LPL Financial Holdings Inc.
Form 10-Q
May 02, 2019

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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 March 31, 2019

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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). x Yes o No

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

Large accelerated filer x Accelerated filer o

Non-accelerated filer o 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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock -- $0.001 par value per share	LPLA	Nasdaq Global Select Market

The number of shares of Common Stock, par value $0.001 per share, outstanding as of April 26, 2019 was 83,434,537.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly, and current reports, proxy statements, and other information required by the Securities Exchange Act of 1934, as amended ("Exchange Act"), with the Securities and Exchange Commission ("SEC"). Our SEC filings are available to the public from the SEC's internet site at SEC.gov. On our internet site, 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", "LPL", "we", "us", "our", and the "Company", we mean LPL Financial Holdings Inc., a Delaware corporation, and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in Part I, "Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Quarterly Report on Form 10-Q regarding the Company's future financial and operating results, outlook, growth, plans, business strategies, liquidity, future indebtedness, future share repurchases, and future dividends, including statements regarding future resolution of regulatory matters, legal proceedings and related costs, future revenue 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 May 2, 2019. The words "anticipates," "believes," "expects," "may," "plans," "predicts," "will," and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future results, plans, intentions, or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive, and other factors, which may cause actual financial or operating results, levels of activity, or the timing of events, to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in general economic and financial market conditions, including retail investor sentiment; changes in interest rates and fees payable by banks participating in the Company's cash sweep programs, including the Company's success in negotiating agreements with current or additional counterparties; the Company's strategy and success in managing cash sweep program fees; fluctuations in the levels of brokerage and advisory assets, including net new assets, and the related impact on revenue; effects of competition in the financial services industry; the success of the Company in attracting and retaining financial advisors and institutions, and their ability to market effectively financial products and services; whether retail investors served by newly-recruited advisors choose to move their respective assets to new accounts at the Company; changes in growth and profitability of the Company's fee-based business, including the Company's centrally managed advisory platform; the effect of current, pending, and future legislation, regulation, and regulatory actions, including disciplinary actions imposed by federal and state regulators and self-regulatory organizations; the cost of settling and remediating issues related to regulatory matters or legal proceedings, including actual costs of reimbursing customers for losses in excess of our reserves; changes made to the Company's services and pricing, including in response to current, pending, and future legislation, regulation, and regulatory actions, and the effect that such changes may have on the Company's gross profit streams and costs; execution of the Company's capital management plans, including its compliance with the terms of its credit agreement and the indenture governing its senior notes; the price, the availability of shares, and trading volumes of the Company's common stock, which will affect the timing and size of future share repurchases by the Company; execution of the Company’s plans and its success in realizing the synergies, expense savings, service improvements or efficiencies expected to result from its initiatives and programs, including its acquisitions of AdvisoryWorld and 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 2018 Annual Report on Form 10-K, as may be amended or updated in the Company's

Quarterly Reports on Form 10-Q. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this quarterly report, 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

Results for the first quarter of 2019 included net income of $155.4 million, or $1.79 per share, which compares to $93.5 million, or $1.01 per share, for the first quarter of 2018.

Asset Growth Trends

Total brokerage and advisory assets served were $684.0 billion as of March 31, 2019, up 6% from $647.5 billion as of March 31, 2018. Total net new assets were $4.0 billion for the three months ended March 31, 2019, compared to $38.9 billion for the same period in 2018. During the three months ended March 31, 2018, we onboarded $36.0 billion in brokerage and advisory assets in connection with our acquisition of the broker-dealer network of National Planning Holdings, Inc. ("NPH"), which contributed to our growth in net new assets.

Net new advisory assets were $4.6 billion for the three months ended March 31, 2019, compared to $13.1 billion for the same period in 2018. As of March 31, 2019, our advisory assets had grown to $311.9 billion from the prior year balance of $283.5 billion and represented 46% of total brokerage and advisory assets served.

Net new brokerage assets were an outflow of $0.7 billion for the three months ended March 31, 2019, compared to an inflow of $25.8 billion for the same period in 2018. As of March 31, 2019, our brokerage assets had grown to $372.1 billion from $364.1 billion as of March 31, 2018.

