LPL Financial Holdings Inc.
Form 10-Q
October 30, 2013

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, 2013

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company 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 21, 2013 was 101,719,374.

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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 (the “Exchange Act”), with the Securities and Exchange Commission (the "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, 24th 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, growth, business strategy, plans, liquidity, ability and plans to repurchase shares and pay dividends in the future, including statements regarding projected costs, projected savings, projected expenses and anticipated improvements to the Company's operating model, services, and technology as a result of the Service Value Commitment, 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, 2013. 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; fluctuations in the value of assets under custody; effects of competition in the financial services industry; changes in the number of the Company's financial advisors and institutions, and their ability to market effectively financial products and services; 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 success in integrating the operations of acquired businesses; execution of the Company's plans related to the Service Value Commitment, including the Company's ability to successfully transform and transition business processes to third party service providers; the Company's success in negotiating and developing commercial arrangements with third party service providers that will enable the Company to realize the service improvements and efficiencies expected to result from the Service Value Commitment; the performance of third party service providers to which business processes are transitioned from the Company; the Company's ability to control operating risks, information technology systems risks and sourcing risks; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by self-regulatory organizations; and the other factors set forth in Part I, “Item 1A. Risk

Factors" in the Company's 2012 Annual Report on Form 10-K, as may be amended or updated in our 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 1. Financial Statements

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income
(Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
REVENUES:				
Commission	$527,419	$442,129	$1,521,390	$1,353,025
Advisory	299,101	267,334	878,421	786,507
Asset-based	107,447	100,024	318,718	300,049
Transaction and other	93,799	84,730	271,808	238,196
Interest income, net of interest expense	4,509	4,629	13,343	14,139
Other	20,937	8,382	43,248	24,928
Total net revenues	1,053,212	907,228	3,046,928	2,716,844
EXPENSES:				
Commission and advisory	724,835	620,165	2,086,075	1,858,139
Compensation and benefits	102,310	91,309	299,317	273,355
Promotional	36,807	31,844	85,276	74,797
Depreciation and amortization	21,432	18,423	61,451	53,010
Occupancy and equipment	16,568	13,914	49,649	42,418
Professional services	18,955	15,672	47,588	46,992
Brokerage, clearing and exchange	11,360	9,938	32,958	29,007
Communications and data processing	11,017	10,249	31,401	28,945
Regulatory fees and other	8,234	6,979	23,339	21,416
Restructuring charges	6,482	1,211	19,851	4,962
Other	20,547	20,460	37,116	36,573
Total operating expenses	978,547	840,164	2,774,021	2,469,614
Non-operating interest expense	13,363	12,826	38,190	42,297
Loss on extinguishment of debt	—	—	7,962	16,524
Total expenses	991,910	852,990	2,820,173	2,528,435
INCOME BEFORE PROVISION FOR INCOME TAXES	61,302	54,238	226,755	188,409
PROVISION FOR INCOME TAXES	23,671	19,939	89,316	73,429
NET INCOME	$37,631	$34,299	$137,439	$114,980
EARNINGS PER SHARE (Note 12):				
Basic	$0.36	$0.31	$1.30	$1.05
Diluted	$0.36	$0.31	$1.29	$1.02

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income
(Unaudited)
(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
NET INCOME	$37,631	$34,299	$137,439	$114,980
Other comprehensive (loss) income, net of tax:				
Unrealized loss on cash flow hedges, net of tax expense of $155 for the three and nine months ended September 30, 2013	(250)	—	(250)	—
Adjustment for items reclassified to earnings, net of tax expense of $527 for the nine months ended September 30, 2012, respectively	—	—	—	850
Total other comprehensive (loss) income, net of tax	(250)	—	(250)	850
TOTAL COMPREHENSIVE INCOME	$37,381	$34,299	$137,189	$115,830

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Financial Condition
(Unaudited)
(Dollars in thousands, except par value)

	September 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$585,740	$466,261
Cash and securities segregated under federal and other regulations	428,043	577,433
Receivables from:		
Clients, net of allowance of $567 at September 30, 2013 and $587 at December 31, 2012	341,387	369,814
Product sponsors, broker-dealers and clearing organizations	152,582	152,950
Others, net of allowance of $7,200 at September 30, 2013 and $6,675 at December 31, 2012	252,864	241,324
Securities owned:		
Trading — at fair value	8,848	8,088
Held-to-maturity	6,761	10,202
Securities borrowed	10,616	9,448
Income taxes receivable	9,030	5,215
Fixed assets, net of accumulated depreciation and amortization of $288,411 at September 30, 2013 and $324,684 at December 31, 2012	140,846	130,847
Debt issuance costs, net of accumulated amortization of $6,671 at September 30, 2013 and $4,903 at December 31, 2012	17,361	21,254
Goodwill	1,361,361	1,371,523
Intangible assets, net of accumulated amortization of $256,555 at September 30, 2013 and $237,681 at December 31, 2012	474,253	503,528
Other assets	124,396	120,637
Total assets	$3,914,088	$3,988,524
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	$178,151	$203,132
Payables to clients	538,083	749,505
Payables to broker-dealers and clearing organizations	23,043	53,031
Accrued commission and advisory expenses payable	128,601	128,459
Accounts payable and accrued liabilities	244,565	216,138
Unearned revenue	63,474	61,808
Securities sold, but not yet purchased — at fair value	318	366
Senior secured credit facilities	1,537,806	1,317,825
Deferred income taxes — net	108,390	118,240
Total liabilities	2,822,431	2,848,504
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 600,000,000 shares authorized; 116,854,124 shares issued at September 30, 2013 and 115,713,741 shares issued at December 31, 2012	117	116
Additional paid-in capital	1,274,947	1,228,075
Treasury stock, at cost — 14,313,119 shares at September 30, 2013 and 9,421,800 shares at December 31, 2012	(471,653)	(287,998)
Accumulated other comprehensive loss	(250)	—

Retained earnings	288,496	199,827
Total stockholders' equity	1,091,657	1,140,020
Total liabilities and stockholders' equity	$3,914,088	$3,988,524

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders’ Equity
(Unaudited)
(Amounts in thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE — December 31, 2011	110,532	$110	$1,137,723	2,618	$(89,037)	$(850)	$296,802	$1,344,748
Net income and other comprehensive income, net of tax expense						850	114,980	115,830
Issuance of common stock to settle restricted stock units (Note 11)	2,823	3	(3)					—
Treasury stock purchases				3,610	(110,533)			(110,533)
Cash dividends on common stock							(235,799)	(235,799)
Stock option exercises and other	2,054	2	12,832					12,834
Share-based compensation	22		16,451					16,451
Excess tax benefits from share-based compensation			49,753					49,753
BALANCE — September 30, 2012	115,431	$115	$1,216,756	6,228	$(199,570)	$—	$175,983	$1,193,284
BALANCE — December 31, 2012	115,714	$116	$1,228,075	9,422	$(287,998)	$—	$199,827	$1,140,020
Net income and other comprehensive income, net of tax expense						(250)	137,439	137,189
Treasury stock purchases				4,910	(184,318)			(184,318)
Cash dividends on common stock							(48,672)	(48,672)
Stock option exercises and other	1,140	1	27,623	(19)	663		(98)	28,189
Share-based compensation			17,330					17,330
Excess tax benefits from share-based compensation			1,919					1,919

