

Edgar Filing: LPL Financial Holdings Inc. - Form 10-Q

LPL Financial Holdings Inc.

Form 10-Q

August 01, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended **June 30, 2017**

or

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 (I.R.S. Employer

incorporation or organization) 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. Yes 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). Yes No

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

Large accelerated filer Accelerated filer

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

Smaller reporting company

Emerging growth company

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

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

The number of shares of Common Stock, par value \$0.001 per share, outstanding as of July 25, 2017 was 89,974,870.

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WHERE YOU CAN FIND MORE INFORMATION

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

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

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in Item 2 - “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and other sections of this Quarterly Report on Form 10-Q regarding the Company’s future financial and operating results, outlook, growth, plans, business strategies, liquidity, future indebtedness, future share repurchases, and future dividends, including statements regarding future resolution of regulatory matters, legal proceedings and related costs, future revenues and expenses, and projected savings and anticipated improvements to the Company’s operating model, services, and technologies as a result of its initiatives and programs, 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 August 1, 2017. 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 brokerage and advisory assets; fluctuations in levels of net new assets and the related impact on fee revenue; fluctuations in the number of retail investors served by the Company; 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; the success of the Company in attracting and retaining financial advisors and institutions; changes in interest rates and fees payable by banks participating in the Company’s cash sweep program, including the Company’s success in negotiating agreements with current or additional counterparties; the Company’s strategy in managing cash sweep program fees; changes in the growth and profitability of the Company’s fee-based business; the effect of current, pending, and future legislation, regulation, and regulatory actions, including the United States Department of Labor (“DOL”) final rule on conflicts of interest (Definition of the term “Fiduciary”; Conflict of Interest Rule—Retirement Investment Advice, the “DOL Rule”), which became applicable on June 9, 2017, and disciplinary actions imposed by federal and state regulators and self-regulatory organizations; the costs of settling and remediating issues related to pending or future

regulatory matters or legal proceedings; changes made to the Company's offerings and services in response to current, pending, and future legislation, regulation, and regulatory actions, including the DOL Rule, and the effect that such changes may have on the Company's gross profit streams and costs; execution of the Company's capital management plans, including its compliance with the terms of its credit agreement and the indenture governing its senior notes; the price, the availability of shares, and trading volumes of the Company's common stock, which will affect the timing and size of future share repurchases by the Company; execution of the Company's plans and its success in realizing the expense savings and service improvements and efficiencies expected to result from its initiatives and programs, particularly its expense plans and technological initiatives; the Company's success in negotiating and developing commercial arrangements with third-party services providers; the performance of third-

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party service providers to which business processes are transitioned; the Company's ability to control operating risks, information technology systems risks, cybersecurity risks, and sourcing risks; and the other factors set forth in Part I, "Item 1A. Risk Factors" in the Company's 2016 Annual Report on Form 10-K, as may be amended or updated in the Company's Quarterly Reports on Form 10-Q. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this quarterly report, even if its estimates change, and you should not rely on statements contained herein as representing the Company's views as of any date subsequent to the date of this quarterly report.

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PART I — FINANCIAL INFORMATION

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

Business Overview

We are a leader in the retail financial advice market, the nation’s largest independent broker-dealer (based on total revenues, Financial Planning magazine June 1996-2017), 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 14,000 independent financial advisors (our “advisors”), including financial advisors at more than 700 financial institutions across the country, enabling them to provide their retail investors (“clients”) with objective financial advice through a lower conflict model. We also support approximately 3,700 financial advisors who are affiliated and licensed with insurance companies that use our customized clearing, advisory platforms, and technology solutions. Through our advisors, we are one of the largest distributors of financial products and services in the United States, and we believe we are one of the top five firms in the United States ranked by number of advisors.

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

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

Executive Summary

Net Income

Results for the second quarter of 2017 included net income of \$68.4 million or \$0.74 per share, which compares to \$47.8 million, or \$0.53 per share, in the second quarter of 2016. Increased cash sweep revenue, advisory fee revenue and transaction and fee revenue all contributed to the earnings per share growth.

Asset Growth Trends

Total assets served were \$542.0 billion as of June 30, 2017, up 11.1% from \$488.0 billion as of June 30, 2016. Total net new assets were \$0.4 billion for the three months ended June 30, 2017, compared to \$1.3 billion for the same period in 2016.

Net new advisory assets were \$5.9 billion for the three months ended June 30, 2017, compared to \$2.8 billion in the same period in 2016. As of June 30, 2017, our advisory assets had grown to \$236.8 billion from the prior year end balance of \$196.1 billion and represented 43.7% of total brokerage and advisory assets served. In addition to our corporate RIA platform, we offer a platform that serves independent RIA firms that conduct their advisory business through separate entities (“Hybrid RIAs”) operating pursuant to the Investment Advisers Act of 1940, as amended (“Advisers Act”) or their respective states’ investment advisory licensing rules, rather than through LPL Financial. We include Hybrid RIA assets in advisory accounts custodied at LPL Financial in our brokerage and advisory assets, advisory assets, and net new advisory asset metrics.

Net new brokerage assets totaled outflows of \$5.5 billion for the three months ended June 30, 2017, compared to outflows of \$1.5 billion for the same period in 2016. The decrease in net new brokerage assets primarily reflected the impact of client departures during the quarter. As of June 30, 2017, our brokerage assets had grown to \$305.2 billion from \$291.9 billion as of June 30, 2016.

Gross Profit Trends

Gross profit, a non-GAAP measure, of \$388.6 million for the three months ended June 30, 2017, reflected an increase of 12.7% in comparison to \$344.9 million for the quarter ended June 30, 2016. Management presents gross profit, which is calculated as net revenues less commission and advisory expenses and brokerage, clearing, and exchange fees, because we believe that measure may be useful to investors in evaluating the Company's core

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operating performance before indirect costs that are general and administrative in nature. See footnote 9 to the Financial Metrics table within the “How We Evaluate Our Business” section for additional information on gross profit. The increase in period-over-period gross profit was primarily due to increases in cash sweep revenue from the impact of the increases in the target range for the federal funds effective rate announced in each of March and June 2017, increases in advisory revenues resulting from net new assets and market gains as represented by higher levels of the S&P 500 index.

Capital Management Activity

We returned \$58.8 million of capital to shareholders during the three months ended June 30, 2017, including \$22.6 million of dividends and \$36.2 million of share repurchases (representing 910,349 shares).

Our Sources of Revenue

Our revenues are derived primarily from fees and commissions from products and advisory services offered by our advisors to their clients, a substantial portion of which we pay out to our advisors, as well as fees we receive from our advisors for the use of our technology, custody, clearing, trust, and reporting platforms.