Gross Profit Trends

Gross profit, a non-GAAP financial measure, of $555.8 million for the three months ended March 31, 2019, increased 20% from $464.0 million for the quarter ended March 31, 2018. 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.

Shareholder Capital Returns

We returned $146.1 million of capital to shareholders during the three months ended March 31, 2019, including $21.1 million of dividends and $125.0 million of share repurchases, representing 1,747,116 shares.

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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 programs and the access we provide to a variety of product providers with the following product lines:

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

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

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

How We Evaluate Our Business

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

Business Metrics (dollars in billions) (balances may not foot due to rounding)	**Three Months Ended March 31, 2019**	**2018**	**% Change**
Advisory assets(1)(2)	$311.9	$283.5	10 %
Brokerage assets(1)(3)	372.1	364.1	2 %
Total Brokerage and Advisory Assets served(1)	**$684.0**	**$647.5**	**6 %**
Net new advisory assets(4)	$4.6	$13.1	n/m
Net new brokerage assets(5)	(0.7)	25.8	n/m
Total Brokerage and Advisory Net New Assets	**$4.0**	**$38.9**	**n/m**
Insured cash account balances(1)	$21.7	$22.6	(4 %)
Deposit cash account balances(1)	4.3	4.2	2 %
Money market account balances(1)	4.8	2.9	66 %
Total Cash Sweep Balances	**$30.7**	**$29.6**	**4 %**
Advisors	16,189	16,067	1 %

Financial Metrics (dollars in millions, except per share data)	**Three Months Ended March 31, 2019**	**2018**
Total net revenues	$1,371.7	$1,241.6
Recurring gross profit rate (trailing twelve months)(6)	86.3 %	83.9 %
Pre-tax income	$203.8	$119.9
Net income	$155.4	$93.5
Earnings per share, diluted	$1.79	$1.01
Non-GAAP Financial Measures(7)		
Gross profit(8)	$555.8	$464.0
Gross profit growth from prior period(8)	19.8 %	23.3 %
Gross profit as a % of net revenue(8)	40.5 %	37.4 %

(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 period presented. We track recurring gross profit, a characterization of gross profit and a statistical measure, which

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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-gross dealer concessions 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. Our management uses this non-GAAP information internally to evaluate operating performance and in formulating the budget for future periods. We believe that the non-GAAP financial measures and metrics presented above and discussed below are appropriate for evaluating the performance of the Company.

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

	Three Months Ended March 31,	
Gross Profit (in millions)	**2019**	**2018**
Total net revenues	$1,371.7	$1,241.6
Commission and advisory expense	799.7	761.7
Brokerage, clearing, and exchange fees	16.1	15.9
Gross profit	**$555.8**	**$464.0**

Legal & Regulatory Matters

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

Assessing the probability of a loss occurring and the timing and amount of any loss related to a regulatory matter or a legal proceeding, whether or not covered by the Company's captive insurance subsidiary, is inherently difficult and requires judgments based on a variety of factors and assumptions. There are particular uncertainties and complexities involved when assessing the adequacy of loss reserves for potential liabilities that are self-insured by our captive insurance subsidiary, which depends in part on historical claims experience, including the actual timing and costs of resolving matters that begin in one policy period and are resolved in a subsequent period.

Our accruals, including those established through the captive insurance subsidiary at March 31, 2019, include estimated costs for significant regulatory matters, generally relating to the adequacy of our compliance and supervisory systems and procedures and other controls, for which we believe losses are both probable and reasonably estimable. For example, on May 1, 2018, we agreed to a settlement structure with the North American Securities Administrators Association related to our historical compliance with certain state “blue sky” laws (the "Blue Sky Settlement"). We have entered into separate administrative orders with 37 jurisdictions and expect to

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enter into separate administrative orders with the remaining 16 jurisdictions throughout 2019, which will 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 customers who purchased certain equity and fixed-income securities since October 2006 remediation in the form of reimbursement for any actual losses, plus interest. We believe our captive insurance subsidiary has adequate loss reserves to cover the aggregate fines and has loss reserves as of March 31, 2019 that are available to cover the costs of remediation. As of the date of this Quarterly Report on Form 10-Q, however, the historical review of transactions has not been completed and, as a result, the scope and costs of potential customer remediation cannot be estimated at this time. The actual costs of reimbursing customers for losses could exceed our reserves.

