREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(232,227)	(180,740)
CASH, CASH EQUIVALENTS AND RESTRICTED CASH — Beginning of period	1,625,655	1,558,608
CASH, CASH EQUIVALENTS AND RESTRICTED CASH— End of period	$1,393,428	$1,377,868
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$105,057	$77,253
Income taxes paid	$89,254	$103,157
NONCASH DISCLOSURES:		
Capital expenditures included in accounts payable and accrued liabilities	$26,903	$12,280
Finance and capital lease obligations	$—	$3,906
Debt issuance cost included in accounts payable and accrued liabilities	$—	$1,390
Discount on proceeds from senior secured credit facilities recorded as debt issuance cost	$—	$5,040

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

	September 30,	
	2018	**2017**
Cash and cash equivalents	$768,546	577,961
Cash segregated under federal and other regulations	566,128	754,683
Restricted cash	58,754	45,224
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	$1,393,428	$1,377,868

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization and Description of the Company

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

Description of Subsidiaries

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

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

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

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

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

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

2. Summary of Significant Accounting Policies

Basis of Presentation

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

The unaudited condensed consolidated financial statements do not include all information and notes necessary for a complete presentation of results of income, comprehensive income, financial position, and cash flows in conformity with GAAP. Accordingly, these financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the related notes for the year ended December 31, 2017, contained in the Company’s Annual Report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A filed on February 27, 2018 (collectively, the "2017 Annual Report on Form 10-K"), as filed with the SEC.

For the Company’s significant accounting policies affecting revenue from contracts with customers, see Note 3. *Revenues*. A summary of other significant accounting policies are included in Note 2. *Summary of Significant Accounting Policies*, in the Company’s audited consolidated financial statements and the related notes for the year ended December 31, 2017. There have been no other significant changes to these accounting policies during the first nine months of 2018.

Consolidation

These unaudited condensed consolidated financial statements include the accounts of LPLFH and its subsidiaries. Intercompany transactions and balances have been eliminated. Equity investments over which the Company exercises significant influence, but does not exercise control and is not the primary beneficiary are accounted for using the equity method.

Reportable Segment

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

Cash and Cash Equivalents

Cash equivalents are highly liquid investments with an original maturity of 90 days or less that are not required to be segregated under federal or other regulations. The Company's cash and cash equivalents are composed of interest and noninterest-bearing deposits, money market funds, and United States government obligations.

Cash Segregated Under Federal and Other Regulations

The Company's subsidiary, LPL Financial, is required to maintain cash or qualified securities in a segregated reserve account for the exclusive benefit of its customers in accordance with Rule 15c3-3 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and other regulations. Held within this account is approximately $100,000 for the proprietary accounts of introducing brokers.

Restricted Cash

Restricted cash primarily represents cash held by and for use by the Company’s captive insurance subsidiary.

Fair Value of Financial Instruments

The Company’s financial assets and liabilities are carried at fair value or at amounts that, because of their short-term nature, approximate current fair value, with the exception of its held-to-maturity securities and indebtedness, which the Company carries at amortized cost. The Company measures the implied fair value of its debt instruments using trading levels obtained from a third-party service provider. Accordingly, the debt instruments

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

qualify as Level 2 fair value measurements. See Note 5. *Fair Value Measurements*, for additional detail regarding the Company's fair value measurements. As ofSeptember 30, 2018, the carrying amount and fair value of the Company's indebtedness was approximately$2,385.0 million and $2,371.7 million, respectively. As of December 31, 2017, the carrying amount and fair value was approximately $2,396.3 million and $2,422.0 million, respectively.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02*Leases*, which establishes a right-of-use model that requires a lessee to record a right-of-use asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of operations. In July 2018, the FASB issued ASU 2018-11, *Leases – Targeted Improvements,* which provides an optional transition method that allows entities to initially apply the new lease standard at the adoption date and recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. The Company expects to adopt the provisions of this guidance, including the optional transition method, on January 1, 2019. The right of use asset and corresponding lease liability for these leases will be recognized on the Company's balance sheet upon adoption. The Company is evaluating the impact that ASU 2016-02 will have on its related disclosures.

In June 2018, FASB issued ASU 2018-07, *Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting,* which expands the scope of Topic 718 to include share-based payments granted to non-employees. Consistent with the requirement for employee share-based payment awards, non-employee share-based payment awards within the scope of Topic 718 will be measured at grant-date fair value of the equity instruments. The Company expects to adopt the provisions of this guidance on January 1, 2019, and is evaluating the impact of ASU 2018-07 on advisor and financial institution equity awards in the consolidated financial statements and related disclosures.

In August 2018, the FASB issued ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement*. ASU 2018-13 removes or modifies certain current disclosures, and adds additional disclosures. The changes are meant to provide more relevant information regarding valuation techniques and inputs used to arrive at measures of fair value, uncertainty in the fair value measurements, and how changes in fair value measurements impact an entity's performance and cash flows. Certain disclosures in ASU 2018-13 will need to be applied on a retrospective basis and others on a prospective basis. Early adoption is permitted. The Company expects to adopt the provisions of this guidance on January 1, 2020, and is currently evaluating the impact that ASU 2018-13 will have on its related disclosures.

Recently Adopted Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers: Topic 606*, to supersede nearly all existing revenue recognition guidance under GAAP. ASU 2014-09 also requires new qualitative and quantitative disclosures, including disaggregation of revenues and descriptions of performance obligations. The Company adopted the provisions of this guidance on January 1, 2018 using the modified retrospective approach. The Company has performed an assessment of its revenue contracts as well as worked with industry participants on matters of interpretation and application and has not identified any material changes to the timing or amount of its revenue recognition under ASU 2014-09. The Company's accounting policies did not change materially as a result of applying the principles of revenue recognition from ASU 2014-09 and are largely consistent with existing guidance and current practices applied by the Company. Refer to Note 3. *Revenues*, for additional disaggregation of revenue in accordance with ASU 2014-09.