BALANCE — September 30, 2013	116,854	$117	$1,274,947	14,313	$(471,653)	$(250)	$288,496	$1,091,657

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30,	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$137,439	$114,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	61,451	53,010
Amortization of debt issuance costs	3,285	3,470
Share-based compensation	17,330	16,451
Excess tax benefits related to share-based compensation	(1,919)	(49,753)
Provision for bad debts	1,911	1,221
Deferred income tax provision	(9,850)	(12,297)
Loss on extinguishment of debt	7,962	16,524
Net changes in estimated fair value of contingent consideration obligations	4,131	9,882
Closure of NestWise (Note 1)	9,294	—
Other	1,886	1,791
Changes in operating assets and liabilities:		
Cash and securities segregated under federal and other regulations	149,390	(10,678)
Receivables from clients	28,447	(25,656)
Receivables from product sponsors, broker-dealers and clearing organizations	368	8,051
Receivables from others	(14,472)	(22,242)
Securities owned	(1,373)	(633)
Securities borrowed	(1,168)	(2,149)
Other assets	625	(37,575)
Drafts payable	(24,981)	(21,564)
Payables to clients	(211,422)	(50,697)
Payables to broker-dealers and clearing organizations	(29,988)	3,044
Accrued commission and advisory expenses payable	142	(1,991)
Accounts payable and accrued liabilities	13,697	3,637
Income taxes receivable/payable	(1,896)	47,330
Unearned revenue	1,666	(2,665)
Securities sold, but not yet purchased	(48)	59,936
Net cash provided by operating activities	$141,907	$101,427

Continued on following page

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows - Continued
(Unaudited)
(Dollars in thousands)

	Nine Months Ended September 30, 2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	$(40,787)	$(32,534)
Purchase of securities classified as held-to-maturity	(2,495)	(2,914)
Proceeds from maturity of securities classified as held-to-maturity	5,900	6,350
Deposits of restricted cash	(1,500)	(67)
Release of restricted cash	613	6,800
Acquisitions, net of cash acquired	—	(43,684)
Purchases of minority interest investments	(2,500)	(1,575)
Net cash used in investing activities	(40,769)	(67,624)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of senior secured credit facilities	(863,869)	(1,354,118)
Proceeds from senior secured credit facilities	1,078,957	1,330,681
Payment of debt issuance costs	(2,461)	(4,431)
Repurchase of common stock	(175,722)	(107,524)
Dividends on common stock	(48,672)	(235,799)
Excess tax benefits related to share-based compensation	1,919	49,753
Proceeds from stock option exercises and other	28,189	12,834
Net cash provided by (used in) financing activities	18,341	(308,604)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	119,479	(274,801)
CASH AND CASH EQUIVALENTS — Beginning of period	466,261	720,772
CASH AND CASH EQUIVALENTS — End of period	$585,740	$445,971
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$38,433	$42,288
Income taxes paid	$100,999	$36,971
NONCASH DISCLOSURES:		
Fixed assets acquired under build-to-suit lease	$9,088	$5,599
Discount on proceeds from senior secured credit facilities recorded as debt issuance costs	$4,893	$19,319
Pending settlement of treasury stock purchases	$8,596	$3,009

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 of America. 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”).

On August 15, 2013, investment funds affiliated with Hellman & Friedman LLC ("H&F") distributed an aggregate of 12.6 million shares of LPLFH's common stock to their respective partners (the "H&F Distribution"), representing all of the outstanding shares held by H&F as of the date of the H&F Distribution. In addition, two members of the Company's board of directors (the "Board of Directors") who had been designated to serve as directors by H&F tendered their resignations concurrent with the H&F Distribution, consistent with the terms of the Company's stockholders agreement.

One of the Company’s subsidiaries, NestWise LLC (“NestWise”), was established in 2012 to train, develop and support advisors who focused on the efficient delivery of planning and investment services to the mass market. On August 28, 2013, the Company informed employees of its decision to close the operations of NestWise (the “NestWise Closure”). NestWise ceased operations on September 30, 2013 (see Notes 4 and 6).

2. Summary of Significant Accounting Policies

Basis of Presentation — Quarterly Reporting — The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal recurring nature. The Company’s results for any interim period are not necessarily indicative of results for a full year or any other interim period. Certain reclassifications were made to previously reported amounts in the unaudited condensed consolidated financial statements and notes thereto to make them consistent with the current period presentation.

The unaudited condensed consolidated financial statements do not include all information and notes necessary for a complete presentation of financial position, results of income, comprehensive income and cash flows in conformity with generally accepted accounting principles in the United States of America (“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, 2012, contained in the Company’s Annual Report on Form 10-K as filed with the SEC. The Company has evaluated subsequent events up to and including the date these unaudited condensed consolidated financial statements were issued.

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

Comprehensive Income — The Company presents its unaudited condensed consolidated statements of comprehensive income separately and immediately following its unaudited condensed consolidated statements of income. The Company’s comprehensive income is composed of net income and the effective portion of the gains on financial derivatives in cash flow hedge relationships, net of related tax effects.

Use of Estimates — The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses and related disclosures of contingent assets and liabilities. On an on-going basis, the Company evaluates estimates, including those related to revenue and related expense recognition, asset impairment, valuation of accounts receivable, valuation of financial instruments, contingent consideration obligations, contingencies and litigation, valuation and recognition of share-based payments, dividends and income taxes. These accounting policies are stated in the notes to the audited consolidated financial statements for the year ended December 31, 2012, contained in the Annual Report on Form 10-K as filed with the SEC. These estimates are based on the information that is currently available and on various other assumptions that the

Company believes to be reasonable under the circumstances. Actual results could vary from these estimates under different assumptions or conditions and the differences may be material to the unaudited condensed consolidated financial statements.

Reportable Segment — The Company's internal reporting is organized into two service channels: Independent Advisor Services and Institution Services. These service channels qualify as individual operating segments and are aggregated and viewed as one reportable segment due to their similar economic characteristics, products and services, production and distribution processes, and regulatory environment.

Prior to the third quarter of 2013, the Company's internal reporting was organized into three service channels: Independent Advisor Services, Institution Services and Custom Clearing Services. During the third quarter of 2013, functions within Institution Services and Customer Clearing Services were unified under a single service channel: Institution Services.

Derivative Financial Instruments — The Company uses derivative financial instruments, consisting of non-deliverable foreign currency forward contracts, to mitigate foreign currency exchange rate risk related to operating expenses that are subject to repricing (see Note 9).

The Company has designated these derivative financial instruments as cash flow hedges, all of which qualify for hedge accounting. To qualify for hedge accounting, the derivative must be formally designated as a hedge through documentation of the relationship between the derivative and the hedged item. The documentation must include a description of the hedging instrument, the hedge item, the risk being hedged, the Company's risk management objective and strategy for undertaking the hedge, the method for assessing the effectiveness of the hedge and the method for measuring hedge ineffectiveness. In addition, the hedge relationship must be expected to be highly effective at offsetting changes in either the fair value or cash flows of the hedged item at both inception of the hedge and on an ongoing basis.

The Company assesses the ongoing effectiveness of its cash flow hedges through the use of the critical terms match method which is based on conventional calculations including foreign currency exchange rates and forecasted hedge transactions, and the evaluation of counterparty credit risk. Changes in the fair value of the effective portion of the Company's cash flow hedges are presented in other comprehensive income (loss), and reclassified into earnings to match the timing of the underlying hedged item. Hedge ineffectiveness is measured at the end of each fiscal quarter, with any gains or losses realized into earnings in the current period.