The outcome of regulatory matters could result in legal liability, regulatory fines, or monetary penalties in excess of our accruals and insurance, which could have a material adverse effect on our business, results of operations, cash flows, or financial condition. For more information on management's loss contingency policies, see Note 10. *Commitments and Contingencies*, within the notes to the unaudited condensed consolidated financial statements.

In June 2018, the U.S. Court of Appeals for the Fifth Circuit issued a mandate invalidating regulations previously enacted by the U.S. Department of Labor ("DOL") that expanded the definition of "fiduciary" and would have resulted in significant new restrictions on our servicing of certain retirement plan accounts subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), and individual retirement accounts ("IRAs"), including compliance with expanded prohibited transaction requirements under section 4975 of the Internal Revenue Code (the "DOL Rule"). Because ERISA plans and IRAs comprise a significant portion of our business, we continue to expect that compliance with current and future laws and regulations with respect to retail retirement savings and reliance on prohibited transaction exemptions under such laws and regulations will require increased legal, compliance, information technology, and other costs and could lead to a greater risk of class action lawsuits and other litigation.

In 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.

Uncertainty regarding 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, may have impacts on our business in ways which cannot be anticipated or planned for, and which may have further impact on our products and services, and results of operations.

Acquisitions, Integrations, and Divestitures

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

During 2017, LPL Financial paid $325 million to acquire certain assets and rights of NPH, including business relationships with financial advisors. We completed the onboarding of NPH advisors and client assets in the first quarter of 2018. 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.

On December 3, 2018, we acquired all of the outstanding common stock of AdvisoryWorld, a technology company, for a total purchase price of $28.1 million. AdvisoryWorld provides proposal generation, investment analytics and portfolio modeling capabilities in the wealth management industry.

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 have pointed to continued steady economic growth through the first quarter of 2019, the eighth consecutive quarter of growth above 2%. According to the most recent estimate by the Bureau of Economic Analysis, real gross domestic product ("GDP") grew at an annualized rate of 3.2% in the first quarter of 2019, and 3.2% growth over the last year, compared to an expansion average of 2.3% growth. The Federal Reserve's ("Fed") most recent median projection puts expected U.S. growth at 2.1% in 2019 with further modest slowing in 2020.

The U.S. economy continues to be supported by healthy labor markets and still low interest rates compared to historical levels, but there are signs that consumer and business spending have slowed from the solid overall pace seen in 2018. A slowdown in global growth has been a key concern. The International Monetary Fund, in its April global growth update, lowered its 2019 global growth forecast to 3.3%, compared to 3.6% in 2018 and nearly 4.0% in 2017, and highlighted ongoing risks from trade disputes, policy uncertainty, and potential deterioration in market sentiment. Nevertheless, it maintained expectations of a modest pick-up in growth as we move into the second half of the year.

In the first quarter of the year, financial markets bounced back from sharp declines in the fourth quarter of 2018, with the S&P 500 climbing 13.7% on a total return basis, the best start to the year since 1998, partially driven by a shift in tone on monetary policy and progress on trade. Both international developed and emerging market stocks lagged U.S. markets as declining growth expectations weighed on prospects of corporate profitability. Bonds also fared well during the quarter, helped by both a decline in the 10-year Treasury yield and narrowing credit spreads as concerns about global risk moderated (bond prices rise when yields falls). Treasuries rose, but performance was stronger among credit-sensitive bond sectors. Investment-grade corporate bonds performed well among investment-grade sectors, but lower quality bonds, such as high-yield corporate bonds, generally saw stronger performance.

