

LPL Financial Holdings Inc.  
Form 10-Q  
October 29, 2015

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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 September 30, 2015

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

(State or other jurisdiction of  
incorporation or organization)

20-3717839

(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.  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, 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  Accelerated filer  Non-accelerated filer  Smaller reporting company   
(Do not check if a smaller reporting company)

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 October 26, 2015 was 94,994,871.

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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](mailto: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 strategies and plans, liquidity, future indebtedness, future share repurchases, and future dividends, including statements regarding future resolution of regulatory matters and related costs, income projections based on changes in interest rates, and projected savings and anticipated improvements to the Company's operating model, services, and technology 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 October 29, 2015. 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 advisory assets and the related impact on fee revenue; 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; changes in the growth of the Company's fee-based business; the effect of current, pending, and future legislation, regulation, and regulatory actions, including the fiduciary rule proposed by the U.S. Department of Labor and disciplinary actions imposed by federal and state securities regulators and self-regulatory organizations; the costs of settling and remediating issues related to pending or future regulatory matters; execution of the Company's capital management plans, including its ability to increase its level of indebtedness, refinance a portion of its existing debt and amend certain restrictive covenants, each of which is subject to conditions in the debt capital markets and the Company's success in renegotiating certain terms of its existing credit agreement; the price, 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-party service providers on which the Company relies; 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 2014 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 deve

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 1. Financial Statements (unaudited)

## LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Income

(Unaudited)

(In thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
<b>REVENUES:</b>				
Commission	\$480,271	\$520,388	\$1,513,359	\$1,590,139
Advisory	341,217	340,369	1,028,213	998,016
Asset-based	123,921	121,283	369,625	354,494
Transaction and fee	105,593	94,674	305,099	276,284
Interest income, net of interest expense	5,221	4,727	14,976	14,279
Other	(1,478)	) 7,793	23,436	36,182
Total net revenues	1,054,745	1,089,234	3,254,708	3,269,394
<b>EXPENSES:</b>				
Commission and advisory	701,585	746,001	2,179,686	2,242,206
Compensation and benefits	110,494	106,290	335,111	317,459
Promotional	42,040	36,669	104,416	93,581
Depreciation and amortization	26,766	24,519	79,564	70,618
Occupancy and equipment	19,760	19,043	61,957	62,922
Professional services	15,341	38,174	43,914	82,736
Brokerage, clearing and exchange	13,403	12,090	39,680	36,594
Communications and data processing	11,253	11,476	33,974	32,598
Restructuring charges	3,071	9,928	11,487	26,473
Other	28,852	16,694	86,796	51,395
Total operating expenses	972,565	1,020,884	2,976,585	3,016,582
Non-operating interest expense	13,493	12,897	40,671	38,651
Total expenses	986,058	1,033,781	3,017,256	3,055,233
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	68,687	55,453	237,452	214,161
<b>PROVISION FOR INCOME TAXES</b>	27,635	22,181	95,480	84,663
<b>NET INCOME</b>	\$41,052	\$33,272	\$141,972	\$129,498
<b>EARNINGS PER SHARE (NOTE 12)</b>				
Earnings per share, basic	\$0.43	\$0.33	\$1.48	\$1.29
Earnings per share, diluted	\$0.43	\$0.33	\$1.46	\$1.26
Weighted-average shares outstanding, basic	94,972	100,052	95,744	100,519
Weighted-average shares outstanding, diluted	96,472	101,834	97,303	102,384

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		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
NET INCOME	\$41,052	\$33,272	\$141,972	\$129,498
Other comprehensive (loss) income, net of tax:				
Unrealized (loss) gain on cash flow hedges, net of tax expense of (\$98), (\$63), \$96, and \$863 for the three and nine months ended September 30, 2015 and 2014, respectively	(156	) (101	) 121	1,361
Reclassification adjustment for realized gain on cash flow hedges included in net income, net of tax expense of \$62, \$85, \$290, and \$113 for the three and nine months ended September 30, 2015 and 2014, respectively	(100	) (135	) (463	) (180
Total other comprehensive (loss) income, net of tax	(256	) (236	) (342	) 1,181
TOTAL COMPREHENSIVE INCOME	\$40,796	\$33,036	\$141,630	\$130,679