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 indebtedness. The Company carries its indebtedness 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 qualify as Level 2 fair value measurements. See Note 4 for additional detail regarding the Company’s fair value measurements. As of September 30, 2013, the carrying amount and fair value of the Company’s indebtedness was approximately $1,537.8 million and $1,526.3 million, respectively. As of December 31, 2012, the carrying amount and fair value was approximately $1,317.8 million and $1,320.4 million, respectively.

Contingent Consideration — The Company may be required to pay future consideration to the former shareholders of acquired companies, depending upon the terms of the applicable purchase agreement, that is contingent upon the achievement of certain financial or operating targets. The fair value of the contingent consideration is determined using financial forecasts and other estimates, which assess the probability and timing of the financial targets being reached, and measuring the associated cash payments at their present value using a risk-adjusted rate of return. The estimated fair value of the contingent consideration on the acquisition date is included in the purchase price of the acquired company. At each reporting date, or whenever there are significant changes in underlying key assumptions, a review of these assumptions is performed and the contingent consideration liability is updated to its estimated fair value. If there are no significant changes in the assumptions, the quarterly determination of the fair value of contingent consideration reflects the implied interest for the passage of time. Changes in the estimated fair value of the contingent consideration obligations may result from changes in the terms of the contingent payments, changes in discount periods and rates, changes in assumptions with respect to the timing and likelihood of achieving the applicable targets and other related developments. Actual progress toward achieving the financial targets for the remaining measurement periods may be different than the Company's expectations of future performance. The change in the estimated fair value of contingent consideration has been classified as other expenses in the unaudited condensed consolidated statements of income.

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

Recently Issued Accounting Pronouncements — Recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2013, as compared to the recent accounting pronouncements described in the Company's 2012 Annual Report on Form 10-K, that are of significance, or potential significance, to the Company are discussed below.

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2013-02, Comprehensive Income (Topic 220)—Clarifying Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income, which updates disclosure requirements to improve the reporting of reclassifications out of accumulated other comprehensive income. The amendments in this update seek to attain that objective by requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This would be the case when a portion of the amount reclassified out of accumulated other comprehensive income is reclassified to a balance sheet account instead of directly to income or expense in the same reporting period. The amendments in this update are effective prospectively for reporting periods beginning after December 15, 2012. This update is only disclosure related and has no impact on the Company's results of operations, financial condition or cash flows.

3. Restructuring

Service Value Commitment

On February 5, 2013, the Company committed to an expansion of its Service Value Commitment, an ongoing effort to position the Company for sustainable long-term growth by improving the service experience of its advisors and delivering efficiencies in its operating model. The Company assessed its information technology delivery, governance, organization and strategy and committed to undertake a course of action (the “Program”) to reposition its labor force and invest in technology, human capital, marketing and other key areas to enable future growth. The Program is expected to be completed in 2015.

The Company estimates total charges in connection with the Program to be approximately $65.0 million. These expenditures are comprised of outsourcing and other related costs, technology transformation costs, employee severance obligations and other related costs and non-cash charges for impairment of certain fixed assets related to internally developed software.

The following table summarizes the balance of accrued expenses and the changes in the accrued amounts for the Program as of and for the nine months ended September 30, 2013 (in thousands):

	Accrued Balance at December 31, 2012	Costs Incurred(1)	Payments	Non-cash	Accrued Balance at September 30, 2013	Total Expected Restructuring Costs(2)
Outsourcing and other related costs	$—	$9,278	$(8,666)	$—	$612	$26,000
Technology transformation costs	—	6,474	(6,464)	—	10	23,000
Employee severance obligations and other related costs	—	1,588	(878)	—	710	15,000
Asset impairments	—	842	—	(842)	—	1,000
Total	$—	$18,182	$(16,008)	$(842)	$1,332	$65,000

(1) At September 30, 2013, costs incurred represent the total cumulative costs incurred under the Program to date.

(2) At September 30, 2013, total expected restructuring costs exclude approximately $25.0 million of internally developed software and computer and networking equipment related to the Program that is expected to be capitalized with a useful life ranging from three to seven years, and with expense being recorded as depreciation and amortization within the unaudited condensed consolidated statements of income. As of September 30, 2013, approximately $21.7 million has been spent on technology infrastructure of which approximately $14.7 million has been capitalized, with the remainder included in costs incurred.

4. Fair Value Measurements

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

- Level 1 — Quoted prices in active markets for identical assets or liabilities.
- Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

There have been no transfers of assets or liabilities between these fair value measurement classifications during the nine months ended September 30, 2013.

The Company's fair value measurements are evaluated within the fair value hierarchy, based on the nature of inputs used to determine the fair value at the measurement date. At September 30, 2013, the Company had the following financial assets and liabilities that are measured at fair value on a recurring basis:

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

Securities Owned and Securities Sold, But Not Yet Purchased — The Company's trading securities consist of house account model portfolios 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 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, 2013, the Company did not adjust prices received from the independent third-party pricing services.

Other Assets — The Company's other assets include 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 certain non-traded real estate investment trusts 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.

Accounts Payable and Accrued Liabilities — The Company's accounts payable and accrued liabilities include cash flow hedges, which are measured using Level 2 inputs, and contingent consideration liabilities, which are measured using Level 3 inputs. The fair value of the cash flow hedges are determined using quoted prices for similar cash flow hedges, taking into account counterparty credit risk and the Company's own non-performance risk. The contingent consideration liabilities result from the Company's acquisitions of National Retirement Partners, Inc. ("NRP"), Concord Capital Partners ("Concord") and Veritat Advisors, Inc. ("Veritat").

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurements
At September 30, 2013:				
Assets				
Cash equivalents	$294,811	$—	$—	$294,811
Securities owned — trading:				
Money market funds	395	—	—	395
Mutual funds	6,315	—	—	6,315
Equity securities	234	—	—	234
Debt securities	—	1,004	—	1,004
U.S. treasury obligations	900	—	—	900
Total securities owned — trading	7,844	1,004	—	8,848
Other assets	43,325	1,665	—	44,990
Total assets at fair value	$345,980	$2,669	$—	$348,649
Liabilities				
Securities sold, but not yet purchased:				
Mutual funds	$3	$—	$—	$3
Equity securities	211	—	—	211
Debt securities	—	49	—	49
Certificates of deposit	—	55	—	55
Total securities sold, but not yet purchased	214	104	—	318
Accounts payable and accrued liabilities	—	405	32,248	32,653
Total liabilities at fair value	$214	$509	$32,248	$32,971

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The following table summarizes the Company’s financial assets and financial liabilities measured at fair value on a recurring basis at December 31, 2012 (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurements
At December 31, 2012:				
Assets				
Cash equivalents	$177,393	$—	$—	$177,393
Securities owned — trading:				
Money market funds	302	—	—	302
Mutual funds	5,737	—	—	5,737
Equity securities	414	—	—	414
Debt securities	—	235	—	235
U.S. treasury obligations	1,400	—	—	1,400
Total securities owned — trading	7,853	235	—	8,088
Other assets	28,624	—	—	28,624
Total assets at fair value	$213,870	$235	$—	$214,105
Liabilities				
Securities sold, but not yet purchased:				
Mutual funds	$38	$—	$—	$38
Equity securities	247	—	—	247
Debt securities	—	55	—	55
Certificates of deposit	—	26	—	26
Total securities sold, but not yet purchased	285	81	—	366
Accounts payable and accrued liabilities	—	—	35,887	35,887
Total liabilities at fair value	$285	$81	$35,887	$36,253