Our business is also sensitive to current and expected short-term interest rates, which are largely driven by Fed policy. Please consult the Risks Related to Our Business and Industry section within Part I, "Item 1A. Risk Factors" in our 2018 Annual Report on Form 10-K for more information about the risks associated with significant interest rate changes, and the potential related effects on our profitability and financial condition.

The Fed followed through on late fourth quarter and early first quarter messaging by holding off on any additional rate hikes at its first two meetings of 2019, leaving the federal funds rate at 2.25 - 2.5%. Well-contained inflation has helped give the Fed the policy flexibility to delay further tightening in response to growth concerns. In the projection materials accompanying the meeting, the median expectation was that there would be no further rate hikes in 2019 as growth expectations moderated, although 6 of the 17 participants still saw a likelihood of one or more hikes before the end of the year. In the meeting minutes, members cited concerns about global growth and the decreasing impact of fiscal stimulus as reasons for lowering overall growth expectations.

Results of Operations

The following discussion presents an analysis of our results of operations for the three months ended March 31, 2019 and 2018. Where appropriate, we have identified specific events and changes that affect comparability or trends, and where possible and practical, have quantified the impact of such items.

	Three Months Ended March 31,		
(In thousands)	**2019**	**2018**	**% Change**
REVENUES			
Commission	$461,359	$474,811	(2.8)%
Advisory	453,938	422,387	7.5 %
Asset-based	296,363	219,336	35.1 %
Transaction and fee	122,480	116,649	5.0 %
Interest income, net of interest expense	12,321	7,781	58.3 %
Other	25,218	593	n/m
Total net revenues	1,371,679	1,241,557	10.5 %
EXPENSES			
Commission and advisory	799,698	761,697	5.0 %
Compensation and benefits	136,912	123,517	10.8 %
Promotional	51,349	67,427	(23.8)%
Depreciation and amortization	23,470	20,701	13.4 %
Amortization of intangible assets	16,168	13,222	22.3 %
Occupancy and equipment	33,106	27,636	19.8 %
Professional services	19,612	22,172	(11.5)%
Brokerage, clearing, and exchange	16,144	15,877	1.7 %
Communications and data processing	12,327	11,174	10.3 %
Other	26,403	28,586	(7.6)%
Total operating expenses	1,135,189	1,092,009	4.0 %
Non-operating interest expense	32,716	29,622	10.4 %
INCOME BEFORE PROVISION FOR INCOME TAXES	203,774	119,926	69.9 %
PROVISION FOR INCOME TAXES	48,376	26,396	83.3 %
NET INCOME	$155,398	$93,530	66.1 %

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Revenues

Commission Revenues

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

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

	Three Months Ended March 31,			
	2019	**2018**	**$ Change**	**% Change**
Sales-based	$190,999	$187,233	$3,766	2.0 %
Trailing	270,360	287,578	(17,218)	(6.0)%
Total commission revenue	$461,359	$474,811	$(13,452)	(2.8)%

The slight increase in sales-based commission revenue for the three months ended March 31, 2019, compared with the same period in 2018 was driven by market volatility that led to an increase in sales of fixed annuities, partially offset by a decrease in activity for variable annuities, equities and mutual funds. The decrease in trailing revenues for the three months ended March 31, 2019, compared with the same period in 2018 was primarily due to market volatility impacting mutual funds and variable annuity trails.

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

	Three Months Ended March 31,	
	2019	**2018**
Balance - Beginning of period	$346.0	$342.1
Net new brokerage assets	(0.7)	25.8
Market impact(1)	26.8	(3.8)
Balance - End of period	$372.1	$364.1

(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 March 31, 2019.

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

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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 March 31, 2019.

The following table summarizes the composition of total advisory assets as of March 31, 2019 and 2018 (in billions):

	March 31,			
	2019	**2018**	**$ Change**	**% Change**
Corporate platform advisory assets	$191.8	$167.7	$ 24.1	14.4 %
Hybrid platform advisory assets	120.1	115.7	4.4	3.8 %
Total advisory assets(1)	$311.9	$283.5	$ 28.5	10.1 %

(1) Balances may not foot due to rounding.