We also generate asset-based revenues through our cash sweep program and the access we provide to over 750 product providers with the following product lines:

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

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

We 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 client accounts and advisors. Because certain recurring revenues are associated with asset balances, they will fluctuate depending on the market values and current interest rates. Accordingly, our 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 dependent upon 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 and drivers of our revenue:

	Sources of Revenue	Primary Drivers	Six Months Ended June 30, 2017			
			Net Revenues (millions)	% of Total Net Revenue	Recurring Revenues (millions)	% Recurring
Advisor-driven revenue with ~85%-90% payout ratio	Commission	- Sales				
		- Transactions	\$842	40%	\$473	56.2%
	Advisory	- Brokerage asset levels				
		- Corporate advisory asset levels	\$676	32%	\$673	99.6%
Attachment revenue retained by us	Asset-Based	- Cash balances				
		- Interest rates				
	Transaction and Fee	- Cash Sweep Fees	\$331	16%	\$325	98.2%
		- Sponsorship Fees				
Attachment revenue retained by us	Transaction and Fee	- Record Keeping				
		- Client activity				
	Other	- Trades				
		- Client (Investor) Accounts	\$218	10%	\$125	57.3%
Other	- Advisor Seat and Technology					
	- Premium technology subscribers					
Other	- Margin accounts					
	- Alternative investment transactions	\$34	2%	\$13	38.2%	
Total			\$2,101	100%	\$1,609	76.6%

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

How We Evaluate Our Business

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

Operating Metrics	June 30,		% Change	
	2017	2016		
Brokerage Assets (in billions)(1)(2)	\$305.2	\$291.9	5 %	
Advisory Assets (in billions)(1)(3)	236.8	196.1	21 %	
Total Brokerage and Advisory Assets served(in billions)(1)	\$542.0	\$488.0	11 %	
Net New Brokerage Assets (in billions)(4)	\$(8.9)	\$(2.5)	n/m	
Net New Advisory Assets (in billions)(5)	11.9	4.8	n/m	
Total Brokerage and Advisory Net New Assets (in billions)(6)	\$3.0	\$2.3	n/m	
Insured Cash Account Balances (in billions)(1)	\$20.8	\$21.0	(1)%	
Deposit Cash Account Balances (in billions)(1)	3.7	—	n/m	
Money Market Account Balances (in billions)(1)	3.3	8.2	(60)%	
Total Cash Sweep Balances	\$27.8	\$29.2	(5)%	
Advisors(7)	14,256	14,193	— %	
Financial Metrics	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2017	2016	2017	2016
Total net revenues (in millions)	\$1,065.5	\$1,019.2	\$2,100.9	\$2,024.5
Total net revenues increase (decrease) from prior period	4.5 %	(6.6)%	3.8 %	(8.0)%
Recurring revenue as a % of net revenue	77.3 %	73.8 %	76.6 %	73.8 %
Pre-tax income (in millions)	\$112.8	\$79.7	\$188.0	\$164.3
Net income (in millions)	\$68.4	\$47.8	\$116.6	\$98.2
Earnings per share, diluted	\$0.74	\$0.53	\$1.27	\$1.10
Non-GAAP Measures:(8)				
Gross profit (in millions)(9)	\$388.6	\$344.9	\$764.7	\$700.6
Gross profit growth from prior period(9)	12.7 %	1.4 %	9.2 %	0.7 %
Gross profit as a % of net revenue(9)	36.5 %	33.8 %	36.4 %	34.6 %

Brokerage and advisory assets served are comprised of assets that are custodied, networked, and non-networked and reflect market movement in addition to new assets, inclusive of new business development and net of attrition. Insured cash account balances, money market account balances, and (1)beginning in July 2016, deposit cash account balances are also included in brokerage and advisory assets served. Set forth below are other client asset balances at June 30, 2017 and 2016, including retirement plan assets and certain trust and high-net-worth assets that are custodied with third-party providers and therefore excluded from total brokerage and advisory assets served (in billions):

	June 30,	
	2017	2016
Retirement plan assets(a)	\$100.7	\$87.2
Trust assets	\$1.6	\$1.0
High-net-worth assets	\$87.2	\$88.0

(a) Retirement plan assets are held in retirement plans that are supported by advisors licensed with LPL Financial. Our retirement plan assets represent those assets that are custodied with various third-party

providers of retirement plan administrative services who provide reporting feeds. Including those plans

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for which we receive no reporting feed, we estimate the total assets in retirement plans supported to be approximately \$138 billion at June 30, 2017. If we receive reporting feeds in the future from providers from whom we do not currently receive feeds, we intend to include and identify such additional assets in this metric. Such additional feeds since June 30, 2016, accounted for \$0.3 billion of the total retirement plan assets.

Brokerage assets consists of assets serviced by advisors licensed with LPL Financial that are custodied, (2) networked, and non-networked, and reflect market movement in addition to new assets, inclusive of new business development and net of attrition.

Advisory assets consists of advisory assets under management on LPL Financial's corporate advisory (3) platform and Hybrid RIA assets in advisory accounts custodied at LPL Financial. See "Results of Operations" for a tabular presentation of advisory assets.

Represents net new brokerage assets for the six months ended June 30, 2017 and 2016, which consists (4) of total client deposits into brokerage accounts less total client withdrawals from brokerage accounts.

We consider conversions from and to advisory accounts as deposits and withdrawals, respectively.

Represents net new advisory assets for the six months ended June 30, 2017 and 2016, which consists (5) of total client deposits into custodied advisory accounts less total client withdrawals from custodied advisory accounts. We consider conversions from and to brokerage accounts as deposits and withdrawals, respectively.

Brokerage and advisory net new assets consists of the sum of net new advisory assets (see FN 5) and (6) net new brokerage assets (see FN 4).

Advisors are defined as those independent financial advisors and financial advisors at financial (7) institutions who are licensed to do business with LPL Financial.

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

Gross profit is calculated as net revenues, which were \$1,065.5 million and \$1,019.2 million for the three months ended June 30, 2017 and 2016, respectively, less commission and advisory expenses, which were \$663.0 million and \$660.7 million for the three months ended June 30, 2017 and 2016, respectively, and brokerage, clearing, and exchange fees, which were \$13.9 million and \$13.6 million, for the three months ended June 30, 2017 and 2016, respectively. Gross profit for the six months ended June 30, 2017 and 2016, is calculated as net revenues, which were \$2,100.9 million and \$2,024.5 million, respectively, less commission and advisory expenses, which were \$1,308.1 million and \$1,296.7 (8) million for the six months ended June 30, 2017 and 2016, respectively, and brokerage, clearing, and exchange fees, which were \$28.1 million and \$27.2 million, for the six months ended June 30, 2017 and 2016, respectively. All other expense categories, including depreciation and amortization of fixed assets and amortization of intangible assets, are considered general and administrative in nature. Because our gross profit amounts do not include any depreciation and amortization expense, we consider our gross profit amounts to be non-GAAP measures that may not be comparable to those of others in our industry. We believe that gross profit amounts can be useful to investors because they show the Company's core operating performance before indirect costs that are general and administrative in nature.

Legal & Regulatory Matters

As a regulated entity, we are subject to regulatory oversight and inquiries related to, among other items, our compliance and supervisory systems and procedures and other controls, as well as our disclosures, supervision, and reporting. The environment of additional regulation, increased regulatory compliance obligations, and enhanced regulatory enforcement has resulted in additional operational and compliance costs, as well as increased costs in the form of fines, restitution, and remediation related to regulatory matters. In the ordinary course of business, we periodically identify or become aware of purported

inadequacies, deficiencies, and other issues. It is our policy to evaluate these matters for potential securities law or regulatory violations and other potential compliance issues. It is also our policy to self-report known violations and issues as required by applicable law and regulation. When deemed probable that matters may result in financial losses, we accrue for those losses based on an estimate of possible fines, customer restitution, and losses related to the repurchase of sold securities and other losses, as applicable. Certain regulatory and other legal claims and losses may be covered through our wholly-owned captive

insurance subsidiary, which is chartered with the insurance commissioner in the State of Tennessee. Our ability to estimate such costs may vary based on the current stage of evaluation and status of discussion with regulators, as applicable.

Our accruals, including those established through the captive insurance subsidiary at June 30, 2017, include estimated costs for significant regulatory matters, generally relating to the adequacy of our compliance and supervisory systems and procedures and other controls, for which we believe losses are both probable and reasonably estimable.