In August 2016, the FASB issued ASU 2016-15, *Statements of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, which clarifies how companies present and classify certain cash receipts and cash payments in the statement of cash flows. The Company adopted the provisions of this guidance on January 1, 2018 and the adoption had no impact on its consolidated financial statements. In November 2016, the FASB issued ASU 2016-18, *Statements of Cash Flows (Topic 230): Classification and Presentation of Restricted Cash in the Statements of Cash Flows,* which requires that restricted cash and restricted cash equivalents be included as components of total cash and cash equivalents in the statement of cash flows. The Company adopted the provisions of this guidance on January 1, 2018, and began presenting cash segregated for

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

regulatory purposes and restricted cash activity as a component of cash and cash equivalent on the consolidated statements of cash flows using a retrospective transition method for each period presented.
In May 2017, the FASB issued ASU No. 2017-09, *Scope of Modification Accounting (Topic 718)*, which amends the scope of modification accounting for share-based payment arrangements. ASU 2017-09 provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. Specifically, an entity would not apply modification accounting if the fair value, vesting conditions, and classification of the awards are the same immediately before and after the modification. The Company adopted ASU 2017-09 on January 1, 2018. The adoption of the ASU had no impact on the Company's consolidated financial statements and related disclosures.

3. Revenues

Adoption of ASC Topic 606, Revenue from Contracts with Customers

On January 1, 2018, the Company adopted ASC Topic 606, *Revenue from Contracts with Customers* (“Topic 606”) using the modified retrospective method applied to those contracts which were not completed as of January 1, 2018. Results for reporting periods beginning after January 1, 2018 are presented under Topic 606, while prior period amounts are not adjusted and continue to be reported in accordance with our historic accounting under Topic 605.
There was no impact to retained earnings as of January 1, 2018, or to revenue for the three and nine months ended September 30, 2018, after adopting Topic 606, as revenue recognition and timing of revenue did not change as a result of implementing Topic 606.

Revenue Recognition

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

Commission Revenue

Commission revenue represents sales commissions generated by advisors for their clients’ purchases and sales of securities on exchanges and over-the-counter, as well as purchases of other investment products. The Company views the selling, distribution and marketing, or any combination thereof, of investment products to such clients as a single performance obligation to the product sponsors.
The Company is the principal for commission revenue, as it is responsible for the execution of the clients’ purchases and sales, and maintains relationships with the product sponsors. Advisors assist the Company in performing its obligations. Accordingly, total commission revenues are reported on a gross basis.
The following table presents our total commission revenue disaggregated by investment product category (in thousands):

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Variable annuities	$201,075	$163,778	$597,613	$498,027
Mutual funds	155,579	131,339	470,665	397,323
Alternative investments	6,331	6,676	18,602	20,565
Fixed annuities	47,117	32,764	127,288	109,236
Equities	19,082	17,748	62,071	58,520
Fixed income	32,144	23,912	93,368	77,664
Insurance	16,155	17,338	51,993	51,355
Group annuities	9,064	9,319	27,576	31,799
Other	328	137	595	392
Total commission revenue	$486,875	$403,011	$1,449,771	$1,244,881

The Company generates two types of commission revenue: sales-based commission revenue that is recognized at the point of sale on the trade date and trailing commission revenue that is recognized over time as earned. Sales-based commission revenue varies by investment product and is based on a percentage of an investment product's current market value at the time of purchase. Trailing commission revenue is generally based on a percentage of the current market value of clients' investment holdings in trail-eligible assets, and is recognized over the period during which services, such as on-going support, are performed. As trailing commission revenue is based on the market value of clients' investment holdings, this variable consideration is constrained until the market value is determinable.
The following table presents our sales-based and trailing commission revenues disaggregated by product category (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Sales-based				
Variable annuities	$57,491	$46,148	$168,487	$150,103
Mutual funds	33,319	30,638	107,910	102,009
Alternative investments	1,822	2,550	5,457	11,348
Fixed annuities	40,040	27,906	107,709	94,930
Equities	19,082	17,748	62,071	58,520
Fixed income	25,757	17,967	74,587	60,371
Insurance	14,433	15,906	46,877	46,914
Group annuities	1,273	1,098	3,615	3,929
Other	328	137	595	392
Total sales-based revenue	$193,545	$160,098	$577,308	$528,516
Trailing				
Variable annuities	$143,584	$117,630	$429,126	$347,924
Mutual funds	122,260	100,701	362,755	295,314
Alternative investments	4,509	4,126	13,145	9,217
Fixed annuities	7,077	4,858	19,579	14,306
Fixed income	6,387	5,945	18,781	17,293
Insurance	1,722	1,432	5,116	4,441

Group annuities	7,791	8,221	23,961	27,870
Total trailing revenue	$293,330	$242,913	$872,463	$716,365
Total commission revenue	$486,875	$403,011	$1,449,771	$1,244,881

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

Advisory Revenue

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

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

Asset-Based Revenue

Asset-based revenue is comprised of fees from the Company's cash sweep program, which consists of fees from its money market cash sweep vehicle and other cash sweep vehicles, sponsorship programs, and recordkeeping.

Money Market Cash Sweep Fees

Money market cash sweep fees are generated based on balances in advisors’ clients’ money market cash sweep accounts. Uninvested cash balances in the advisors’ clients' accounts are swept into third-party money market funds for which the Company receives fees for administration and recordkeeping, which are based on account type and the invested balances. These fees are paid and recognized over time. The Company is principal in these arrangements and recognizes revenue from money market cash sweep fees on a gross basis as it is primarily responsible for the administration and recordkeeping.