Changes in Level 3 Recurring Fair Value Measurements

The table below provides information on the valuation technique, significant unobservable inputs and the ranges utilized by the Company in measuring fair value on a recurring basis of the significant Level 3 liabilities as of September 30, 2013 (dollars in millions):

	Fair Value	Valuation Technique	Unobservable Input	Range
Contingent consideration obligations	$32.2	Probability weighted discounted cash flow	Discount rate	3% - 13%

The Company determines the fair value for its contingent consideration obligations using an income approach whereby the Company assesses the probability and timing of the achievement of the applicable milestones, which are based on contractually negotiated financial or operating targets that vary by acquisition transaction, such as revenues, gross margin, EBITDA and assets under custody. The contingent payments are estimated using a probability weighted, multi-scenario analysis of expected future performance of the acquired businesses. The Company then discounts these expected payment amounts to calculate the fair value as of the valuation date. The Company's management evaluates the underlying projections and other related factors used in determining fair value each period and makes updates when there have been significant changes in management's expectations.

The principal significant unobservable input used in the valuations of the Company's contingent consideration obligations is a risk-adjusted discount rate. Whereas management's underlying projections adjust for market penetration and adoption rates, the discount rate is risk-adjusted for key factors such as advisor attrition, advisor recruitment, expenses and overhead costs, average client assets, revenue generation of client assets and credit

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risk. An increase in the discount rate will result in a decrease in the fair value of contingent consideration. Conversely, a decrease in the discount rate will result in an increase in the fair value of contingent consideration.

The contingent consideration obligation related to the acquisition of NRP is based on the achievement of certain revenue-based targets for the twelve-month period ending November 30, 2013 (the "Performance Measurement Period"), in aggregate for those advisors joining LPL Financial LLC ("LPL Financial") subsequent to the NRP acquisition for whom retirement plans comprise a significant part of their business. During the first nine months of 2013, as a result of greater than expected recruitment of new advisors who serve retirement plans, which growth is expected to continue throughout the Performance Measurement Period, the Company revised its revenue estimates and made certain changes in the probability assumptions with respect to the likelihood of achieving the revenue targets. These revisions, combined with implied interest, resulted in a $7.7 million increase in the fair value of the contingent consideration obligation related to NRP during the nine months ended September 30, 2013 which is recorded in other expenses in the unaudited condensed consolidated statements of income.

The contingent consideration obligation related to the acquisition of Concord is based on the achievement of targeted levels of gross margin attributed to Concord for the year ending December 31, 2013. Gross margin is calculated as Concord net revenues less production expenses. Net revenue includes revenues attributed to Concord's business activities and assets under administration on Concord's software platform. Production expenses include all expenses directly incurred to generate Concord net revenues, including commission and advisory expense and brokerage, clearing and exchange expense. During the first quarter of 2013, the Company revised its estimates of the amount and timing of projected 2013 gross margin and adjusted its assumptions regarding the likelihood of payment. The revisions resulted in a $3.8 million decrease in the fair value of the contingent consideration obligation related to Concord during the nine months ended September 30, 2013 which is recorded in other expenses in the unaudited condensed consolidated statements of income. The fair value of the contingent consideration obligation as of September 30, 2013 reflects assumptions regarding the likelihood and amount of payment under the transaction agreements, including as a result of pending disputes with certain contractual counterparties. The maximum amount of contingent consideration under the agreement is $15.0 million.

The Company established a contingent consideration liability related to the acquisition of Veritat, based on the achievement of targeted levels of assets under management and earnings, as well as, the retention of key employees. During the third quarter of 2013, the Company ceased operations of NestWise, which held the assets acquired from Veritat. Based on this information, the Company revised its estimate of the potential payment obligation that it may be required to pay the former shareholders of Veritat, which resulted in a $7.8 million reduction of the contingent consideration obligation, which was recorded in other expenses in the unaudited condensed consolidated statements of income. At September 30, 2013, the fair value of the contingent consideration obligation reflects assumptions regarding the likelihood and amount of payment under the purchase agreement, including the potential negotiated resolutions with the former shareholders.

Set forth below is a reconciliation of the Company's aggregate contingent consideration for the nine months ended September 30, 2013 (in thousands):

Fair value at December 31, 2012	$35,887	
Net changes in estimated fair value of contingent consideration obligations	4,131	
Closure of NestWise	(7,770	)
Fair value at September 30, 2013	$32,248	

5. Held-to-Maturity Securities

The Company holds certain investments in securities including 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 Company discloses the fair value of its securities held-to-maturity using quoted prices in active markets, which is a Level 1 fair value measurement.

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

	September 30, 2013	December 31, 2012
U.S. government notes:		
Amortized cost	$6,761	$10,202
Gross unrealized (loss) gain	(37)	6
Fair value	$6,724	$10,208

At September 30, 2013, 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	$3,516	$1,750	$1,495	$6,761
U.S. government notes — at fair value	$3,517	$1,750	$1,457	$6,724

6. Goodwill and Intangible Assets

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

Balance at December 31, 2012	$1,371,523
Closure of NestWise	(10,162)
Balance at September 30, 2013	$1,361,361

In conjunction with the NestWise Closure, certain assets of NestWise, including goodwill, were determined to have no future economic benefit. Accordingly, the Company derecognized $10.2 million of goodwill held at NestWise during the third quarter of 2013, representing the carrying value of goodwill held at NestWise at the time of closure, which is included within other expenses on the unaudited condensed consolidated statements of income.

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The components of intangible assets as of September 30, 2013 and December 31, 2012 are as follows (dollars in thousands):

	Weighted Average Life Remaining (in years)	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
At September 30, 2013:				
Definite-lived intangible assets:				
Advisor and financial institution relationships	12.1	$439,763	$(165,358)	$274,405
Product sponsor relationships	12.3	230,916	(85,621)	145,295
Client relationships	10.4	19,110	(5,406)	13,704
Trade names	8.6	1,200	(170)	1,030
Total definite-lived intangible assets		$690,989	$(256,555)	$434,434
Indefinite-lived intangible assets:				
Trademark and trade name				39,819
Total intangible assets				$474,253
At December 31, 2012:				
Definite-lived intangible assets:				
Advisor and financial institution relationships	12.8	$450,164	$(157,470)	$292,694
Product sponsor relationships	13.0	230,916	(76,230)	154,686
Client relationships	11.1	19,110	(3,901)	15,209
Trade names	9.3	1,200	(80)	1,120
Total definite-lived intangible assets		$701,390	$(237,681)	$463,709
Indefinite-lived intangible assets:				
Trademark and trade name				39,819
Total intangible assets				$503,528

Total amortization expense of intangible assets was $9.7 million and $10.0 million for the three months ended September 30, 2013 and 2012, respectively, and $29.3 million and $29.8 million for the nine months ended September 30, 2013 and 2012, respectively. Amortization expense for each of the fiscal years ending December 31, 2013 through 2017 and thereafter is estimated as follows (in thousands):

2013 — remainder	$9,731
2014	38,680
2015	37,775
2016	37,619
2017	36,752
Thereafter	273,877
Total	$434,434

7. Income Taxes

The Company’s effective income tax rate differs from the federal corporate tax rate of 35.0%, primarily as a result of state taxes, settlement contingencies and expenses that are not deductible for tax purposes. These items resulted in effective tax rates of 38.6% and 36.8% for the three months ended September 30, 2013 and 2012, respectively, and 39.4% and 39.0% for the nine months ended September 30, 2013 and 2012, 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.