The outcome of regulatory matters could result in legal liability, regulatory fines, or monetary penalties in excess of our accruals and insurance, which could have a material adverse effect on our business, results of operations, cash flows, or financial condition. For more information on management's loss contingency policies, see Note 7. *Commitments and Contingencies*, within the notes to the unaudited condensed consolidated financial statements.

In April 2016, the United States Department of Labor issued a final rule (the "DOL Rule") and related exemptions, which broaden the circumstances under which we may be considered a "fiduciary" with respect to certain accounts that are subject to the ERISA, and the prohibited transaction rules under section 4975 of the Internal Revenue Code, including many employer-sponsored retirement plans and individual retirement accounts ("IRAs"). The DOL also finalized certain prohibited transaction exemptions that allow investment advisors to receive compensation for providing investment advice under arrangements that would otherwise be prohibited due to conflicts of interest. The DOL Rule became applicable on June 9, 2017 and the full implementation date for conditions under related exemptions currently is January 1, 2018. We are continuing to analyze and evaluate the impact of the DOL Rule and related amendments to exemptions on our clients, potential clients, and our business, as the DOL Rule and exemption requirements become applicable. Because ERISA plans and IRAs comprise a significant portion of our business, we continue to expect that compliance with the DOL Rule and reliance on new and amended prohibited transaction exemptions will require increased legal, compliance, information technology, and other costs and could lead to a greater risk of class action lawsuits and other litigation. Please consult the Retirement Plan Services Regulation section within Part I, "Item 1. Business" within our 2016 Annual Report on Form 10-K as filed with the SEC for more information about the risks associated with the DOL Rule and related exemptions and their potential impact on our operations.

Acquisitions, Integrations, and Divestitures

From time to time we undertake acquisitions or divestitures based on opportunities in the competitive landscape. These activities are part of our overall growth strategy, but can distort comparability when reviewing revenue and expense trends for periods presented. There have been no material acquisitions, integrations, or divestitures during the six months ended June 30, 2017 or during the six months ended June 30, 2016.

Economic Overview and Impact of Financial Market Events

Our business is directly and indirectly sensitive to several macroeconomic factors and the state of the United States financial markets. In the United States, economic data received over the quarter continued to point to fairly steady economic growth over the first half of 2017 despite some slowing in the first quarter. According to the most recent estimate by the Bureau of Economic Analysis, real gross domestic product (“GDP”) growth accelerated to 2.6% in the second quarter of 2017 from 1.2% in the first quarter of 2017, putting the overall growth rate over the last four quarters at 2.1%. A largely healthy labor market, generally steady consumer spending, signs of improved business investment, and still low interest rates have all been supportive of growth. Despite little notable improvement in hard economic data compared to the prior year as a whole, business and consumer confidence remains elevated, likely driven by prospective business-friendly policy and regulatory changes. Improving global growth may also provide a more favorable backdrop for the U.S., with stable growth momentum evident in most major global economies. While a prospective rise in U.S. economic growth to 2 - 3% on improving confidence and a stronger global economy may seem modest by historical standards, it would still be above the Congressional Budget Office’s estimate of potential GDP growth, and therefore could be enough to further tighten the labor market, push wages higher, and increase the probability of the Federal Reserve (“Fed”) following through on its median projected rate path of one more rate hike in 2017 and three more rate hikes in 2018.

Equity markets exhibited relatively low volatility over the second quarter of 2017 and broad measures of financial stress continued to decline. The S&P 500 extended its post-election rally during the quarter, posting modest gains. Strong first quarter earnings results helped support stock prices. The energy sector, however, struggled, weighed down by declining oil prices. Longer-term Treasury yields declined over the quarter despite a late quarter pick up, giving a small advantage to higher-yielding, longer-maturity bonds, with stable financial conditions helping more economically sensitive fixed income sectors generally outperform higher quality sectors.

Our business is also sensitive to current and expected short-term interest rates, which are largely driven by Federal Reserve policy. In particular, low short-term rates can weigh on the profitability of our cash sweep program due to the fee compression needed to keep our rates competitive. Low interest rates and the prospect of rising rates over the long term can also have an impact on demand for fixed and variable annuity products. Following the conclusion of its June 13 -14, 2017 policy meeting, the Fed’s policy arm, the Federal Open Market Committee (“FOMC”) announced that it was raising rates for the third time in the last six months, increasing the target range for the federal funds rate by 25 basis points (0.25%) to 1.00 -1.25%. The FOMC’s policy statement also included a new addendum that outlined the committee’s plan to begin gradually reducing the Fed’s security holding, likely beginning later in 2017. Economic projections that accompanied the statement saw a slight increase in the median GDP estimate for 2017 and a decline in both the expected 2017 unemployment rate and inflation rate compared to the last set of projections, released in March. Median longer range forecasts were largely unchanged. Despite a limited change in forecasts, the decision to raise rates appeared to be at least a modest vote of confidence that the economy has continued to gain traction.

Results of Operations

The following discussion presents an analysis of our results of operations for the three and six months ended June 30, 2017 and 2016. Where appropriate, we have identified specific events and changes that affect comparability or trends, and where possible and practical, have quantified the impact of such items.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	% Change	2017	2016	% Change
Revenues	(In thousands)					
Commission	\$420,706	\$445,755	(5.6)%	\$841,870	\$882,482	(4.6)%
Advisory	346,515	322,955	7.3 %	676,374	642,387	5.3 %
Asset-based	173,450	137,797	25.9 %	330,673	274,048	20.7 %
Transaction and fee	109,361	101,824	7.4 %	217,523	204,514	6.4 %
Interest income, net of interest expense	5,976	5,238	14.1 %	11,769	10,568	11.4 %
Other	9,496	5,612	69.2 %	22,722	10,487	116.7 %
Total net revenues	1,065,504	1,019,181	4.5 %	2,100,931	2,024,486	3.8 %
Expenses						
Commission and advisory	663,046	660,680	0.4 %	1,308,109	1,296,691	0.9 %
Compensation and benefits	110,299	105,773	4.3 %	223,511	219,828	1.7 %
Promotional	32,006	34,717	(7.8)%	68,660	70,401	(2.5)%
Depreciation and amortization	21,190	18,749	13.0 %	41,937	37,711	11.2 %
Amortization of intangible assets	9,453	9,509	(0.6)%	18,944	19,034	(0.5)%
Occupancy and equipment	22,987	21,980	4.6 %	48,186	43,817	10.0 %
Professional services	18,757	14,984	25.2 %	34,294	32,139	6.7 %
Brokerage, clearing, and exchange	13,890	13,609	2.1 %	28,076	27,198	3.2 %
Communications and data processing	10,645	10,971	(3.0)%	21,659	21,468	0.9 %
Other	24,201	24,656	(1.8)%	46,764	44,156	5.9 %
Total operating expenses	926,474	915,628	1.2 %	1,840,140	1,812,443	1.5 %
Non-operating interest expense	26,261	23,804	10.3 %	51,612	47,694	8.2 %
Loss on extinguishment of debt	—	—	n/m	21,139	—	n/m
Income before provision for income taxes	112,769	79,749	41.4 %	188,040	164,349	14.4 %
Provision for income taxes	44,335	31,900	39.0 %	71,417	66,108	8.0 %
Net income	\$68,434	\$47,849	43.0 %	\$116,623	\$98,241	18.7 %

Revenues**Commission Revenues**

We generate two types of commission revenues: sales-based commissions and trailing commissions. Sales-based commission revenues, which occur whenever clients of our advisors trade securities or purchase various types of investment products, primarily represent gross commissions generated by our advisors. The levels of sales-based commission revenues can vary from period to period based on the overall economic environment, number of trading days in the reporting period, and investment activity of our advisors' clients. Trailing commission revenues are recurring in nature and are earned based on the market value of investment holdings in trail eligible assets. We earn trailing commission revenues (a commission that is paid over time, such as 12(b)-1 fees) primarily on mutual funds and variable annuities held by clients of our advisors.