Sponsorship Programs

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

Recordkeeping

The Company generates this revenue by providing recordkeeping, account maintenance, reporting and other related services to product sponsors. This includes revenue from omnibus processing in which the Company establishes and maintains sub-account records for its clients to reflect the purchase, exchange and redemption of mutual fund shares, and consolidates clients' trades within a mutual fund. Omnibus processing fees are paid to the Company by the mutual fund or its affiliates and are based on the value of mutual fund assets in accounts for which the Company provides omnibus processing services and the number of accounts in which the related mutual fund positions are held. Recordkeeping revenue also includes revenues from networking recordkeeping services. Networking revenues on brokerage assets are correlated to the number of positions or value of assets that the Company administers and are paid by

mutual fund and annuity product manufacturers. These recordkeeping revenues are recognized over time as the Company fulfills its performance obligations. As recordkeeping fees are susceptible to unpredictable market changes that influence market value and fund positions, these revenues include variable consideration and are constrained until the date that the fees are determinable, such as the last date of the contract period in which the market value of the respective product sponsor assets for the period is available.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Asset-based revenue				
Money market cash sweep fees	$5,762	$4,199	$15,576	$15,645
Other cash sweep vehicles fees[(1)]	121,412	77,418	337,068	197,470
Total cash sweep revenue	127,174	81,617	352,644	213,115
Sponsorship programs	58,065	48,292	168,074	143,458
Recordkeeping	63,656	54,044	186,116	158,053
Total asset-based revenue	$248,895	$183,953	$706,834	$514,626

(1) Revenues from the Company's other cash sweep vehicles are not in scope for Topic 606 because such revenues are generated pursuant to contracts with depository banks. In these vehicles, cash balances in the advisors' clients' accounts are swept into the Company's insured sweep vehicles at depository banks. Clients earn interest for their balances on deposit and the Company earns a fee based on prevailing interest rates or per account.

Transaction and Fee Revenue

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

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Transaction and Fee Revenue				
Point-in-time[(1)]	$78,465	$66,244	$240,954	$213,182
Over time[(2)]	40,476	37,755	111,091	108,340
Total transaction and fee revenue	118,941	103,999	352,045	321,522

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

(2) Transaction and fee revenue recognized over time includes revenue such as error and omission insurance fees, licensing fees, and conference service fees.

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

Interest Income

The Company earns interest income from client margin accounts and cash equivalents, net of operating expense. This revenue is not in scope for Topic 606 as it is not generated from contracts with customers.

Other Revenue

Other revenue primarily includes mark-to-market gains and losses on assets held by the Company for its advisor non-qualified deferred compensation plan and model research portfolios, marketing allowances received from certain financial product manufacturers, primarily those who offer alternative investments, such as non-traded real estate investment trusts and business development companies, and other miscellaneous revenues. These revenues are not in scope for Topic 606 as they are not generated from contracts with customers.

Arrangement with Multiple Performance Obligations

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

Unearned Revenue

We record unearned revenue when cash payments are received or due in advance of our performance obligations, including amounts which are refundable. The increase in the unearned revenue balance for the nine months ended September 30, 2018 is primarily driven by cash payments received or due in advance of satisfying our performance obligations, offset by $71.3 million of revenues recognized that were included in the unearned revenue balance as of December 31, 2017.

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

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

Practical Expedients and Exemptions

The Company has applied Topic 606's practical expedient that permits for the non-disclosure of the value of unsatisfied performance obligations for (i) contracts with an original expected length of one year or less and (ii) contracts for which the Company recognizes revenue at the amount to which it has the right to invoice for services performed.

The Company also applied Topic 606's practical expedient that allows for no adjustment to consideration due to a significant financing component if the expectation at contract inception is such that the period between payment by the customer and the transfer of the promised goods or service to the customer will be one year or less.

4. Acquisitions

National Planning Holdings, Inc.

On August 15, 2017, the Company entered into an asset purchase agreement ("Asset Purchase Agreement") with National Planning Holdings, Inc. ("NPH"), and its four broker-dealer subsidiaries (collectively with NPH, "NPH Sellers") to acquire certain assets and rights of the NPH Sellers, including business relationships with financial advisors who become affiliated with the Company. In accordance with ASC 805, *Business Combinations,* control transferred when the Company onboarded NPH advisors and client assets onto its platform, which occurred in two waves. The first wave was completed in the fourth quarter of 2017 and the second wave was completed in the first quarter of 2018 (the "Conversion Period").

The Company paid $325 million to the NPH Sellers at closing, which occurred on August 15, 2017 and was included in the National Planning Holdings acquisition line on the unaudited condensed consolidated statements of financial condition. The Company recorded intangible assets of $98.4 million in advisor relationships and $61.9 million in goodwill in the fourth quarter of 2017, following the completion of wave one and intangible assets of $112.7 million in advisor relationships and $49.0 million in goodwill in the first quarter of 2018, following the completion of wave two. No contingent payment was due to the NPH Sellers following the conclusion of the Conversion Period.

5. Fair Value Measurements

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

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

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

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

There have been no transfers of assets or liabilities between these fair value measurement classifications during the nine months ended September 30, 2018.

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 September 30, 2018, the Company had the following financial assets and liabilities that are measured at fair value on a recurring basis:

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

Securities Owned and Securities Sold, But Not Yet Purchased — The Company's trading securities consist of house account model portfolios established and managed for the purpose of benchmarking the performance of its fee-based advisory platforms and temporary positions resulting from the processing of client

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

transactions. Examples of these securities include money market funds, U.S. treasury obligations, mutual funds, certificates of deposit, and traded equity and debt securities.

The Company uses prices obtained from independent third-party pricing services to measure the fair value of its trading securities. Prices received from the pricing services are validated using various methods including comparison to prices received from additional pricing services, comparison to available quoted market prices, and review of other relevant market data including implied yields of major categories of securities. In general, these quoted prices are derived from active markets for identical assets or liabilities. When quoted prices in active markets for identical assets and liabilities are not available, the quoted prices are based on similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. For certificates of deposit and treasury securities, the Company utilizes market-based inputs, including observable market interest rates that correspond to the remaining maturities or the next interest reset dates. At September 30, 2018, the Company did not adjust prices received from the independent third-party pricing services.