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

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

	Three Months Ended March 31,	
	2019	**2018**
Balance - Beginning of period	$282.0	$273.0
Net new advisory assets	4.6	13.1
Market impact(1)	25.3	(2.6)
Balance - End of period	$311.9	$283.5

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

Net new advisory assets for the three months ended March 31, 2019 and 2018 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 months ended March 31, 2019 compared to the same period in 2018 was due to net new advisory assets resulting from our recruiting efforts and strong advisor productivity, as well as market gains as represented by higher levels of the S&P 500 index.

Asset-Based Revenues

Asset-based revenues are comprised of our sponsorship programs with financial product manufacturers, omnibus processing and networking services, collectively referred to as recordkeeping, and fees from our cash sweep programs. We receive fees from certain financial product manufacturers in connection with sponsorship programs that support our marketing and sales education and training efforts. Omnibus processing revenues are paid to us by mutual fund product sponsors and are based on the value of custodied assets in advisory accounts and the number of brokerage accounts in which the related mutual fund positions are held. Networking revenues on brokerage assets are correlated to the number of positions we administer and are paid to us by mutual fund and annuity product manufacturers. 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 months ended March 31, 2019 increased compared to the same period in 2018 primarily due to increased revenues from our cash sweep programs and sponsorship programs.

Cash sweep revenue for the three months ended March 31, 2019 increased compared to the same period in 2018 due to the impact of increases in the target range for the federal funds effective rate during 2018 and higher average cash sweep balances. For the three months ended March 31, 2019, our average cash sweep balances increased as compared to the same period in 2018, with balances of $31.3 billion and $29.3 billion, respectively. Revenues for

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our recordkeeping and sponsorship programs for the three months ended March 31, 2019, which are largely based on the market value of the underlying assets, increased compared to the same period in 2018 due to the impact of market appreciation on the value of those underlying assets.

Transaction and Fee Revenues

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

Transaction and fee revenues increased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to a higher volume of transactions, resulting from an increase in market volatility.

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 months ended March 31, 2019, compared to the same period in 2018 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 increased for the three months ended March 31, 2019 compared to the same period in 2018 primarily due to unrealized gains 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, and an increase in dividend income on assets held in our advisor non-qualified deferred compensation plan.

Expenses

Commission and Advisory Expenses

Commission and advisory expenses are comprised of the following: base payout amounts that are earned by and paid out to advisors and institutions based on commission and advisory revenues earned on each client's account (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; 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 March 31,		**Change**
	2019	**2018**	
Base payout rate(1)	82.84 %	82.60 %	24 bps
Production based bonuses	2.04 %	2.05 %	(1 bps)
GDC sensitive payout	84.88 %	84.65 %	23 bps
Non-GDC sensitive payout(2)	2.49 %	0.25 %	224 bps
Total payout ratio	87.37 %	84.90 %	247 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, increased for the three months ended March 31, 2019 compared with the same period in 2018 primarily due to an increase in non-GDC sensitive payout, which includes advisor deferred 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 March 31,		
	2019	**2018**	**Change**
Average number of employees	4,267	3,823	11.6%

Compensation and benefits expense increased for the three months ended March 31, 2019 compared with the same period in 2018 due to an increase in salary and discretionary bonus expenses resulting from an increase in headcount.

Promotional Expense

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

The decrease in promotional expense for the three months ended March 31, 2019 compared with the same period in 2018 was primarily driven by 2018 recruiter and advisor costs related to the onboarding of NPH advisors, and decreases 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.

The increase in depreciation and amortization expense for the three months ended March 31, 2019 compared with the same period in 2018 was primarily due to increases in purchased hardware and software.

Amortization of Intangible Assets

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

The increase in amortization of intangible assets for the three months ended March 31, 2019 compared with the same period in 2018 was due to the intangible assets recorded during 2018 as part of our acquisition of NPH.

Occupancy and Equipment Expense

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

The increase in occupancy and equipment expense for the three months ended March 31, 2019 compared with the same period in 2018 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.