The following table sets forth our commission revenue, by product category, included in our unaudited condensed consolidated statements of income (dollars in thousands):

	Three Months Ended June 30,		\$ Change	% Change
	2017	2016		
Variable annuities	\$ 167,454	\$ 173,421	\$(5,967)	(3.4)%
Mutual funds	134,510	135,770	(1,260)	(0.9)%
Alternative investments	6,719	9,098	(2,379)	(26.1)%
Fixed annuities	39,560	53,623	(14,063)	(26.2)%
Equities	18,799	20,706	(1,907)	(9.2)%
Fixed income	26,256	21,279	4,977	23.4 %
Insurance	16,294	19,980	(3,686)	(18.4)%
Group annuities	11,000	11,686	(686)	(5.9)%
Other	114	192	(78)	(40.6)%
Total commission revenue	\$ 420,706	\$ 445,755	\$(25,049)	(5.6)%

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

	Three Months Ended June 30,		\$ Change	% Change	
	2017	2016			
Sales-based					
Variable annuities	\$53,032	\$64,987	\$(11,955)	(18.4))%
Mutual funds	34,909	38,223	(3,314)	(8.7))%
Alternative investments	3,645	7,002	(3,357)	(47.9))%
Fixed annuities	34,931	50,970	(16,039)	(31.5))%
Equities	18,799	20,706	(1,907)	(9.2))%
Fixed income	20,501	16,288	4,213	25.9	%
Insurance	14,861	18,595	(3,734)	(20.1))%
Group annuities	1,051	1,303	(252)	(19.3))%
Other	114	192	(78)	(40.6))%
Total sales-based revenue	\$181,843	\$218,266	\$(36,423)	(16.7))%
Trailing					
Variable annuities	\$114,422	\$108,434	\$5,988	5.5	%
Mutual funds	99,601	97,547	2,054	2.1	%
Alternative investments	3,074	2,096	978	46.7	%
Fixed annuities	4,629	2,653	1,976	74.5	%
Fixed income	5,755	4,991	764	15.3	%
Insurance	1,433	1,385	48	3.5	%
Group annuities	9,949	10,383	(434)	(4.2))%
Total trailing revenue	\$238,863	\$227,489	\$11,374	5.0	%
Total commission revenue	\$420,706	\$445,755	\$(25,049)	(5.6))%

The decrease in sales-based commission revenue for the three months ended June 30, 2017, compared with the same period in 2016, was primarily due to a decrease in activity for fixed and variable annuities. Fixed and variable annuities commissions were primarily challenged by marketplace uncertainties in response to the DOL Rule, which became applicable on June 9, 2017, offset by an increase in fixed income commissions that were primarily driven by the anticipation of the federal funds rate increase in June 2017. Trailing revenues are recurring in nature and the increase in revenue for the period reflects an increase in the market value of the underlying assets.

The following table sets forth our commission revenue, by product category, included in our unaudited condensed consolidated statements of income (in thousands):

	Six Months Ended June 30,			
	2017	2016	\$ Change	% Change
Variable annuities	\$334,250	\$345,107	\$(10,857)	(3.1)%
Mutual funds	265,984	269,504	(3,520)	(1.3)%
Alternative investments	13,889	16,901	(3,012)	(17.8)%
Fixed annuities	76,472	105,688	(29,216)	(27.6)%
Equities	40,773	41,325	(552)	(1.3)%
Fixed income	53,751	41,946	11,805	28.1%
Insurance	34,016	38,214	(4,198)	(11.0)%
Group annuities	22,480	23,443	(963)	(4.1)%
Other	255	354	(99)	(28.0)%
Total commission revenue	\$841,870	\$882,482	\$(40,612)	(4.6)%

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

	Six Months Ended June 30,			
	2017	2016	\$ Change	% Change
Sales-based				
Variable annuities	\$103,956	\$129,626	\$(25,670)	(19.8)%
Mutual funds	71,371	76,564	(5,193)	(6.8)%
Alternative investments	8,798	13,694	(4,896)	(35.8)%
Fixed annuities	67,024	100,966	(33,942)	(33.6)%
Equities	40,773	41,325	(552)	(1.3)%
Fixed income	42,403	32,060	10,343	32.3%
Insurance	31,007	35,527	(4,520)	(12.7)%
Group annuities	2,831	2,964	(133)	(4.5)%
Other	255	354	(99)	(28.0)%
Total sales-based revenue	\$368,418	\$433,080	\$(64,662)	(14.9)%
Trailing				
Variable annuities	\$230,294	\$215,481	\$14,813	6.9%
Mutual funds	194,613	192,940	1,673	0.9%
Alternative investments	5,091	3,207	1,884	58.7%
Fixed annuities	9,448	4,722	4,726	100.1%
Fixed income	11,348	9,886	1,462	14.8%
Insurance	3,009	2,687	322	12.0%
Group annuities	19,649	20,479	(830)	(4.1)%
Total trailing revenue	\$473,452	\$449,402	\$24,050	5.4%
Total commission revenue	\$841,870	\$882,482	\$(40,612)	(4.6)%

The decrease in sales-based commission revenue for the six months ended June 30, 2017, compared with the same period in 2016, was primarily due to a decrease in activity for fixed and variable annuities. Fixed and variable annuities commissions were primarily challenged by marketplace uncertainties in response to the DOL Rule which became applicable June 9, 2017, offset by an increase in fixed income commissions that were primarily driven by the anticipation of the federal funds rate increases announced in March and June 2017, respectively.

Trailing revenues are recurring in nature and the increase in revenue for the period reflects an increase in the market value of the underlying assets.

The following table summarizes activity in brokerage assets that are custodied, networked, and non-networked for the periods presented (in billions):

	Three Months		Six Months	
	Ended June 30,		Ended June 30,	
	2017	2016	2017	2016
Balance - Beginning of period	\$304.6	\$289.2	\$297.8	\$288.4
Net new brokerage assets	(5.5)	(1.5)	(8.9)	(2.5)
Market impact(1)	6.1	4.2	16.3	6.0
Balance - End of period	\$305.2	\$291.9	\$305.2	\$291.9

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

Advisory Revenues

Advisory revenues primarily represent fees charged on our corporate RIA platform provided through LPL Financial to clients of our advisors based on the value of their advisory assets. Advisory fees are billed to clients on either a calendar quarter or non-calendar quarter basis of their choice, at the beginning of that period, and are recognized as revenue ratably during the quarter. The majority of our accounts are billed in advance using values as of the last business day of each immediately preceding calendar quarter. The value of the assets in an advisory account on the billing date determines the amount billed, and accordingly, the revenues earned in the following three month period. Advisory revenues collected on our corporate RIA platform are proposed by the advisor and agreed to by the client and average 1.0% of the underlying assets, and the maximum fees charged for these accounts as of June 30, 2017 was 3.0%. We also support Hybrid RIAs, through our Hybrid RIA platform, which allows advisors to engage us for technology, clearing, and custody services, as well as access to the capabilities of our investment platforms. Most financial advisors associated with Hybrid RIAs carry their brokerage license with LPL Financial and access our fully-integrated brokerage platform under standard terms, although some financial advisors associated with Hybrid RIAs do not carry a brokerage license with us. The assets held under Hybrid RIAs' investment advisory accounts that are custodied with LPL Financial are included in our brokerage and advisory assets, net new advisory assets, and advisory assets metrics. However, the advisory revenue generated by a Hybrid RIA is earned by the Hybrid RIA, and accordingly is not included in our advisory revenue. We charge separate fees to Hybrid RIAs for technology, clearing, administrative, and custody services. The administrative fees collected on our Hybrid RIA platform vary and can reach a maximum of 0.6% of the underlying assets as of June 30, 2017.