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

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at September 30, 2018 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$85,721	$—	$ —	$85,721
Securities owned — trading:				
Money market funds	169	—	—	169
Mutual funds	9,966	—	—	9,966
Equity securities	2,726	—	—	2,726
Debt securities	—	1	—	1
U.S. treasury obligations	19,593	—	—	19,593
Total securities owned — trading	32,454	1	—	32,455
Other assets	204,004	8,606	—	212,610
Total assets at fair value	$322,179	$8,607	$ —	$330,786
Liabilities				
Equity securities	$175	$—	$ —	$175
Debt securities	—	158	—	158
Total securities sold, but not yet purchased	175	158	—	333
Total liabilities at fair value	$175	$158	$ —	$333

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at December 31, 2017 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$147,034	$—	$ —	$147,034
Securities owned — trading:				
Money market funds	288	—	—	288
Mutual funds	10,850	—	—	10,850
Equity securities	201	—	—	201
Debt securities	—	60	—	60
U.S. treasury obligations	6,480	—	—	6,480
Total securities owned — trading	17,819	60	—	17,879
Other assets	180,377	9,282	—	189,659
Total assets at fair value	$345,230	$9,342	$ —	$354,572
Liabilities				
Securities sold, but not yet purchased:				
Mutual funds	$3	$—	$ —	$3
Equity securities	67	—	—	67
Debt securities	—	1,112	—	1,112
Total securities sold, but not yet purchased	70	1,112	—	1,182
Total liabilities at fair value	$70	$1,112	$ —	$1,182

6. Held-to-Maturity Securities

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

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

	September 30, 2018	December 31, 2017
Amortized cost	$ 13,005	$ 11,833
Gross unrealized loss	(123)	(86)
Fair value	$ 12,882	$ 11,747

At September 30, 2018, the securities held-to-maturity were scheduled to mature as follows (in thousands):

	Within one year	After one but within five years	After five but within ten years	Total
U.S. government notes — at amortized cost	$4,995	$8,010	$ —	$13,005
U.S. government notes — at fair value	$4,961	$7,921	$ —	$12,882

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7. Goodwill and Other Intangible Assets

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

Balance at December 31, 2016	$1,365,838
Goodwill acquired	61,931
Balance at December 31, 2017	$1,427,769
Goodwill acquired	49,006
Balance at September 30, 2018	$1,476,775

The components of intangible assets were as follows at September 30, 2018 (dollars in thousands):

	Weighted-Average Life Remaining (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Definite-lived intangible assets:				
Advisor and financial institution relationships	7.3	$651,642	$ (303,823)	$347,819
Product sponsor relationships	7.4	234,086	(146,547)	87,539
Client relationships	6.2	19,133	(12,506)	6,627
Trade names	3.6	1,200	(770)	430
Total definite-lived intangible assets		$906,061	$ (463,646)	$442,415
Indefinite-lived intangible assets:				
Trademark and trade name				39,819
Total intangible assets				$482,234

The components of intangible assets were as follows at December 31, 2017 (dollars in thousands):

	Weighted-Average Life Remaining (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Definite-lived intangible assets:				
Advisor and financial institution relationships	8.0	$538,921	$ (269,294)	$269,627
Product sponsor relationships	8.1	234,086	(137,615)	96,471
Client relationships	6.8	19,133	(11,477)	7,656
Trade names	4.3	1,200	(680)	520
Total definite-lived intangible assets		$793,340	$ (419,066)	$374,274
Indefinite-lived intangible assets:				
Trademark and trade name				39,819
Total intangible assets				$414,093

Total amortization of intangible assets was $15.7 million and $9.4 million for the three months ended September 30, 2018 and 2017, respectively, and $44.6 million and $28.3 million for the nine months ended September 30, 2018 and 2017, respectively. Future amortization expense is estimated as follows (in thousands):

2018 - remainder	$15,673
2019	62,688
2020	62,297
2021	62,140
2022	61,340
Thereafter	178,277
Total	$442,415

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8. Debt

On September 21, 2017, LPLFH and LPLH entered into a second amendment (the "Amendment") to its amended and restated credit agreement, dated March 10, 2017 (as amended by that certain amendment agreement, dated as of June 20, 2017, the Amendment, and as further amended to date, the "Credit Agreement"), and repriced its existing $500.0 million senior secured revolving credit facility and $1,695.8 million senior secured Term Loan B facility. Additionally, LPLH raised $400.0 million in aggregate principal amount of notes (the "Additional Notes"), which were issued above par at 103.0% as an add-on to the Original Notes (as defined below).

On March 10, 2017, LPLFH and LPLH entered into a fourth amendment agreement, which amended and restated LPLH's then-existing credit agreement and refinanced LPLH's then-outstanding senior secured credit facilities. The proceeds of the new Term Loan B, together with the proceeds from the offering of $500.0 million aggregate principal amount of 5.75% senior notes (the "Original Notes" and, together with the Additional Notes, the "Notes") and cash, were used to repay LPLH's then-existing senior secured credit facilities and to pay accrued interest and related fees and expenses.

Issuance of 5.75% Senior Notes due 2025

The Original Notes were issued in March 2017 pursuant to an Indenture, dated March 10, 2017, among LPLH, U.S. Bank National Association, as trustee, and certain of the Company's subsidiaries as guarantors ("Indenture").

The Additional Notes were issued in September 2017 pursuant to a Supplemental Indenture, dated September 21, 2017, among LPLH, U.S. Bank National Association, as trustee, and certain of the Company's subsidiaries as guarantors.

The Notes are unsecured obligations that will mature on September 15, 2025, and bear interest at the rate of 5.75% per year, with interest payable semi-annually, beginning on September 15, 2017 with respect to the Additional Notes. The Company may redeem all or part of the Notes at any time prior to March 15, 2020 (subject to a customary "equity claw" redemption right) at 100% of the principal amount redeemed plus a "make-whole" premium. Thereafter the Company may redeem all or part of the Notes at annually declining redemption premiums until March 15, 2023, at and after which date the redemption price will be equal to 100% of the principal amount redeemed.

Senior Secured Credit Facilities

Borrowings under the Term Loan B facility bear interest at a rate per annum of 225 basis points over the Eurodollar Rate or 125 basis points over the base rate (as defined in the Credit Agreement), and have no leverage or interest coverage maintenance covenants. Borrowings under the revolving credit facility bear interest at a rate per annum ranging from 125 to 175 basis points over the Eurodollar Rate or 25 to 75 basis points over the base rate, depending on the Consolidated Secured Debt to Consolidated EBITDA Ratio (as defined in the Credit Agreement). The Eurodollar Rate option is the one-, two-, three-, or six-month LIBOR rate, as selected by LPLH, or, with the approval of the applicable lenders, twelve month LIBOR rate or the LIBOR rate for another period acceptable to the Administrative Agent (including a shorter period). The Eurodollar Rate is subject to an interest rate floor of 0%.