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 decrease in professional services for the three months ended March 31, 2019 compared with the same period in 2018 was primarily due to decreases in non-capitalized costs related to our service and technology projects during the period.

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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 slight increase in brokerage, clearing, and exchange fees is relatively consistent with the volume of sales and trading activity for the three months ended March 31, 2019, compared with the same period in 2018.
Communications and Data Processing
Communications expense consists primarily of the cost of voice and data telecommunication lines supporting our business, including connectivity to data centers, exchanges, and markets. Data processing expense consists primarily of customer statement processing and postage costs.
Communications and data processing expense remained relatively flat for the three months ended March 31, 2019 compared with the same period in 2018.
Other Expenses
Other expenses include the estimated costs of the investigation, settlement, and resolution of regulatory matters (including customer restitution and remediation), licensing fees, insurance, broker-dealer regulator fees, and other miscellaneous expenses. Other expenses will depend in part on the size and timing of resolving regulatory matters and the availability of self-insurance coverage, which depends in part on the amount and timing of resolving historical claims. There are particular uncertainties and complexities involved when assessing the potential costs and timing of regulatory matters, including the adequacy of loss reserves for potential liabilities that are self-insured by our captive insurance subsidiary.
The decrease in other expenses for the three months ended March 31, 2019 compared with the same period in 2018 was primarily driven by lower costs associated with insurance and licensing fees.
Non-Operating Interest Expense
Non-operating interest expense represents expense for our senior secured credit facilities, senior unsecured notes and finance leases. Period over period increases correspond to higher LIBOR rates.
Provision for Income Taxes
We estimate our full-year effective income tax rate at the end of each reporting period. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The tax rate in any quarter can be affected positively and negatively by adjustments that are required to be reported in the quarter in which resolution of a particular item occurs. The effective income tax rates reflect the impact of state taxes, settlement contingencies, tax credits, and other permanent differences in tax deductibility of certain expenses.
Our effective tax rate was 23.7% and 22.0% for the three months ended March 31, 2019 and 2018, respectively.
The increase in our effective income tax rate for the three months ended March 31, 2019 compared with the same period in 2018 was primarily due to the reduction of settlement contingencies in 2018.

Liquidity and Capital Resources

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

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

	Three Months Ended March 31, 2019	2018
Net cash flows (used in) provided by:		
Operating activities	$35,233	$(22,331)
Investing activities	(30,320)	(21,684)
Financing activities	(139,061)	(55,831)
Net decrease in cash, cash equivalents and restricted cash	(134,148)	(99,846)
Cash, cash equivalents and restricted cash — beginning of period	1,562,119	1,625,655
Cash, cash equivalents and restricted cash — end of period	$1,427,971	$1,525,809

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

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

The increase in cash flows provided by operating activities for the three months ended March 31, 2019 compared to the same period in 2018 was primarily attributable to an increase in net income, decrease in receivables from product sponsor, broker-dealers, and clearing organization, and an increase in draft payables and payables to broker-dealers and clearing organizations, due to the timing of payments made. These were offset by a decrease in payables to clients and an increase in advisor loans, due to the timing of payments.

The increase in cash flows used in investing activities for the three months ended March 31, 2019 compared to the same period in 2018 was due to an increase in capital expenditures to support our technology projects.

The increase in cash flows used in financing activities for the three months ended March 31, 2019 compared to the same period in 2018 was primarily attributable to an increase in repurchases of our common stock.

We believe that based on current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, which include three uncommitted lines of credit 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 (the "Board of Directors"), pursuant to which we may repurchase our issued and outstanding shares of common stock from time to time. Purchases may be effected in open market or privately negotiated transactions, including transactions with our affiliates, with the timing of purchases and the amount of stock purchased generally determined at our discretion within the constraints of our Credit Agreement, the indenture governing our senior unsecured notes (the "Indenture"), and general liquidity needs. See Note 11. *Stockholders' Equity*, within the notes to the unaudited condensed consolidated financial statements for additional information regarding our share repurchases.