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

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

	Three Months		Six Months	
	Ended June		Ended June	
	30,	30,	30,	30,
	2017	2016	2017	2016
Balance - Beginning of period	\$225.7	\$189.5	\$211.6	\$187.2
Net new advisory assets	5.9	2.8	11.9	4.8
Market impact(1)	5.2	3.8	13.3	4.1
Balance - End of period	\$236.8	\$196.1	\$236.8	\$196.1

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

Net new advisory assets for the three and six months ended June 30, 2017 and 2016 had a limited impact on our advisory fee revenue for those respective periods. Rather, net new advisory assets are a primary

driver of future advisory fee revenue. The revenue for any particular quarter is primarily driven by each of the prior quarter's month-end advisory assets under management. The growth in advisory revenue for the three and six months ended June 30, 2017 compared to the same period in 2016 was due to net new advisory assets resulting from our

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

Assets on our Hybrid RIA platform have been growing rapidly through the recruiting of new advisors and the transition of existing advisors onto that platform. This continued shift of advisors to our Hybrid RIA platform has caused the growth in our advisory revenue to appear to lag behind the rate of growth of advisory assets as we earn the administrative and other fees discussed above, as opposed to earning advisory fees.

The following table summarizes the composition of total advisory assets as of June 30, 2017 and 2016 (in billions):

	June 30,				
	2017	2016	\$ Change	% Change	
Advisory assets under management(1)	\$ 137.7	\$ 121.6	\$ 16.1	13.2	%
Hybrid RIA assets in advisory accounts custodied by LPL Financial	99.1	74.5	24.6	33.0	%
Total advisory assets	\$ 236.8	\$ 196.1	\$ 40.7	20.8	%

(1) Consists of advisory assets under management on our corporate advisory platform.

Asset-Based Revenues

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

Asset-based revenues for the three months ended June 30, 2017 increased to \$173.5 million, or 25.9%, from \$137.8 million for the three months ended June 30, 2016. The increase is due primarily to increased revenues from our cash sweep program. Cash sweep revenue increased to \$71.8 million for the three months ended June 30, 2017, from \$40.9 million for the three months ended June 30, 2016, due to the impact of an increase in the target range for the federal funds effective rate, partially offset by lower cash sweep balances. As of June 30, 2017, our cash sweep balances decreased compared to June 30, 2016, with average cash sweep balances of \$28.4 billion and \$29.3 billion during the three months ended June 30, 2017 and 2016, respectively.

Asset-based revenues for the six months ended June 30, 2017, increased to \$330.7 million, or 20.7%, from \$274.0 million compared with the same period in 2016. The increase is due primarily to increased revenues from our cash sweep program. Cash sweep revenues increased to \$131.5 million for the six months ended June 30, 2017, from \$84.3 million for the six months ended June 30, 2016, due to the impact of the increase in the target range for the federal funds effective rate, partially offset by lower cash sweep balances. As of June 30, 2017, our cash sweep balances decreased compared to June 30, 2016, with average cash sweep balances of \$29.1 billion and \$30.1 billion during the six months ended June 30, 2017 and 2016, respectively.

Transaction and Fee Revenues

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

fee for attendance.

Transaction and fee revenues increased for the three months ended June 30, 2017 compared to the same period in 2016 primarily due to a new fee announced in 2017 for alternative investments effective for 2016 that was billed and recorded in the current period and a higher volume of fixed income transactions related to the federal funds rate increase in June 2017.

Transaction and fee revenues increased for the six months ended June 30, 2017 compared to the same period in 2016 primarily due to a new fee announced in 2017 for alternative investments effective for 2016 that was

billed and recorded in the current period, a higher volume of fixed income transactions related to the federal funds rate increases in March and June 2017 and an increase in IRA custodian termination fees which resulted from the departure of institutional clients during the year.

Interest Income, Net of Interest Expense

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

Other Revenues

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

Other revenues increased primarily due to an increase of \$3.1 million and \$9.1 million in realized and unrealized gains for the three and six months ended June 30, 2017 compared to the same period in 2016, respectively, on approximately \$160.7 million of assets held in our advisor non-qualified deferred compensation plan, which are based on the market performance of the underlying investment allocations chosen by advisors in the plan. The increase in other revenues for the six months ended June 30, 2017 also included early contract termination fees associated with the departure of institutional clients during the first half of the period.

Expenses

Commission and Advisory Expenses

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

Our production payout ratio is calculated as commission and advisory expenses divided by the sum of our commission and advisory revenues (referred to as gross dealer concessions, or "GDC"), as set forth on our unaudited condensed consolidated statements of income. The following table shows the components of our production payout and total payout ratios, each of which is a statistical or operating measure:

	Three Months		Six Months		Change
	Ended June 30, 2017	2016	Ended June 30, 2017	2016	
Base payout rate(1)	82.94%	83.20%	82.96%	82.86%	10 bps
Production based bonuses	2.56 %	2.44 %	2.15 %	2.07 %	12 bps
GDC sensitive payout	85.50%	85.64%	85.11%	84.93%	18 bps
Non-GDC sensitive payout(2)	0.92 %	0.31 %	1.05 %	0.11 %	94 bps
Total Payout Ratio	86.42%	85.95%	86.16%	85.04%	112 bps

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

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

Our total payout ratio, a statistical or operating measure, increased for the three months June 30, 2017 compared with the same period in 2016 primarily due to non-GDC sensitive payout, which includes advisor deferred compensation and advisor share-based compensation.

Our total payout ratio increased for the six months ended June 30, 2017 compared with the same period in 2016 primarily due to non-GDC sensitive payout, which includes advisor deferred compensation and advisor share-based compensation.

Compensation and Benefits Expense

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

	Three Months Ended June 30, 2017			Six Months Ended June 30, 2017		
	2017	2016	Change	2017	2016	Change
Average Number of Employees	3,366	3,325	1.2%	3,341	3,368	(0.8)%

Compensation and benefits expense increased for the three and six months ended June 30, 2017 compared with the same periods in 2016 due to higher recruiter compensation pursuant to incentive compensation plans and an increase in contingent labor for DOL rule implementation, partially offset by an increase in capitalized salary and benefits associated with technology projects.

Promotional Expense

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

The decrease in promotional expense for the three and six months ended June 30, 2017 compared with the same period in 2016 was primarily driven by lower conference expenses, partially offset by an increase in costs associated with advisor transition assistance.

Depreciation and Amortization Expense

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

The increase in depreciation and amortization of \$2.4 million and \$4.2 million for the three and six months ended June 30, 2017 compared with the same periods in 2016, respectively, was primarily due to increases in purchased hardware and software and an increase in depreciation expense associated with our new office building in Fort Mill, South Carolina, which was completed in October 2016.

Amortization of Intangible assets

Amortization of intangible assets is consistent over prior periods and represents the benefits received for using long-lived assets, which consist of intangible assets established through our acquisitions.