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The Company's outstanding long-term borrowings as of the dates below were as follows (dollars in thousands):

	September 30, 2018			December 31, 2017			
Long-Term Borrowings	**Balance**	**Applicable Margin**	**Interest Rate**	**Balance**	**Applicable Margin**	**Interest rate**	**Maturity**
Revolving Credit Facility	$—	LIBOR+125bps	— %	$—	LIBOR+125bps	— %	9/21/2022
Senior Secured Term Loan B(1)	1,485,000	LIBOR+225 bps	4.42 %	1,496,250	LIBOR+225 bps	3.81 %	9/21/2024
Senior Unsecured Notes(1)(2)	900,000	Fixed Rate	5.75 %	900,000	Fixed Rate	5.75 %	9/15/2025
Total long-term borrowings	2,385,000			2,396,250			
Plus: Unamortized Premium	10,458			11,584			
Less: Unamortized Debt Issuance Cost	(20,345)			(22,812)			
Net Carrying Value	$2,375,113			$2,385,022			

(1) No leverage or interest coverage maintenance covenants.

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

The Company is required to make quarterly amortization payments on the Term Loan B facility (commencing with the fiscal quarter ending December 31, 2017), each equal to 0.25% of the original principal amount of the loans under the Term Loan B facility. Voluntary prepayments of the Term Loan B facility may be made at any time without premium or penalty.

As of September 30, 2018, LPLH also had $10.6 million of irrevocable letters of credit, with an applicable interest rate margin of 1.25%, which were supported by the Company's revolving credit facility.

The Credit Agreement subjects the Company to certain non-financial covenants for the benefit of the revolving credit facility and Term Loan B facility. As of September 30, 2018, the Company was in compliance with such covenants.

Bank Loans Payable

The Company maintains three uncommitted lines of credit. Two of the lines have unspecified limits, which are primarily dependent on the Company's ability to provide sufficient collateral. The third line has a$200 million limit, and allows for both collateralized and uncollateralized borrowings. The lines were not utilized during the three months ended September 30, 2018. The Company drew $160 million on one of the lines of credit at an interest rate of 2.99% during the nine months ended September 30, 2018. There were no balances outstanding at September 30, 2018 or December 31, 2017.

9. Commitments and Contingencies

Leases

The Company leases office space and equipment 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. Total rental expense for all operating leases was approximately $4.8 million and $4.8 million for the three months ended September 30, 2018 and 2017, respectively, and $14.3 million and $15.3 million for the nine months ended September 30, 2018 and 2017, respectively.

Service and Development Contracts

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

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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's subsidiary, LPL Financial, provides guarantees to securities clearing houses and exchanges under their standard membership agreements, which require a member to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearing houses and exchanges, all other members would be required to meet any shortfall. The Company's liability under these arrangements is not quantifiable and 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.

Loan Commitments

From time to time, LPL Financial makes loans to its advisors, primarily to newly recruited advisors to assist in the transition process, which may be forgivable. Due to timing differences, LPL Financial may make commitments to issue such loans prior to actually funding them. These commitments are generally contingent upon certain events occurring, including but not limited to the advisor joining LPL Financial. LPL Financial had no significant unfunded commitments at September 30, 2018.

Legal & Regulatory Matters

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

On May 1, 2018 the Company agreed to a settlement structure with the North American Securities Administrators Association related to the Company's historical compliance with certain state "blue sky" laws. The Company is in the process of entering into separate administrative orders with 53 jurisdictions, which would result in aggregate fines of approximately $26.4 million. As part of the settlement structure, the Company agreed to engage independent third party consultants to conduct a historical review of certain equity and fixed income securities transactions, as well as an operational review of its systems for

complying with blue sky securities registration requirements. The Company also agreed to offer remediation to customers who purchased certain equity and fixed-income securities since October 2006. As of the date of this quarterly report, the Company expects to incur costs related to this matter over the next few years, and it expects the majority of these costs to be covered by its captive insurance subsidiary, which had adequate loss reserves as of September 30, 2018.

A putative class action lawsuit has been filed against the Company and certain of its executive officers in federal district court alleging certain misstatements and omissions related to the Company's share repurchases and financial performance in late 2015.

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Third-Party Insurance
The Company maintains third-party insurance coverage for certain potential legal proceedings, including those involving client claims. With respect to client claims, the estimated losses on many of the pending matters are less than the applicable deductibles of the insurance policies.
Self-Insurance
The Company has self-insurance for certain potential liabilities, including various errors and omissions liabilities, through a wholly-owned captive insurance subsidiary. Liabilities associated with the risks that are retained by the Company are not discounted and are estimated by considering, in part, historical claims experience, severity factors, and other actuarial assumptions. The estimated loss accruals for these potential liabilities could be significantly affected if future occurrences and claims differ from such assumptions and historical trends used to estimate these loss reserves. As of September 30, 2018, self-insurance liabilities are included in accounts payable and accrued liabilities in the unaudited condensed consolidated statements of financial condition. Self-insurance related charges are included in other expenses in the unaudited condensed consolidated statements of income for the three and nine months ended September 30, 2018.

Other Commitments

As of September 30, 2018, the Company had approximately $293.5 million of client margin loans that were collateralized with securities having a fair value of approximately $410.9 million that the Company can re-pledge, loan, or sell. Of these securities, approximately $56.5 million were client-owned securities pledged to the Options Clearing Corporation as collateral to secure client obligations related to options positions. As of September 30, 2018, there were no restrictions that materially limited the Company's ability to re-pledge, loan, or sell the remaining $354.3 million of client collateral.
Trading securities on the unaudited condensed consolidated statements of financial condition includes $4.7 million and $6.5 million pledged to clearing organizations at September 30, 2018 and December 31, 2017, respectively.

10. Stockholders' Equity

Dividends

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

	2018		2017	
	Dividend per Share	Total Cash Dividend	Dividend per Share	Total Cash Dividend
First quarter	$0.25	$ 22.6	$0.25	$ 22.6
Second quarter	$0.25	$ 22.3	$0.25	$ 22.6
Third quarter	$0.25	$ 21.9	$0.25	$ 22.5

Share Repurchases

The Company engages in share repurchase programs, which are approved by the Board of Directors, pursuant to which the Company may repurchase its issued and outstanding shares of common stock from time to time. Repurchased shares are included in treasury stock on the unaudited condensed consolidated statements of financial condition. As of September 30, 2018, the Company was authorized to purchase up to an additional $200.0 million of shares pursuant to share repurchase programs approved by the Board of Directors.