For the three and nine months ended September 30, 2012, the Company's effective tax rate was impacted by matters related to its stock acquisition of Concord that lowered the rate by approximately 3.0% for the three months ended September 30, 2012.

8. Indebtedness

Senior Secured Credit Facilities — On May 13, 2013, the Company entered into the First Amendment and Incremental Assumption Agreement ("Amended Credit Agreement") with its wholly owned subsidiary, LPL Holdings, Inc., the other Credit Parties signatory thereto, the Several Lenders parties thereto, Bank of America, N.A. as Administrative Agent, and other parties thereto. The Amended Credit Agreement supplements and amends the Company's Credit Agreement, dated as of March 29, 2012 ("Previous Credit Agreement").

The Previous Credit Agreement had established a Term Loan A with an initial principal amount of $735.0 million maturing on March 29, 2017 ("Term Loan A"), a Term Loan B with an initial principal amount of $615.0 million maturing on March 29, 2019 ("Prior Term Loan B") and a revolving credit facility with borrowing capacity of $250.0 million maturing on March 29, 2017 ("Revolving Credit Facility").

Quarterly repayments of the principal for Term Loan A were scheduled to be 5.0% for the twelve months ended March 31, 2014 and 10.0% for the twelve months ended March 31, 2015, 2016 and 2017 ("Mandatory Amortization"), with the remaining principal due upon maturity.

Pursuant to the Amended Credit Agreement, the Company amended Prior Term Loan B to increase its borrowing to an aggregate principal amount of $1,083.9 million ("Amended Term Loan B"). On May 13, 2013, the Company used the proceeds of Amended Term Loan B to (i) refinance the remaining outstanding balance of $608.9 million on Prior Term Loan B and (ii) repay a portion of the outstanding balance on Term Loan A in an aggregate principal amount of $238.9 million ("Term Loan A Repayment"). The remaining loan proceeds are available for working capital requirements and other general corporate purposes. The maturity date of Amended Term Loan B is March 29, 2019. The amount and maturity of the Revolving Credit Facility was not changed in the Amended Credit Agreement.

The Term Loan A Repayment prepaid the Mandatory Amortization. Quarterly repayments of the principal for Amended Term Loan B will total 1.0% per year with the remaining principal due upon maturity. Any outstanding principal under the Revolving Credit Facility will be due upon maturity.

In connection with the execution of the Amended Credit Agreement, the Company incurred $7.4 million in costs that are capitalized as debt issuance costs in the unaudited condensed consolidated statements of financial condition. This refinancing resulted in the prepayment of all outstanding principal borrowings on Prior Term Loan B. In the second quarter of 2013, the Company accelerated the recognition of $8.0 million of unamortized costs attributable to Prior Term Loan B related to the Previous Credit Agreement. This accelerated recognition has been recorded as a loss on extinguishment of debt within the unaudited condensed consolidated statements of income for the nine months ended September 30, 2013.

The Amended Credit Agreement subjects the Company to certain financial and non-financial covenants. As of September 30, 2013, the Company was in compliance with such covenants.

As of September 30, 2013, the Revolving Credit Facility was being used to support the issuance of $21.4 million of irrevocable letters of credit for the construction of the Company's future San Diego office building and other items.

The remaining $228.6 million was undrawn at September 30, 2013.

Borrowings under Term Loan A and Amended Term Loan B bear interest at a base rate equal to either one, two, three, six, nine or twelve-month LIBOR (the "Eurodollar Rate") plus the applicable margin, or an alternative base rate (“ABR”) plus the applicable margin. The ABR is equal to the greatest of (a) the prime rate in effect on such day, (b) the effective federal funds rate in effect on such day plus 0.50%, (c) the Eurodollar Rate plus 1.00% and (d) solely in the case of Amended Term Loan B, 1.75%. The Company may voluntarily repay outstanding loans under its Amended Credit Agreement at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans and with the exception of certain repricing transactions in respect of Amended Term

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Loan B consummated before November 13, 2013, which will be subject to a premium of 1.0% of the principal amount of Amended Term Loan B subject to such repricing transaction.

Borrowings under Prior Term Loan B bore interest at a base rate equal to either the Eurodollar Rate plus the applicable margin or an ABR plus the applicable margin. The ABR was equal to the greatest of (a) the prime rate in effect on such day, (b) the effective federal funds rate in effect on such day plus 0.50%, (c) the Eurodollar Rate plus 1.00% and (d) 2.00%.

The applicable margin for borrowings with respect to both Term Loan A and Amended Term Loan B is currently 1.50% for base rate borrowings and 2.50% for LIBOR borrowings. The LIBOR rate with respect to Amended Term Loan B shall in no event be less than 0.75%. The applicable margin for borrowings under the Revolving Credit Facility is currently 1.50% for base rate borrowings and 2.50% for LIBOR borrowings with a commitment fee of 0.50%.

The applicable margin for borrowings under the Previous Credit Agreement with respect to Prior Term Loan B was 2.00% for base rate borrowings and 3.00% for LIBOR borrowings. The LIBOR rate with respect to Prior Term Loan B had a floor of 1.00%.

The Previous Credit Agreement, dated as of March 29, 2012, allowed the Company to repay all outstanding principal borrowings under the Company's Third Amended and Restated Credit Agreement, dated as of May 24, 2010 ("Original Credit Agreement"). Accordingly, in the first quarter of 2012, the Company accelerated the recognition of $16.5 million of debt issuance costs related to borrowings under the Original Credit Agreement, which has been recorded as loss on extinguishment of debt within the unaudited condensed consolidated statements of income.
The Company’s outstanding borrowings were as follows (dollars in thousands):

		September 30, 2013			December 31, 2012		
	Maturity	Balance	Interest Rate		Balance	Interest Rate	
Senior secured term loans:							
Term Loan A	3/29/2017	$459,375	2.68	%(1)	$707,438	2.71	%(3)
Prior Term Loan B	3/29/2019	—	—	%	610,387	4.00	%(4)
Amended Term Loan B	3/29/2019	1,078,431	3.25	%(2)	—	—	%
Total borrowings		1,537,806			1,317,825		
Less current borrowings (maturities within 12 months)		10,839			42,900		
Long-term borrowings — net of current portion		$1,526,967			$1,274,925		

(1) As of September 30, 2013, the variable interest rate for Term Loan A is based on the one-month LIBOR of 0.18%, plus the applicable interest rate margin of 2.50%.

(2) The variable interest rate for Amended Term Loan B is based on the greater of the LIBOR rate for the period selected (one, three, six, nine or twelve months) or 0.75%, plus the applicable interest rate margin of 2.50%. As of September 30, 2013, the Company elected the following variable interest rates for borrowings under its Amended Term Loan B: six-month LIBOR for $537.8 million which was designated on September 26, 2013 at an interest rate of 0.37%; and six-month LIBOR for $540.6 million which was designated on June 26, 2013 at an interest rate of 0.42%.