Occupancy and Equipment Expense

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

The increase in occupancy and equipment expense of \$1.0 million and \$4.4 million for the three and six months ended June 30, 2017 compared with the same periods in 2016, respectively, was primarily due to an increase in costs related to repairs and maintenance of computer hardware and equipment as well as an increase in non-capitalized software costs in support of our service and technology investments.

Professional Services

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

The increase in professional services of \$3.8 million and \$2.2 million for the three and six months ended June 30, 2017 compared with the same periods in 2016, respectively, was primarily due to an increase in costs related to outsourced service and technology enhancements.

Brokerage, Clearing, and Exchange Fees

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

Brokerage, clearing, and exchange fees have remained relatively flat and consistent with the volume of sales and trading activity for the three and six months ended June 30, 2017, compared with the same periods in 2016.

Communications and Data Processing

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

Communications and data processing expenses remained relatively flat for the three and six months ended June 30, 2017, compared with the same periods in 2016.

Other Expenses

Other expenses include the estimated costs of the investigation, settlement, and resolution of regulatory matters, licensing fees, insurance, broker-dealer regulator fees, and other miscellaneous expenses.

Other expenses remained relatively flat for the three months ended June 30, 2017, compared with the same period in 2016.

The increase in other expenses of \$2.6 million for the six months ended June 30, 2017, compared with the same period in 2016, was primarily driven by a one time recovery related to a previously settled regulatory matter that lowered other expenses in the first quarter of 2016.

Non-Operating Interest Expense

Non-operating interest expense results from our credit facilities. Period-over-period variances correspond to higher LIBOR rates and the fixed interest rate on our senior unsecured notes issued in March 2017.

Loss on Extinguishment of Debt

In March 2017, we closed a refinancing of our senior secured credit facilities with a new seven year Term Loan B facility in an aggregate principal amount of \$1.7 billion and a five year revolving credit facility in an aggregate amount of \$500.0 million. The proceeds of the new Term Loan B, together with the proceeds from the offering of \$500.0 million aggregate principal amount of 5.75% senior notes ("Notes") and cash, were used to repay our then existing senior secured credit facilities and to repay accrued interest and related fees and expenses. The refinancing led to the extinguishment of the previous Term Loan A and B facilities, which required that we accelerate the recognition of \$21.1 million of related unamortized debt issuance costs that had no future economic benefit, and recognize that amount as a loss on extinguishment of debt in our unaudited condensed consolidated statements of income in the first quarter of 2017.

Provision for Income Taxes

We estimate our full-year effective income tax rate at the end of each reporting period. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The tax rate in any quarter can be affected positively and negatively by adjustments that are required to be reported in the quarter in which resolution of a particular item occurs. The effective income tax rates reflect the impact of state taxes, settlement contingencies, tax credits, and expenses that are not deductible for tax purposes.

Our effective tax rate was 39.3% and 40.0% for the three months ended June 30, 2017 and 2016, respectively.

Our effective tax rate was 38.0% and 40.2% for the six months ended June 30, 2017 and 2016, respectively.

The decrease in our effective tax rate and income tax expense for the three and six months ended June 30, 2017 compared to June 30, 2016 was primarily due to tax benefits associated with the adoption of ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting* for recording stock-based compensation on January 1, 2017.

Liquidity and Capital Resources

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

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

	Six Months Ended	
	June 30,	
	2017	2016
Net cash flows provided by (used in):		
Operating activities	\$338,995	\$154,637
Investing activities	(61,857)	(56,118)
Financing activities	(79,714)	(77,282)
Net increase in cash and cash equivalents	197,424	21,237
Cash and cash equivalents — beginning of period	747,709	724,529
Cash and cash equivalents — end of period	\$945,133	\$745,766

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

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

The increase in cash flows provided by operating activities for the six months ended June 30, 2017 compared to the same period in 2016 was primarily attributable to an increase in cash provided by cash segregated under federal and other regulations, receivable from product sponsors, broker-dealers and clearing organizations and advisor loans, partially offset by an increase in cash used by other receivables, drafts payable, payable to clients and payables to broker-dealers and clearing organizations.

The increase in cash flows used in investing activities for the six months ended June 30, 2017 compared to the same period in 2016 was primarily attributable to an increase in capital expenditures related to technology to support growth.

The increase in cash flows used in financing activities for the six months ended June 30, 2017 compared to the same period in 2016 was primarily attributable to an increase in repurchases of our common stock and an increase in debt issuance costs incurred in connection with our refinancing completed in March 2017, partially offset by an increase in proceeds from stock option exercises.

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

Share Repurchases

We engage in share repurchase programs, which are approved by our Board of Directors, pursuant to which we may repurchase our issued and outstanding shares of common stock from time to time. Purchases may be effected in open market or privately negotiated transactions, including transactions with our affiliates, with the timing of purchases and the amount of stock purchased generally determined at our discretion within the constraints of our senior secured credit agreement, the indenture governing our Notes, and general liquidity needs.

During the six months ended June 30, 2017, we repurchased a total of 1,477,147 shares of our common stock at a weighted-average price of \$39.75 per share for a total cost of \$58.7 million. As of June 30, 2017, the Company was authorized to purchase up to an additional \$166.3 million of shares pursuant to the share repurchase programs approved by the Board of Directors.

Dividends

The payment, timing, and amount of any dividends are subject to approval by our Board as well as certain limits under our senior secured credit agreement and the indenture governing our Notes. See Note 8. *Stockholders' Equity*, within the notes to the unaudited condensed consolidated financial statements for additional information regarding our dividends.

Operating Capital Requirements

Our primary requirement for working capital relates to funds we loan to our advisors' clients for trading conducted on margin and funds that we are required to maintain for regulatory capital and reserves based on the requirements of our regulators and clearing organizations, which also consider client balances and trading activities. We have several sources of funds that enable us to meet increases in working capital requirements that relate to increases in client margin activities and balances. These sources include cash and cash equivalents on hand, cash and securities segregated under federal and other regulations, and proceeds from re-pledging or selling client securities in margin accounts. When an advisor's client purchases securities on margin or uses securities as collateral to borrow from us on margin, we are permitted, pursuant to the applicable securities industry regulations, to repledge, loan, or sell securities, up to 140% of the client's margin loan balance, that collateralize those margin accounts. As of June 30, 2017, we had approximately \$220.4 million of client margin loans, collateralized with securities having a fair value of approximately \$308.5 million that we can re-pledge, loan, or sell. Of these securities, approximately \$40.9 million were client-owned securities pledged to the Options Clearing Corporation as collateral to secure client obligations related to options positions. As of June 30, 2017, there were no restrictions that materially limited our ability to re-pledge, loan, or sell the remaining \$267.6 million of client collateral.

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

Our registered broker-dealer, LPL Financial, is subject to the SEC's Uniform Net Capital Rule, which requires the maintenance of minimum net capital. LPL Financial computes net capital requirements under the alternative method, which requires firms to maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2.0% of aggregate debit balances arising from client transactions. At June 30, 2017, LPL Financial had net capital of \$153.6 million with a minimum net capital requirement of \$6.3 million. LPL Financial's ability to pay dividends greater than 10% of its excess net capital during any 35 day rolling period requires approval from the Financial Industry Regulatory Authority ("FINRA"). In addition, payment of dividends is restricted if LPL Financial's net capital would be less than 5% of aggregate customer debit balances.

LPL Financial also acts as an introducing broker for commodities and futures. Accordingly, its trading activities are subject to the National Futures Association's ("NFA") financial requirements and it is required to

maintain net capital that is in excess of or equal to the greatest of NFA's minimum financial requirements. The NFA was designated by the Commodity Futures Trading Commission as LPL Financial's primary regulator for such activities. Currently, the highest NFA requirement is the minimum net capital calculated and required pursuant to the SEC's Net Capital Rule.