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

	2018		
	Total Number of Shares Purchased	Weighted-Average Price Paid Per Share	Total Cost[(1)]
First quarter	967,500	$ 62.84	$60.8
Second quarter	1,791,493	$ 65.20	$116.8
Third quarter	1,849,027	$ 66.24	$122.5
	4,608,020	$ 65.12	$300.1

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

11. Share-Based Compensation

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

As of September 30, 2018, there were 20,055,945 shares authorized for grant under the 2010 Plan. There were 6,630,320 shares reserved for issuance upon exercise or conversion of outstanding awards granted, and 6,484,606 shares remaining available for future issuance, under the 2010 Plan as of September 30, 2018.

Stock Options and Warrants

The following table presents the weighted-average assumptions used in the Black-Scholes valuation model by the Company in calculating the fair value of its employee and officer stock options granted during the nine months ended September 30, 2018:

Expected life (in years)	5.43
Expected stock price volatility	34.80 %
Expected dividend yield	1.71 %
Risk-free interest rate	2.66 %
Fair value of options	$19.86

The following table summarizes the Company’s stock option and warrant activity for thenine months ended September 30, 2018:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding — December 31, 2017	4,866,499	$ 31.73		
Granted	478,824	$ 65.55		
Exercised	(1,218,087)	$ 33.95		
Forfeited and Expired	(208,091)	$ 37.81		
Outstanding — September 30, 2018	3,919,145	$ 34.85	5.79	$ 116,683
Exercisable — September 30, 2018	2,682,517	$ 31.07	4.54	$ 89,711
Exercisable and expected to vest — September 30, 2018	3,857,324	$ 34.50	5.73	$ 116,157

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The following table summarizes information about outstanding stock options and warrants as of September 30, 2018:

	Outstanding			Exercisable	
Range of Exercise Prices	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Shares	Weighted-Average Exercise Price
$18.01 - $25.00	1,305,007	$ 20.54	5.32	947,556	$ 20.72
$25.01 - $30.00	397,714	$ 28.95	3.75	395,640	$ 28.94
$30.01 - $35.00	706,538	$ 33.13	3.07	706,538	$ 33.13
$35.01 - $45.00	665,708	$ 39.62	8.24	224,812	$ 39.77
$45.01 - $55.00	405,955	$ 48.72	6.08	405,955	$ 48.72
$55.01 - $71.00	438,223	$ 65.55	9.41	2,016	$ 65.50
	3,919,145	$ 34.85	5.79	2,682,517	$ 31.07

The Company recognized share-based compensation related to the vesting of stock options awarded to employees and officers of $2.5 million and $2.0 million during the three months ended September 30, 2018 and 2017, respectively, and $6.5 million and $5.8 million during the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, total unrecognized compensation cost related to non-vested stock options granted to employees and officers was $9.4 million, which is expected to be recognized over a weighted-average period of 1.98 years.

Restricted Stock and Stock Units

The following summarizes the Company's activity in its restricted stock awards and stock units, which include restricted stock units, deferred stock units, and performance stock units, for the nine months ended September 30, 2018:

	Restricted Stock Awards		Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested — December 31, 2017	12,796	$ 39.73	957,123	$ 32.81
Granted	7,057	$ 70.26	333,061	$ 69.60
Vested	(12,796)	$ 39.73	(361,535)	$ 34.41
Forfeited	—	$ —	(69,881)	$ 39.04
Nonvested — September 30, 2018	7,057	$ 70.26	858,768	$ 45.89
Expected to vest — September 30, 2018	7,057	$ 70.26	800,959	$ 44.78

The Company grants restricted stock awards and deferred stock units to its directors, restricted stock units to its employees and officers, and performance stock units to its officers. Restricted stock awards and stock units must vest or are subject to forfeiture; however, restricted stock awards are included in our shares outstanding upon grant and have the same dividend and voting rights as our common stock. The Company recognized $3.6 million and $2.7 million of share-based compensation related to the vesting of restricted stock awards and stock units during the three months ended September 30, 2018 and 2017, respectively, and $10.6 million and $8.9 million during the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, total unrecognized compensation cost for restricted stock awards and stock units was $19.6 million, which is expected to be recognized over a weighted-average remaining period of 2.14 years.

The Company also grants restricted stock units to its advisors and to financial institutions. The Company recognized share-based compensation of $1.0 million and $2.3 million related to the vesting of these awards during the three months ended September 30, 2018 and 2017, respectively, and $5.5 million and $5.3 million during the nine months ended September 30, 2018 and 2017, respectively. As of September 30, 2018, total unrecognized

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compensation cost for restricted stock units granted to advisors and financial institutions was $5.8 million, which is expected to be recognized over a weighted-average remaining period of 1.79 years.

12. Earnings Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	$106,865	$58,142	$319,161	$174,765
Basic weighted-average number of shares outstanding	87,426	89,967	88,841	90,029
Dilutive common share equivalents	2,452	2,075	2,606	1,998
Diluted weighted-average number of shares outstanding	89,878	92,042	91,447	92,027
Basic earnings per share	$1.22	$0.65	$3.59	$1.94
Diluted earnings per share	$1.19	$0.63	$3.49	$1.90

The computation of diluted earnings per share excludes stock options, warrants, and stock units that are anti-dilutive. For the three months ended September 30, 2018 and 2017, stock options, warrants, and stock units representing common share equivalents of 439,156 shares and 1,168,772 shares, respectively, were anti-dilutive. For the nine months ended September 30, 2018 and 2017, stock options, warrants, and restricted stock units representing common share equivalents of 377,583 shares and 2,098,029 shares, respectively, were anti-dilutive.

13. Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (H.R. 1), the tax reform bill (the "Tax Act"), was signed into law. The Tax Act provided a permanent reduction in the Company's federal corporate income tax rate from 35% to 21% effective January 1, 2018.