(3)

As of December 31, 2012, the variable interest rate for Term Loan A is based on the one-month LIBOR of 0.21%, plus the applicable interest rate margin of 2.50%.

(4) As of December 31, 2012, the variable interest rate for Prior Term Loan B is based on the greater of the one-month LIBOR of 0.21% or 1.00%, plus the applicable interest rate margin of 3.00%.

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 other

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line had a $200.0 million and $150.0 million limit at September 30, 2013 and December 31, 2012, respectively, and allows for both collateralized and uncollateralized borrowings. The lines were utilized in 2013 and 2012; however, there were no balances outstanding at September 30, 2013 or December 31, 2012.

The following summarizes borrowing activity in the revolving and uncommitted line of credit facilities (dollars in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Average balance outstanding	$80	$11	$4,637	$144
Weighted-average interest rate	1.50 %	1.50 %	1.80 %	1.63 %

The minimum calendar year payments and maturities of the senior secured borrowings as of September 30, 2013 are as follows (in thousands):

2013 — remainder	$2,710
2014	10,838
2015	10,838
2016	10,838
2017	470,214
Thereafter	1,032,368
Total	$1,537,806

9. Derivative Financial Instruments

In the second quarter of 2013, in conjunction with its commitment to expand its Service Value Commitment, the Company entered into a long-term contractual obligation (the "Agreement") with a third-party provider to enhance the quality, speed and cost of processes by outsourcing certain functions. The Agreement enables the third-party provider to use the services of its affiliates in India to provide services to the Company. The Agreement provides for the Company to settle the cost of its contractual obligation to the third-party provider in US dollars each month. However, the Agreement provides that on each annual anniversary date, the price for services (denominated in US dollars) is to be adjusted for the then-current exchange rate between the US dollar ("USD") and the Indian rupee ("INR"). The Agreement provides that, once an annual adjustment is calculated, there are no further modifications to the amounts paid by the Company to the third-party provider for fluctuations in the exchange rate between the US dollar and the Indian rupee until the reset on the next anniversary date. The third-party provider bears the risk of currency movement from the date of signing the Agreement until the reset on the first anniversary of its signing, and during each period until the next annual reset. The Company bears the risk of currency movement at each of the annual reset dates following the first anniversary.

To mitigate foreign currency risk arising from these annual anniversary events, the Company uses derivative financial instruments consisting solely of non-deliverable foreign currency contracts, all of which have been designated as cash flow hedges.

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The details related to the non-deliverable foreign currency contracts at September 30, 2013 are as follows:

(in millions, except foreign exchange rate)	Settlement Date	Hedged Notional Amount (INR)	Contractual INR/USD Foreign Exchange Rate	Hedged Notional Amount (USD)
Cash flow hedge #1	6/3/2014	560.4	65.96	$8.5
Cash flow hedge #2	6/2/2015	560.4	69.35	8.1
Cash flow hedge #3	6/2/2016	560.4	72.21	7.8
Cash flow hedge #4	6/2/2017	560.4	74.20	7.5
Total hedged amount				$31.9

The Company held an interest rate swap agreement with a notional balance of $65.0 million, which expired on June 30, 2012. The interest rate swap agreement qualified for hedge accounting and was designated as a cash flow hedge against specific payments due on the Company's Prior Term Loan B. Prior to its expiration the Company assessed the interest rate swap agreement as being highly effective.

10. Commitments and Contingencies

Leases — The Company leases certain 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 $5.0 million for the three months ended September 30, 2013 and 2012, respectively, and $14.7 million and $14.1 million for the nine months ended September 30, 2013 and 2012, respectively.

Service 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.

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

2013 — remainder	$5,340
2014	37,235
2015	36,659
2016	35,846
2017	28,737
Thereafter	261,095
Total(1)(2)	$404,912

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

(2) Future minimum payments have not been reduced by minimum sublease rental income of $4.1 million due in the future under noncancellable subleases.

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 which may be forgivable, primarily to newly recruited advisors to assist in the transition process. 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, 2013.

Legal Proceedings

The Company is involved in legal proceedings from time to time arising out of its business operations, including arbitrations and lawsuits involving private claimants, and subpoenas, investigations and other actions by government authorities and self-regulatory organizations. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, the Company cannot predict with certainty what the eventual loss or range of loss related to such matters will be. The Company recognizes a liability with regard to a legal proceeding when it believes it is probable a liability has occurred and the amount can be reasonably estimated. If some amount within a range of loss appears at the time to be a better estimate than any other amount within the range, the Company accrues that amount. When no amount within the range is a better estimate than any other amount, however, the Company accrues the minimum amount in the range. The Company maintains insurance coverage, including general liability, errors and omissions, excess entity errors and omissions and fidelity bond insurance. The Company records legal reserves and related insurance recoveries on a gross basis. Defense costs with regard to legal proceedings are expensed as incurred and classified as professional services within the unaudited condensed consolidated statements of income. When there is indemnification or insurance, the Company may engage in defense or settlement and subsequently seek reimbursement for such matters.

Disputed Matters — Among others, claims involving client complaints or disclosures about risks related to purchased securities or other financial products are typically arbitrated pursuant to the Financial Industry Regulatory Authority's ("FINRA") procedures for arbitration rather than litigated in court. In an arbitration, neutral third parties review evidence in the form of documents and testimony, listen to arguments and render a decision on the disputed matter. Through arbitration, the opportunity for appeal is foregone in virtually all matters as the decisions are final and binding.

The Company maintains insurance coverage for client claims. With respect to these matters, the estimated losses on the majority of pending matters are less than the applicable deductibles of the insurance policies. The Company believes, based on the information available at this time, after consultation with counsel, consideration of amounts accrued, insurance, if any, and indemnifications provided by the third-party indemnitors, if any, that the outcomes of matters with estimated losses in excess of applicable deductibles will not have a material impact on the unaudited condensed consolidated statements of income, financial condition or cash flows.

Regulatory — In July 2012, the Internal Revenue Service (the "IRS") issued a Notice of Proposed Adjustment (the "Notice") asserting that the Company is subject to a penalty with respect to an alleged untimely deposit of withholding taxes related to the exercise of certain non-qualified stock options in connection with the Company's initial public offering in 2010. In 2012, the Company recorded an estimate of probable loss within accounts payable and accrued liabilities in the unaudited condensed consolidated statements of financial condition. During the first quarter of 2013, the IRS issued a Summary of Employment Tax Examination (the "Summary") and the Company remitted payment which approximated amounts previously accrued in accordance with the Summary. During the third quarter of 2013, the matter was concluded.

In June of 2013, the Company reached an agreement with its principal regulator to resolve a matter related to email surveillance and production. During the first quarter of 2013, the Company recorded an estimate of a probable loss within professional services in the unaudited condensed consolidated statement of income and

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accounts payable and accrued liabilities in the unaudited condensed consolidated statement of financial condition. The outcome of this matter did not differ materially from the amount recorded in the unaudited condensed consolidated statements of income, financial condition or cash flows as of and for the three and nine months ended September 30, 2013.