During the three months ended March 31, 2019, we repurchased a total of 1,747,116 shares of our common stock at a weighted-average price of $71.57 per share for a total cost of $125.0 million. As of March 31, 2019, the Company was authorized to purchase up to an additional $875.0 million of shares pursuant to the share repurchase programs approved by our 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. See Note 11. *Stockholders' Equity*, within the notes to the unaudited condensed consolidated financial statements for additional information regarding our dividends.

Operating Capital Requirements

Our primary requirement for working capital relates to funds we loan to our advisors' clients for trading conducted on margin and funds we are required to maintain for regulatory capital and reserves based on the requirements of our regulators and clearing organizations, which also consider client balances and trading activities. We have several sources of funds that enable us to meet increases in working capital requirements that relate to increases in client margin activities and balances. These sources include cash and cash equivalents on hand, cash segregated under federal and other regulations, and proceeds from repledging or selling client securities in margin accounts. When an advisor's client purchases securities on margin or uses securities as collateral to borrow from us on margin, we are permitted, pursuant to the applicable securities industry regulations, to repledge, loan, or sell securities, up to 140% of the client's margin loan balance, that collateralize those margin accounts. As of March 31, 2019, we had approximately $315.8 million of client margin loans, collateralized with securities having a fair value of approximately $442.1 million that we can repledge, loan, or sell. Of these securities, approximately $57.5 million were client-owned securities pledged to the Options Clearing Corporation as collateral to secure client obligations related to options positions. As of March 31, 2019, there were no restrictions that materially limited our ability to repledge, loan, or sell the remaining $384.6 million of client collateral.

Our other working capital needs are primarily related to advisor loans and timing associated with receivables and payables, which we have satisfied in the past from internally generated cash flows.

We may sometimes be required to fund timing differences arising from the delayed receipt of client funds associated with the settlement of client transactions in securities markets. These timing differences are funded either with internally generated cash flow or, if needed, with funds drawn on our uncommitted lines of credit at our registered broker-dealer subsidiary LPL Financial, or under our revolving credit facility.

LPL Financial is subject to the SEC's Uniform Net Capital Rule, which requires the maintenance of minimum net capital. LPL Financial computes net capital requirements under the alternative method, which requires firms to maintain minimum net capital, as defined, equal to the greater of $250,000 or 2.0% of aggregate debit balances arising from client transactions. At March 31, 2019, LPL Financial had net capital of $159.0 million with a minimum net capital requirement of $8.1 million.

LPL Financial's ability to pay dividends greater than 10% of its excess net capital during any 35 day rolling period requires approval from the Financial Industry Regulatory Authority ("FINRA"). In addition, payment of dividends is restricted if LPL Financial's net capital would be less than 5.0% of aggregate customer debit balances.

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

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

Debt and Related Covenants
See Note 8. *Debt,* within the notes to the unaudited condensed consolidated financial statements for further detail regarding the Credit Agreement.
The Credit Agreement and the Indenture contain a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to:
- incur additional indebtedness or issue disqualified stock or preferred stock;
- declare dividends, or other distributions to 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.

Our Credit Agreement and the Indenture prohibit us from paying dividends and distributions or repurchasing our capital stock except for limited purposes or in limited amounts. In addition, our revolving credit facility requires compliance with certain financial covenants as of the last day of each fiscal quarter. The financial covenants require the calculation of Credit Agreement EBITDA, defined in the Credit Agreement as “Consolidated EBITDA”, which is Consolidated Net Income (as defined in the Credit Agreement) plus interest expense, tax expense, depreciation and amortization, and further adjusted to exclude certain non-cash charges and other adjustments (including unusual or non-recurring charges) and gains, and to include future expected cost savings, operating expense reductions or other synergies from certain transactions.
As of March 31, 2019, we were in compliance with both of our financial covenants, a maximum Consolidated Total Debt to Consolidated EBITDA Ratio ("Leverage Test," as defined in the Credit Agreement) and a minimum Consolidated EBITDA to Consolidated Interest Expense Ratio ("Interest Coverage," as defined in the Credit Agreement). The breach of these financial covenants would subject us to certain equity cure rights. The permitted ratios under our financial covenants and actual ratios were as follows:

Financial Ratio	Covenant Requirement	Actual Ratio
Leverage Test (Maximum)	5.00	2.05
Interest Coverage (Minimum)	3.00	8.35

Off-Balance Sheet Arrangements
We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our advisors’ clients. These arrangements include Company commitments to extend credit. For information on these arrangements, see Note 10. *Commitments and Contingencies* and Note 17. *Financial Instruments with Off-Balance-Sheet Credit Risk and Concentrations of Credit Risk,* within the notes to the unaudited condensed consolidated financial statements.
Contractual Obligations
During the three months ended March 31, 2019, there have been no material changes in our contractual obligations, other than in the ordinary course of business, from those disclosed in our 2018 Annual Report on Form 10-K. See Note 8. *Debt* and Note 10. *Commitments and Contingencies,* within the notes to the unaudited condensed consolidated financial statements, as well as the Contractual Obligations section within Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our2018 Annual Report on Form 10-K, for further detail on operating lease obligations and obligations under noncancelable service contracts.

Fair Value of Financial Instruments

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

Critical Accounting Policies and Estimates

In the notes to our consolidated financial statements and in Part II, "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2018 Annual Report on Form 10-K, we have disclosed those accounting policies that we consider to be significant in determining our results of operations and financial condition. For the Company's significant accounting policies affecting leases, see Note 9. *Leases*, within the notes to the unaudited condensed consolidated financial statements. There have been no other material changes to those policies that we consider to be significant since the filing of our 2018 Annual Report on Form 10-K. The accounting principles used in preparing our unaudited condensed consolidated financial statements conform in all material respects to GAAP.

Recently Issued Accounting Pronouncements

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

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

	Three Months Ended March 31,	
REVENUES	**2019**	**2018**
Commission	$461,359	$474,811
Advisory	453,938	422,387
Asset-based	296,363	219,336
Transaction and fee	122,480	116,649
Interest income, net of interest expense	12,321	7,781
Other	25,218	593
Total net revenues	1,371,679	1,241,557
EXPENSES		
Commission and advisory	799,698	761,697
Compensation and benefits	136,912	123,517
Promotional	51,349	67,427
Depreciation and amortization	23,470	20,701
Amortization of intangible assets	16,168	13,222
Occupancy and equipment	33,106	27,636
Professional services	19,612	22,172
Brokerage, clearing, and exchange	16,144	15,877
Communications and data processing	12,327	11,174
Other	26,403	28,586
Total operating expenses	1,135,189	1,092,009
Non-operating interest expense	32,716	29,622
INCOME BEFORE PROVISION FOR INCOME TAXES	203,774	119,926
PROVISION FOR INCOME TAXES	48,376	26,396
NET INCOME	$155,398	$93,530
EARNINGS PER SHARE (Note 13)		
Earnings per share, basic	$1.84	$1.04
Earnings per share, diluted	$1.79	$1.01
Weighted-average shares outstanding, basic	84,487	89,997
Weighted-average shares outstanding, diluted	86,742	92,784

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	**March 31, 2019**	**December 31, 2018**
Cash and cash equivalents	$ 676,903	$ 511,096
Cash segregated under federal and other regulations	708,241	985,195
Restricted cash	42,827	65,828
Receivables from:		
Clients, net of allowance of $684 at March 31, 2019 and $640 at December 31, 2018	393,099	412,944
Product sponsors, broker-dealers, and clearing organizations	156,915	166,793
Advisor loans, net of allowance of $6,107 at March 31, 2019 and $5,080 at December 31, 2018	320,379	298,821
Others, net of allowance of $10,386 at March 31, 2019 and $8,099 at December 31, 2018	269,153	248,711
Securities owned:		
Trading — at fair value	27,361	29,267
Held-to-maturity — at amortized cost	13,005	13,001
Securities borrowed	2,670	4,829
Fixed assets, net of accumulated depreciation and amortization of $318,520 at March 31, 2019 and $308,155 at December 31, 2018	472,528	461,418
Operating lease assets	106,821	—
Goodwill	1,490,247	