The Company’s effective income tax rate differs from the federal corporate tax rate of21.0%, primarily as a result of state taxes, settlement contingencies, tax credits and other permanent differences in tax deductibility of certain expenses. These items resulted in effective tax rates of 27.5% and 39.8% for the three months ended September 30, 2018 and 2017, respectively, and 25.8% and 38.6% for the nine months ended September 30, 2018 and 2017, respectively.

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

14. Related Party Transactions

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

The Company recognized revenue for services provided to these related parties of $1.0 million and $0.7 million during the three months ended September 30, 2018 and 2017, respectively, and $2.6 million and

$2.2 million during the nine months ended September 30, 2018 and 2017, respectively. The Company incurred expenses for the services provided by these related parties of $0.6 million during the three months ended September 30, 2018 and there were no related party expenses for the same period in 2017. The Company incurred expenses for the services provided by these related parties of $1.8 million and $0.1 million during the nine months ended September 30, 2018

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and 2017, respectively. As of September 30, 2018 and 2017, receivables and payables to related parties were not material.

15. Net Capital and Regulatory Requirements

The Company's registered broker-dealer, LPL Financial, is subject to the SEC's Net Capital Rule (Rule 15c3-1 under the Exchange Act), which requires the maintenance of minimum net capital. The net capital rules also provide that the broker-dealer's capital may not be withdrawn if resulting net capital would be less than minimum requirements. Additionally, certain withdrawals require the approval of the SEC and FINRA to the extent they exceed defined levels, even though such withdrawals would not cause net capital to be less than minimum requirements. Net capital and the related net capital requirement may fluctuate on a daily basis. LPL Financial is a clearing broker-dealer and had net capital of $166.1 million with a minimum net capital requirement of $8.5 million as of September 30, 2018.

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

As of September 30, 2018 and December 31, 2017, LPL Financial and PTC met all capital adequacy requirements to which they were subject.

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

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

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

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

17. Subsequent Events

On October 23, 2018, the Board of Directors declared a cash dividend of $0.25 per share on the Company's outstanding common stock to be paid on November 26, 2018 to all stockholders of record on November 8, 2018.

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Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

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

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

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

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

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

At September 30, 2018, the fair value of our trading securities owned was $32.5 million. Securities sold, but not yet purchased were immaterial at September 30, 2018. The fair value of securities included within other assets was $212.6 million at September 30, 2018. See Note 5. *Fair Value Measurements*, within the notes to the unaudited condensed consolidated financial statements for information regarding the fair value of trading securities owned, securities sold, but not yet purchased, and other assets. See Note 6. *Held-to-Maturity Securities*, within the notes to the unaudited condensed consolidated financial statements for information regarding the fair value of securities held to maturity.

Interest Rate Risk

We are exposed to risk associated with changes in interest rates. As of September 30, 2018, $1.49 billion of our outstanding debt under our Credit Agreement was subject to floating interest rate risk. While our senior secured term loan is subject to increases in interest rates, we do not believe that a short-term change in interest rates would have a material impact on our income before taxes given assets owned are subject to the same, but off-setting interest rate risk.

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

	Outstanding Variable Interest Rates at September 30, 2018	Annual Impact of an Interest Rate Increase of			
		10 Basis Points	25 Basis Points	50 Basis Points	100 Basis Points
Senior Secured Credit Facilities					
Term Loan B	$1,485,000	$1,476	$3,689	$7,379	$14,757
Revolving Credit Facility	—	—	—	—	—
Variable Rate Debt Outstanding	$1,485,000	$1,476	$3,689	$7,379	$14,757

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

Our interest rate risk is mitigated in part by having the interest rate for a portion of the Term Loan B debt, $742.5 million, fixed for three months and the remaining portion, $742.5 million, fixed for six months. At the end of each of these periods the rates will be locked in at the then current rate for one, two, three, six, or

twelve months as allowed under the Credit Agreement. The effect of these interest rate locks are not included in the table above.

As of September 30, 2018 we offered our advisors and their clients three primary cash sweep vehicles that are interest rate sensitive: our insured cash account ("ICA") for individuals, trusts and sole proprietorships, and entities organized or operated to make a profit, such as corporations, partnerships, associations, business trusts, and other organizations, an insured deposit cash account ("DCA") for advisory individual retirement accounts, and a money market sweep vehicle involving multiple money market fund providers. While clients earn interest for balances on deposit in ICA and DCA, we earn a fee. Our fees from ICAs are based on prevailing interest rates in the current interest rate environment. The fees that we receive from the DCA vehicle are calculated as a per account fee; such fees increase as the federal funds target rate increases, subject to a cap. The fees we receive on cash balances in our advisors' client accounts in money market funds, including administrative and recordkeeping fees based on account type and the invested balances, are also sensitive to prevailing interest rates. Changes in interest rates and fees for the bank deposit sweep vehicles are monitored by our Rate Setting Committee (the "RSC"), which governs and approves any changes to our fees. By meeting promptly around the time of Federal Open Market Committee meetings, or for other market or non-market reasons, the RSC considers financial risk of the insured bank deposit sweep vehicle relative to other products into which clients may move cash balances.

Credit Risk

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

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

As our advisors execute margin transactions on behalf of their clients, we may incur losses if clients do not fulfill their obligations, the collateral in clients' accounts is insufficient to fully cover losses from such investments, and our advisors fail to reimburse us for such losses. Our losses on margin accounts were immaterial during the nine months ended September 30, 2018 and 2017. We monitor exposure to industry sectors and individual securities and perform analyses on a regular basis in connection with our margin lending activities. We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions.

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

Operational Risk

Operational risk is defined as the risk of loss resulting from failed or inadequate processes or systems, actions by people, or external events. We operate in diverse markets and are reliant on the ability of our employees and information technology systems, as well as third-party service providers and their systems, to manage a large number of transactions effectively. These risks are less direct and quantifiable than credit and market risk, but managing them is critical, particularly in a rapidly changing operating environment with increasing transaction volumes and in light of increasing reliance on systems capabilities

and performance, as well as third-party service providers. In the event of a breakdown, obsolescence, or improper operation of systems or improper action by employees, advisors, or third-party service providers, we could suffer business disruptions, financial loss, data loss, regulatory sanctions, and damage to our reputation. Although we have developed business continuity and disaster recovery plans, those plans could be inadequate, disrupted, or otherwise unsuccessful in maintaining the competitiveness, stability, security, or continuity of critical systems as a result of, among other things, obsolescence, improper operation, or other limitations of our current technology.