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

Debt and Related Covenants

On March 10, 2017, we entered into a fourth amendment agreement, which amended and restated our existing credit agreement (such amended and restated agreement, as further amended to date, the “Credit Agreement”) and refinanced our then outstanding senior secured credit facilities with a new seven year Term Loan B facility in an aggregate principal amount of \$1.7 billion and a five year revolving credit facility in an aggregate principal amount of \$500.0 million. The proceeds of the new Term Loan B, together with the proceeds from the offering of \$500.0 million aggregate principal amount of Notes and cash, were used to repay our then existing senior secured credit facilities and to pay accrued interest and related fees and expenses. As of June 30, 2017 our revolving credit facility remained undrawn. See Note 6. *Debt*, within the notes to the unaudited condensed consolidated financial statements for further detail.

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

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

Credit Agreement EBITDA, a non-GAAP measure, is defined in, and calculated by management in accordance with, the Credit Agreement as “Consolidated EBITDA”, which is Consolidated Net Income (as defined in the Credit Agreement) plus interest expense, tax expense, depreciation and amortization, and adjusted to exclude certain non-cash charges and other adjustments (including unusual or non-recurring charges) and gains. We present Credit Agreement EBITDA because we believe that it can be a useful financial metric in understanding our debt capacity and covenant compliance. However, Credit Agreement EBITDA is not a measure of our financial performance under GAAP and should not be considered as an alternative to net income or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of profitability or liquidity. In addition, our Credit Agreement-defined EBITDA measure can differ significantly from adjusted EBITDA calculated by other companies, depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate, and capital investments.

Set forth below is a reconciliation from our net income to Credit Agreement EBITDA for the twelve months ended June 30, 2017 (in thousands):

Net income	\$	210,313
Non-operating interest expense		100,396
Provision for income taxes		110,894
Loss on extinguishment of debt		21,139
Depreciation and amortization		80,154
Amortization of intangible assets		37,945
EBITDA		560,841
Credit Agreement Adjustments:		
Employee share-based compensation expense(1)		19,464
Advisor share-based compensation expense(2)		9,140
Other(3)		25,182
Credit Agreement EBITDA(4)	\$	614,627

Represents share-based compensation for equity awards granted to employees, officers, and directors.

(1) Such awards are measured based on the grant-date fair value and recognized over the requisite service period of the individual awards, which generally equals the vesting period.

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

(3) Represents other items that are adjustable in accordance with our Credit Agreement to arrive at Credit Agreement EBITDA including employee severance costs, employee signing costs, employee retention or completion bonuses, and other non-recurring costs.

(4) Under the Credit Agreement, management calculates Credit Agreement EBITDA for a four-quarter period at the end of each fiscal quarter, and in so doing may make further adjustments to prior quarters. Our Credit Agreement and the indenture governing the Notes prohibit us from paying dividends and distributions or repurchasing our capital stock except for limited purposes or in limited amounts. In addition, our revolving credit facility requires compliance with a maximum Consolidated Total Debt to Consolidated EBITDA Ratio ("Leverage Test", as defined in the Credit Agreement) and a minimum Consolidated EBITDA to Consolidated Interest Expense Ratio ("Interest Coverage", as defined in the Credit Agreement), tested as of the last day of each fiscal quarter. The breach of this covenant is subject to certain equity cure rights. As of June 30, 2017, we were in compliance with all of our revolving credit facility covenant requirements. The maximum permitted ratios under our financial covenants and actual ratios were as follows:

Financial Ratio	Covenant Requirement	Actual Ratio
Leverage Test (Maximum)	5.00	3.08
Interest Coverage (Minimum)	3.00	6.60

Off-Balance Sheet Arrangements

We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our advisors' clients. These arrangements include Company commitments to extend credit. For information on these arrangements, see Note 7. *Commitments and Contingencies* and Note 13. *Financial Instruments with Off-Balance-Sheet Credit Risk and Concentrations of Credit Risk*, within the notes to the unaudited condensed consolidated financial statements.

Contractual Obligations

During the six months ended June 30, 2017, there have been no material changes in our contractual obligations, other than in the ordinary course of business, from those disclosed in our 2016 Annual Report on Form 10-K. See Note 6. *Debt* and Note 7. *Commitments and Contingencies*, within the notes to the unaudited condensed consolidated financial statements, as well as the Contractual Obligations section within Part II, “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2016 Annual Report on Form 10-K, for further detail on operating lease obligations and obligations under noncancelable service contracts.

Fair Value of Financial Instruments

We use fair value measurements to record certain financial assets and liabilities at fair value and to determine fair value disclosures. See Note 3. *Fair Value Measurements*, within the notes to the unaudited condensed consolidated financial statements for a detailed discussion regarding our fair value measurements.

Critical Accounting Policies and Estimates

In the notes to our consolidated financial statements and in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” included in our 2016 Annual Report on Form 10-K, we have disclosed those accounting policies that we consider to be significant in determining our results of operations and financial condition. There have been no material changes to those policies that we consider to be significant since the filing of our 2016 Annual Report on Form 10-K. The accounting principles used in preparing our unaudited condensed consolidated financial statements conform in all material respects to GAAP.

Recently Issued Accounting Pronouncements

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
REVENUES				
Commission	\$420,706	\$445,755	\$841,870	\$882,482
Advisory	346,515	322,955	676,374	642,387
Asset-based	173,450	137,797	330,673	274,048
Transaction and fee	109,361	101,824	217,523	204,514
Interest income, net of interest expense	5,976	5,238	11,769	10,568
Other	9,496	5,612	22,722	10,487
Total net revenues	1,065,504	1,019,181	2,100,931	2,024,486
EXPENSES				
Commission and advisory	663,046	660,680	1,308,109	1,296,691
Compensation and benefits	110,299	105,773	223,511	219,828
Promotional	32,006	34,717	68,660	70,401
Depreciation and amortization	21,190	18,749	41,937	37,711
Amortization of intangible assets	9,453	9,509	18,944	19,034
Occupancy and equipment	22,987	21,980	48,186	43,817
Professional services	18,757	14,984	34,294	32,139
Brokerage, clearing, and exchange	13,890	13,609	28,076	27,198
Communications and data processing	10,645	10,971	21,659	21,468
Other	24,201	24,656	46,764	44,156
Total operating expenses	926,474	915,628	1,840,140	1,812,443
Non-operating interest expense	26,261	23,804	51,612	47,694
Loss on extinguishment of debt	—	—	21,139	—
INCOME BEFORE PROVISION FOR INCOME TAXES	112,769	79,749	188,040	164,349
PROVISION FOR INCOME TAXES	44,335	31,900	71,417	66,108
NET INCOME	\$68,434	\$47,849	\$116,623	\$98,241
EARNINGS PER SHARE (NOTE 10)				
Earnings per share, basic	\$0.76	\$0.54	\$1.29	\$1.10
Earnings per share, diluted	\$0.74	\$0.53	\$1.27	\$1.10
Weighted-average shares outstanding, basic	90,251	89,019	90,060	88,992
Weighted-average shares outstanding, diluted	92,013	89,699	91,996	89,669

See notes to unaudited condensed consolidated financial statements.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
NET INCOME	\$68,434	\$47,849	\$116,623	\$98,241
Other comprehensive income, net of tax:				
Unrealized gain (loss) on cash flow hedges, net of tax expense (benefit) of \$25, (\$48), \$187 and \$48 for the three and six months ended June 30, 2017 and 2016, respectively	40	(76)	293	74
Reclassification adjustment for realized gain on cash flow hedges included in the condensed consolidated statements of income, net of tax expense of \$390, \$93, \$406, and \$156 for the three and six months ended June 30, 2017 and 2016, respectively	(588)	(148)	(608)	(248)
Total other comprehensive income, net of tax	(548)	(224)	(315)	(174)
TOTAL COMPREHENSIVE INCOME	\$67,886	\$47,625	\$116,308	\$98,067

See notes to unaudited condensed consolidated financial statements.