Other Commitments — As of September 30, 2013, the Company had received collateral primarily in connection with client margin loans with a market value of approximately $343.7 million, which it can sell, re-pledge or loan. Of this amount, approximately $25.5 million was pledged with client-owned securities to the Options Clearing Corporation ("OCC") as collateral to secure client obligations related to options positions. Additionally, approximately $140.7 million are held at banks in connection with unutilized secured margin lines of credit; these securities may be used as collateral for loans from these banks. The remainder of $177.5 million has not been re-pledged, loaned or sold, and as of September 30, 2013 there are no restrictions that materially limit the Company's ability to re-pledge, loan or sell the remaining $318.2 million of client collateral.

As of December 31, 2012, the Company had received collateral primarily in connection with client margin loans with a market value of approximately $375.8 million, which it can sell, re-pledge or loan. Of this amount, approximately $41.5 million had been pledged or loaned as of December 31, 2012; $22.2 million was pledged with client-owned securities to the OCC as collateral to secure client obligations related to options positions, and $19.3 million was loaned to the NSCC through participation in its Stock Borrow Program. Additionally, approximately $40.3 million were held at banks in connection with unutilized secured margin lines of credit; these securities may be used as collateral for loans from these banks. The remainder of $294.0 million had not been re-pledged, loaned or sold, and as of December 31, 2012 there were no restrictions that materially limited the Company's ability to re-pledge, loan or sell the remaining $334.3 million of client collateral. In May 2013, the Company ended its participation in the National Securities Clearing Corporation ("NSCC") Stock Borrow Program and all pledged collateral was returned to the Company.

Trading securities on the unaudited condensed consolidated statements of financial condition includes $0.9 million pledged to clearing organizations at September 30, 2013 and December 31, 2012, respectively.

LPL Financial provides brokerage, clearing and custody services on a fully disclosed basis; offers its investment advisory programs and platforms; and provides technology and additional processing and related services to the advisors of the broker-dealer subsidiary of a large global insurance company and their clients under a multi-year agreement. Termination fees may be payable by a terminating or breaching party depending on the specific cause of termination.

11. Stockholders' Equity

Stock Plan Summary

On November 17, 2010, the Company adopted a 2010 Omnibus Incentive Plan (the "2010 Plan"), which provides for the granting of stock options, warrants, restricted stock awards and restricted stock units. The 2010 Plan serves as the successor to the 2005 Stock Option Plan for Incentive Stock Options, the 2005 Stock Option Plan for Non-qualified Stock Options, the 2008 Advisor and Institution Incentive Plan, the 2008 Stock Option Plan and the Director Restricted Stock Plan (collectively, the "Predecessor Plans"). Upon adoption of the 2010 Plan, awards were no longer made under the Predecessor Plans. To the extent not already exercised, awards previously granted under the Predecessor Plans remain outstanding. Stock options granted under the 2010 Plan are either incentive stock options, or non-qualified stock options, as defined in the 2010 Plan. The Company has issued new shares under the 2010 Plan and is also permitted to reissue treasury shares.

Under the 2010 Plan, the Company may grant up to 12.1 million new shares in addition to the shares available for grant under the Predecessor Plans. As of September 30, 2013, the Company had approximately 6.9 million of authorized unissued shares reserved for issuance upon exercise and conversion of outstanding awards.

Stock Options and Warrants

The Company grants stock options to certain employees, advisors, officers and non-employee directors. The Company has also granted warrants to certain financial institutions. Stock options and warrants generally vest in equal increments over a three- to five-year period and expire on the tenth anniversary following the date of grant.
The Company recognizes share-based compensation for stock options awarded to employees, officers and directors based on the grant date fair value over the requisite service period of the award, which generally equals

the vesting period. The Company recognized share-based compensation related to the vesting of these awards of $2.5 million and $4.1 million during the three months ended September 30, 2013 and 2012, respectively, and $9.8 million and $12.4 million during the nine months ended September 30, 2013 and 2012, respectively, which is included in compensation and benefits on the unaudited condensed consolidated statements of income. As of September 30, 2013, total unrecognized compensation cost related to non-vested share-based compensation arrangements granted to employees, officers and directors was $29.8 million, which is expected to be recognized over a weighted-average period of 3.29 years.

The Company recognizes share-based compensation for stock options and warrants awarded to its advisors and to financial institutions based on the fair value of the awards at each interim reporting period. The Company recognized share-based compensation of $1.6 million and $0.1 million during the three months ended September 30, 2013 and 2012, respectively, and $5.9 million and $2.9 million for during the nine months ended September 30, 2013 and 2012, respectively, related to the vesting of stock options and warrants awarded to its advisors and financial institutions, which is classified within commission and advisory expense on the unaudited condensed consolidated statements of income. As of September 30, 2013, total unrecognized compensation cost related to non-vested share-based compensation arrangements granted to advisors and financial institutions was $16.5 million, which is expected to be recognized over a weighted-average period of 3.18 years.

Restricted Stock

The Company recognizes share-based compensation for restricted stock awards and restricted stock units granted to its employees, officers and directors by measuring such awards at their grant date fair value. Share-based compensation is recognized ratably over the requisite service period, which generally equals the vesting period. The Company recognized $0.6 million and $0.1 million of share-based compensation related to the vesting of restricted stock awards and restricted stock units during the three months ended September 30, 2013 and 2012, respectively, and $1.6 million and $0.4 million during the nine months ended September 30, 2013 and 2012, respectively, which is included in compensation and benefits on the unaudited condensed consolidated statements of income. As of September 30, 2013, total unrecognized compensation cost for restricted stock awards and restricted stock units granted to employees, officers and directors was $6.6 million, which is expected to be recognized over a weighted-average remaining period of 1.49 years.

2008 Nonqualified Deferred Compensation Plan

On November 19, 2008, the Company established an unfunded, unsecured deferred compensation plan (the "Deferred Compensation Plan") to permit employees and former employees who held non-qualified stock options issued under the 2005 Stock Option Plan for Incentive Stock Options and 2005 Stock Option Plan for Non-qualified Stock Options that were set to expire in 2009 and 2010, to receive stock units under the Deferred Compensation Plan. On February 22, 2012, the Company distributed 1,673,556 shares, net of shares withheld to satisfy withholding tax requirements, pursuant to the terms of the Deferred Compensation Plan. Distributions to participants were made in the form of whole shares of common stock equal to the number of stock units allocated to the participant's account, with fractional shares paid out in cash. Participants authorized the Company to withhold shares from their distribution of common stock to satisfy their withholding tax obligations. Accordingly on February 22, 2012, the Company repurchased 1,149,896 shares and paid $37.5 million of cash consideration related to tax withholdings. The repurchase of shares was executed under the share repurchase program approved by the Board of Directors on August 16, 2011.

Share Repurchases

The Board of Directors has approved several share repurchase programs 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. Purchases may be effected in open market or privately negotiated transactions, including transactions with affiliates, with the timing of purchases and the amount of stock purchased generally determined at the discretion of the Company's management.