In order to assist in the mitigation and control of operational risk, we have an operational risk framework that is designed to enable assessment and reporting on operational risk across the firm. This framework helps to ensure policies and procedures are in place and appropriately designed to identify and manage operational risk at appropriate levels throughout our organization and within various departments. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our employees and advisors operate within established corporate policies and limits. Notwithstanding the foregoing, please consult the Risks Related to our Technology and Risks Related to Our Business Generally sections within Part I, "Item 1A. Risk Factors" in our 2017 Annual Report on Form 10-K for more information about the risks associated with our technology, including risks related to information security, our risk management policies and procedures and the potential related effects on our operations.

Regulatory and Legal Risk

The regulatory environment in which we operate is discussed in detail within Part I, "Item 1, Business Section" in our 2017 Annual Report on Form 10-K. In recent years, and during the periods presented in this Quarterly Report on Form 10-Q, we have observed the SEC, FINRA and state regulators broaden the scope, frequency, and depth of their examinations to include greater emphasis on the quality, consistency and oversight of our compliance systems and programs. Please consult the Risks Related to Our Regulatory Environment section within Part I, "Item 1A. Risk Factors" in our 2017 Annual Report on Form 10-K for more information about the risks associated with operating within our regulatory environment, pending regulatory matters and the potential related effects on our operations.

Risk Management

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

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

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

Audit Committee of the Board

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

Compensation and Human Resources Committee of the Board

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

Risk Oversight Committee of LPL Financial

The Audit Committee has mandated that the ROC oversee our risk management activities, including those of our subsidiaries. The Chief Risk Officer of LPL Financial serves as chair of the ROC, which generally meets on a monthly basis with *ad hoc* meetings as necessary. The members of the ROC include certain Managing Directors of

LPL Financial, as well as other members of LPL Financial's senior management team who serve as ex-officio members and represent key control areas of the Company. These individuals include, but are not limited to, the Chief Compliance Officer; the Chief Information Security Officer; and the Chief Anti-Money Laundering Officer. Participation in the ROC by senior officers is intended to ensure that the ROC covers the key risk areas of the Company, including its subsidiaries, and that the ROC thoroughly reviews significant matters relating to risk priorities, policies, control procedures and related exceptions, certain new and complex products and business arrangements, transactions with significant risk elements, and identified emerging risks.

The Audit Committee receives reports on the ROC at each of the Audit Committee's regularly scheduled quarterly meetings. The reports generally cover topics addressed by the ROC at its meetings since the immediately preceding report. If warranted, matters of material risk are escalated to the Audit Committee or Board more frequently.

Subcommittees of the Risk Oversight Committee

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

Internal Audit Department

The Internal Audit Department provides independent verification of the effectiveness of the Company's internal controls by conducting risk assessments and audits designed to identify and cover important risk categories. The Internal Audit Department provides regular reports to the ROC and reports to the Audit Committee at least as often as quarterly.

Control Groups

The CLR Department provides compliance oversight and guidance, and conducts various risk and other assessments to address regulatory and Company-specific risks and requirements. The CLR Department reports to the Chief Legal Officer, who reviews the results of the Company's risk management process with the ROC, the Audit Committee, and the Board as necessary. Another key control group is the STO Risk Management team. This team identifies, defines, and remediates risk-related items within STO and acts as the liaison between STO and CLR. We also consider the Internal Audit Department to be a control group.

Business Line Management

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

Advisor Policies

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our Disclosure Committee, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective.

Change in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the third quarter ended September 30, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we have been subjected to and are currently subject to legal and regulatory proceedings arising out of our business operations, including lawsuits, arbitration claims, and inquiries, investigations and enforcement proceedings initiated by the SEC, FINRA and state securities regulators, as well as other actions and claims. See Note 9. *Commitments and Contingencies,* within the notes to the unaudited condensed consolidated financial statements for additional information.

A putative class action lawsuit has been filed against the Company and certain of its executive officers in federal district court alleging certain misstatements and omissions related to the Company's share repurchases and financial performance in late 2015. The Company intends to defend vigorously against the lawsuit.

Item 1A. Risk Factors

There have been no material changes in the information regarding the Company's risks, as set forth under Part I, "Item 1A. Risk Factors" in the Company's 2017 Annual Report on Form 10-K.

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

The table below sets forth information regarding repurchases, reported on a trade date basis, during the three months ended September 30, 2018:

Period	Total Number of Shares Purchased	Weighted-Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares That May Yet Be Purchased Under the Programs (millions)
July 1, 2018 through July 31, 2018	450,690	$ 66.23	450,690	$ 292.6
August 1, 2018 through August 31, 2018	1,145,664	$ 66.42	1,145,664	$ 216.5
September 1, 2018 through September 30, 2018	252,673	$ 65.43	252,673	$ 200.0
Total	1,849,027		1,849,027	

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Item 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation of LPL Investment Holdings Inc., dated November 23, 2010. (1)
3.2	Certificate of Ownership and Merger Merging LPL Financial Holdings Inc. with and into LPL Investment Holdings Inc., dated June 14, 2012. (2)
3.3	Certificate of Amendment to the Amended and Restated Certificate of Incorporation of LPL Financial Holdings Inc., dated May 8, 2014. (3)
3.4	Fifth Amended and Restated Bylaws of LPL Financial Holdings Inc. (4)
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)*
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)*
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation
101.LAB	XBRL Taxonomy Extension Label
101.PRE	XBRL Taxonomy Extension Presentation
101.DEF	XBRL Taxonomy Extension Definition

* Filed herewith.

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

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

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

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

SIGNATURES

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

LPL Financial Holdings Inc.

Date: October 30, 2018 By: /s/ DAN H. ARNOLD
Dan H. Arnold
President and Chief Executive Officer

Date: October 30, 2018 By: /s/ MATTHEW J. AUDETTE
Matthew J. Audette
Chief Financial Officer