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

ASSETS	June 30, 2017	December 31, 2016
Cash and cash equivalents	\$945,133	\$747,709
Cash and securities segregated under federal and other regulations	534,002	768,219
Restricted cash	42,733	42,680
Receivables from:		
Clients, net of allowance of \$427 at June 30, 2017 and \$1,580 at December 31, 2016	295,388	341,199
Product sponsors, broker-dealers, and clearing organizations	166,687	175,122
Advisor loans, net of allowance of \$5,780 at June 30, 2017 and \$1,852 at December 31, 2016	192,485	194,526
Others, net of allowance of \$10,050 at June 30, 2017 and \$12,851 at December 31, 2016	212,635	189,632
Securities owned:		
Trading — at fair value	14,360	11,404
Held-to-maturity — at amortized cost	11,833	8,862
Securities borrowed	17,619	5,559
Fixed assets, net of accumulated depreciation and amortization of \$394,737 at June 30, 2017 and \$355,919 at December 31, 2016	392,300	387,368
Goodwill	1,365,838	1,365,838
Intangible assets, net of accumulated amortization of \$399,718 at June 30, 2017 and \$380,775 at December 31, 2016	335,052	353,996
Other assets	264,060	242,812
Total assets	\$4,790,125	\$4,834,926
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	\$150,101	\$198,839
Payables to clients	777,220	863,765
Payables to broker-dealers and clearing organizations	52,668	63,032
Accrued commission and advisory expenses payable	128,804	128,476
Accounts payable and accrued liabilities	380,585	385,545
Income taxes payable	17,936	4,607
Unearned revenue	80,633	62,785
Securities sold, but not yet purchased — at fair value	99	183
Long-term debt, net of unamortized debt issuance cost of \$16,884 at June 30, 2017 and \$21,924 at December 31, 2016	2,178,866	2,175,436
Leasehold financing obligation	104,764	105,649
Deferred income taxes, net	25,352	25,614
Total liabilities	3,897,028	4,013,931
Commitments and contingencies (Note 7)		
STOCKHOLDERS' EQUITY:		
Common stock, \$.001 par value; 600,000,000 shares authorized; 122,052,498 shares issued at June 30, 2017 and 119,917,854 shares issued at December 31, 2016	122	120
Additional paid-in capital	1,506,632	1,445,256
Treasury stock, at cost — 32,130,595 shares at June 30, 2017 and 30,621,270 shares at December 31, 2016	(1,254,759)	(1,194,645)
Accumulated other comprehensive income	—	315
Retained earnings	641,102	569,949
Total stockholders' equity	893,097	820,995
Total liabilities and stockholders' equity	\$4,790,125	\$4,834,926
See notes to unaudited condensed consolidated financial statements.		

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

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income (loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount			
BALANCE — December 31, 2015	119,572	\$ 119	\$ 1,418,298	30,048	\$(1,172,490)	\$ 553	\$ 469,130	\$ 715,610
Net income and other comprehensive income (loss), net of tax expense						(174)	) 98,241	98,067
Issuance of common stock to settle restricted stock units, net	119	1		42	(883)	)		(882)
Treasury stock purchases				635	(25,013)	)		(25,013)
Cash dividends on common stock							(44,504)	) (44,504)
Stock option exercises and other	36		876	(69)	) 2,437		(1,368)	) 1,945
Share-based compensation			10,117					10,117
Excess tax benefits (tax deficiency) from share-based compensation			(1,350)			)		(1,350)
BALANCE — June 30, 2016	119,727	\$ 120	\$ 1,427,941	30,656	\$(1,195,949)	\$ 379	\$ 521,499	\$ 753,990
BALANCE — December 31, 2016	119,918	\$ 120	\$ 1,445,256	30,621	\$(1,194,645)	\$ 315	\$ 569,949	\$ 820,995
Net income and other comprehensive income (loss), net of tax expense						(315)	) 116,623	116,308
Issuance of common stock to settle restricted stock units, net	323			70	(2,741)	)		(2,741)
Treasury stock purchases				1,477	(58,710)	)		(58,710)
Cash dividends on common stock							(45,248)	) (45,248)
Stock option exercises and other	1,811	2	47,551	(37)	) 1,337		(222)	) 48,668
Share-based compensation			13,825					13,825
BALANCE — June 30, 2017	122,052	\$ 122	\$ 1,506,632	32,131	\$(1,254,759)	\$ —	\$ 641,102	\$ 893,097

See notes to unaudited condensed consolidated financial statements.

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

	Six Months Ended June 30,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 116,623	\$ 98,241
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	41,937	37,711
Amortization of intangible assets	18,944	19,034
Amortization of debt issuance costs	2,414	2,881
Share-based compensation	13,825	10,117
Excess tax benefits related to share-based compensation	—	(10)
Provision for bad debts	2,333	2,162
Deferred income tax provision	(43)	(133)
Loss on extinguishment of debt	21,139	—
Loan forgiveness	26,563	21,464
Other	(4,765)	(2,304)
Changes in operating assets and liabilities:		
Cash and securities segregated under federal and other regulations	234,216	23,960
Deposit of restricted cash related to captive insurance subsidiary	(9,377)	(10,625)
Release of restricted cash related to captive insurance subsidiary	9,325	2,220
Receivables from clients	46,964	31,987
Receivables from product sponsors, broker-dealers, and clearing organizations	8,435	(38,126)
Advisor loans	(28,451)	(40,260)
Receivables from others	(20,201)	(6,011)
Securities owned	(2,463)	1,464
Securities borrowed	(12,060)	(8,142)
Other assets	(12,949)	(11,377)
Drafts payable	(48,738)	(31,565)
Payables to clients	(86,545)	21,464
Payables to broker-dealers and clearing organizations	(10,363)	11,149
Accrued commission and advisory expenses payable	327	(3,569)
Accounts payable and accrued liabilities	812	9,769
Income taxes receivable/payable	13,329	204
Unearned revenue	17,848	13,069
Securities sold, but not yet purchased	(84)	(137)
Net cash provided by operating activities	\$ 338,995	\$ 154,637

Continued on following page

CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	\$ (58,898)	\$ (56,542)
Proceeds from disposal of fixed assets	12	—
Purchase of securities classified as held-to-maturity	(4,721)	(4,020)

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Proceeds from maturity of securities classified as held-to-maturity	1,750	3,000
Release of restricted cash	—	1,444
Net cash used in investing activities	(61,857)	(56,118)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of senior secured term loans	(2,201,610)	(8,838)
Proceeds from senior secured term loans and senior notes	2,197,360	—
Payment of debt issuance costs	(16,548)	—
Tax payments related to settlement of restricted stock units	(2,741)	(882)
Repurchase of common stock	(58,710)	(25,013)
Dividends on common stock	(45,248)	(44,504)
Excess tax benefits related to share-based compensation	—	10
Proceeds from stock option exercises and other	48,668	1,945
Payment of leasehold financing obligation	(885)	—
Net cash used in financing activities	(79,714	