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

For the three months ended September 30, 2013 and 2012, the Company had the following activity under its approved share repurchase programs (in millions, except share and per share data):

			2013			2012		
Approval Date	Authorized Repurchase Amount	Amount Remaining at September 30, 2013	Shares Purchased	Weighted Average Price Paid Per Share	Total Cost	Shares Purchased	Weighted Average Price Paid Per Share	Total Cost
August 16, 2011	$70.0	$—	—	$—	$—	186,190	$27.56	$5.1
May 25, 2012	$75.0	—	—	$—	—	1,719,739	$28.79	49.5
September 27, 2012	$150.0	—	759,786	$38.40	29.2	—	$—	—
May 28, 2013	$200.0	102.7	2,566,630	$37.94	97.3	—	$—	—
		$102.7	3,326,416	$38.04	$126.5	1,905,929	$28.67	$54.6

For the nine months ended September 30, 2013 and 2012, the Company had the following activity under its approved share repurchase programs (in millions, except share and per share data):

			2013			2012		
Approval Date	Authorized Repurchase Amount	Amount Remaining at September 30, 2013	Shares Purchased	Weighted Average Price Paid Per Share	Total Cost	Shares Purchased	Weighted Average Price Paid Per Share	Total Cost
August 16, 2011	$70.0	$—	—	$—	$—	1,891,072	$32.27	$61.0
May 25, 2012	$75.0	—	—	$—	—	1,719,739	$28.79	49.5
September 27, 2012	$150.0	—	2,343,651	$37.10	87.0	—	$—	—
May 28, 2013	$200.0	102.7	2,566,630	$37.94	97.3	—	$—	—
		$102.7	4,910,281	$37.54	$184.3	3,610,811	$30.61	$110.5

Dividends

The payment, timing and amount of any dividends permitted under the Company's credit facilities are subject to approval by the Board of Directors, including both timing and amount. Cash dividends per share of common stock and total cash dividends paid during each quarter were as follows (in millions, except per share data):

	2013		2012	
	Dividend per Share	Total Cash Dividend	Dividend per Share	Total Cash Dividend
First quarter	$0.135	$14.4	$—	$—
Second quarter	$0.135	$14.4	$2.00	$222.6
Third quarter	$0.190	$19.9	$0.12	$13.2

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

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 for the three and nine months ended September 30, 2013 and 2012 is as follows (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	$37,631	$34,299	$137,439	$114,980
Basic weighted average number of shares outstanding	104,271	110,213	105,670	109,997
Dilutive common share equivalents	1,434	1,664	1,264	2,439
Diluted weighted average number of shares outstanding	105,705	111,877	106,934	112,436
Basic earnings per share	$0.36	$0.31	$1.30	$1.05
Diluted earnings per share	$0.36	$0.31	$1.29	$1.02

The computation of diluted earnings per share excludes stock options, warrants and restricted stock units that are anti-dilutive. For the three months ended September 30, 2013 and 2012, stock options, warrants and restricted stock units representing common share equivalents of 3,075,389 shares and 4,307,637 shares, respectively, were anti-dilutive. For the nine months ended September 30, 2013 and 2012, stock options, warrants and restricted stock units representing common share equivalents of 3,744,198 shares and 4,120,953 shares, respectively, were anti-dilutive.

13. Related Party Transactions

Aplifi, Inc. ("Aplifi"), a privately held technology company in which the Company holds an equity interest, provides software licensing for annuity order entry and compliance. The Company paid $0.8 million and $0.5 million to Aplifi for such services during the nine months ended September 30, 2013 and 2012, respectively.

The Company’s significant shareholder, TPG Capital, has an ownership interest in several portfolio companies that provide the Company with services, as noted below:

American Beacon Advisor, Inc. (“American Beacon”), a company majority-owned by TPG Capital, pays fees in exchange for product distribution and record-keeping services. During the nine months ended September 30, 2013 and 2012, the Company earned $0.4 million and $0.3 million, respectively, in fees from American Beacon.

TPG Capital owns a minority interest in XOJET, Inc. ("XOJET"), which provides chartered aircraft services. The Company paid $0.5 million to XOJET during the nine months ended September 30, 2012.

Certain entities affiliated with SunGard Data Systems Inc. ("SunGard"), a company minority-owned by TPG Capital, provide data center recovery services. The Company paid $0.2 million and $0.2 million to SunGard during the nine months ended September 30, 2013 and 2012, respectively.

TPG Capital provided the Company with consulting services. During the nine months ended September 30, 2013 and 2012, the Company paid $0.1 million and $0.2 million, respectively, to TPG Capital.

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

14. Net Capital and Regulatory Requirements

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

The Company’s registered broker-dealer, LPL Financial, is subject to the SEC’s Uniform Net Capital Rule (Rule 15c3-1 under the Exchange Act), which requires the maintenance of minimum net capital, as defined. 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 $183.1 million with a minimum net capital requirement of $6.3 million and net capital in excess of the minimum requirement of $176.8 million as of September 30, 2013.

The Company's subsidiary, The Private Trust Company N.A. ("PTC"), 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, 2013 and December 31, 2012, LPL Financial and PTC met all capital adequacy requirements to which they are subject.

15. 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 and 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 three 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 and/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.

16. Subsequent Event

On October 29, 2013, the Board of Directors declared a cash dividend of $0.19 per share on the Company's outstanding common stock to be paid on November 26, 2013 to all stockholders of record on November 11, 2013.

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

Overview

We are the nation's largest independent broker-dealer, a top custodian for registered investment advisors ("RIAs"), and a leading independent consultant to retirement plans. We provide an integrated platform of brokerage and investment advisory services to more than 13,500 independent financial advisors and financial advisors at approximately 700 financial institutions (our "advisors") across the country, enabling them to provide their retail investors (their "clients") with objective, conflict-free financial advice. We also support approximately 4,500 financial advisors who are affiliated and licensed with insurance companies with customized clearing, advisory platforms and technology solutions.

In addition, through our subsidiary companies, we support a diverse client base. Fortigent Holdings Company, Inc., through its subsidiaries, is a leading provider of consulting services and solutions to RIAs, banks and trust companies servicing high net worth clients, while The Private Trust Company N.A. manages trusts and family assets for high net worth clients in all 50 states.

Our singular focus is to provide 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 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 leading financial products, all delivered in an environment unencumbered by conflicts from product manufacturing, underwriting or market making.
For over 20 years, we have served the independent advisor market. We currently support the largest independent advisor base and we believe we have the fourth largest overall advisor base in the United States based on the information available as of the date this Quarterly Report on Form 10-Q was issued. Through our advisors, we are also one of the largest distributors of financial products in the United States. Our scale is a substantial competitive advantage and enables us to more effectively attract and retain advisors. Our unique business model allows us to invest in more resources for our advisors, increasing their revenues and creating a virtuous cycle of growth. We have approximately 3,000 employees with primary offices in Boston, Charlotte and San Diego.

Our Sources of Revenue

Our revenues are derived primarily from fees and commissions from investment 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 the distribution of financial products for a broad range of product manufacturers. Under our self-clearing platform, we custody the majority of client assets invested in these financial products, which includes providing 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 track recurring revenue, a characterization of net revenue and a statistical measure, which we define to include our revenues from asset-based fees, advisory fees, trailing commissions, cash sweep programs and certain other fees that are based upon accounts and advisors. Because certain recurring revenues are associated with asset balances, they fluctuate depending on the market value of the asset balances and current interest rates. These asset balances, specifically related to advisory fee revenues and asset-based revenues, have approximately a 60% correlation to market fluctuations. Accordingly, recurring revenue can be negatively impacted by adverse external market conditions. However, recurring revenue is meaningful to us despite these fluctuations because it is not based on transaction volumes or other activity-based revenues, which are more difficult to predict, particularly in declining or volatile markets.

The table below summarizes the sources of our revenue, the primary drivers of each revenue source and the percentage of each revenue source that represents recurring revenue, a characterization of revenue and a statistical measure:

For the Nine Months Ended
September 30, 2013