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, 2015	December 31, 2014
<b>ASSETS</b>		
Cash and cash equivalents	\$410,036	\$412,332
Cash and securities segregated under federal and other regulations	470,721	568,930
Restricted cash	22,462	1,109
Receivables from:		
Clients, net of allowance of \$1,337 at September 30, 2015 and \$1,245 at December 31, 2014	344,351	365,390
Product sponsors, broker-dealers, and clearing organizations	154,306	177,470
Others, net of allowance of \$11,340 at September 30, 2015 and \$8,379 at December 31, 2014	323,238	291,449
Securities owned:		
Trading — at fair value	16,611	13,466
Held-to-maturity — at amortized cost	10,847	8,594
Securities borrowed	6,488	5,035
Income taxes receivable	17,370	84
Fixed assets, net of accumulated depreciation and amortization of \$320,897 at September 30, 2015 and \$288,834 at December 31, 2014	256,998	214,154
Debt issuance costs, net of accumulated amortization of \$13,922 at September 30, 2015 and \$11,724 at December 31, 2014	11,042	13,241
Goodwill	1,365,838	1,365,838
Intangible assets, net of accumulated amortization of \$333,207 at September 30, 2015 and \$305,154 at December 31, 2014	401,563	430,704
Other assets	167,487	183,197
<b>Total assets</b>	<b>\$3,979,358</b>	<b>\$4,050,993</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Drafts payable	\$144,307	\$180,099
Payables to clients	558,540	652,714
Payables to broker-dealers and clearing organizations	43,531	45,427
Accrued commission and advisory expenses payable	132,682	146,504
Accounts payable and accrued liabilities	308,884	289,426
Unearned revenue	71,847	64,482
Securities sold, but not yet purchased — at fair value	226	302
Senior secured credit facilities	1,666,129	1,634,258
Leasehold financing obligation	43,182	—
Deferred income taxes, net	64,633	66,181
<b>Total liabilities</b>	<b>3,033,961</b>	<b>3,079,393</b>
Commitments and contingencies		
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$.001 par value; 600,000,000 shares authorized; 119,238,650 shares issued at September 30, 2015 and 118,234,552 shares issued at December 31, 2014	119	118
Additional paid-in capital	1,401,441	1,355,085
	(922,817	) (780,661

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Treasury stock, at cost — 24,435,356 shares at September 30, 2015 and 21,089,882 shares at December 31, 2014

Accumulated other comprehensive income	595	937
Retained earnings	466,059	396,121
Total stockholders' equity	945,397	971,600
Total liabilities and stockholders' equity	\$3,979,358	\$4,050,993

See notes to unaudited condensed consolidated financial statements.

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## LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Stockholders' Equity

(Unaudited)

(In thousands)

	Common Stock		Additional Paid-In	Treasury Stock		Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Capital	Shares	Amount			
BALANCE — December 31, 2013	117,112	\$ 117	\$ 1,292,374	15,216	\$(506,205)	\$ 115	\$ 313,570	\$ 1,099,971
Net income and other comprehensive income, net of tax expense						1,181	129,498	130,679
Issuance of common stock to settle restricted stock units, net	40	1		13	(674 )			(673 )
Treasury stock purchases				2,990	(150,021 )			(150,021 )
Cash dividends on common stock							(72,104 )	(72,104 )
Stock option exercises and other	972		24,141	(31 )	1,078		115	25,334
Share-based compensation			22,649					22,649
Excess tax benefits from share-based compensation			7,537					7,537
BALANCE — September 30, 2014	118,124	\$ 118	\$ 1,346,701	18,188	\$(655,822)	\$ 1,296	\$ 371,079	\$ 1,063,372
BALANCE — December 31, 2014	118,235	\$ 118	\$ 1,355,085	21,090	\$(780,661)	\$ 937	\$ 396,121	\$ 971,600
Net income and other comprehensive income (loss), net of tax expense						(342 )	141,972	141,630
Issuance of common stock to settle restricted stock units, net	172	1		64	(2,868 )			(2,867 )
Treasury stock purchases				3,325	(140,835 )			(140,835 )
Cash dividends on common stock							(72,056 )	(72,056 )
Stock option exercises and other	832		22,331	(44 )	1,547		22	23,900
Share-based compensation			22,577					22,577

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Excess tax benefits from share-based compensation				1,448					1,448
BALANCE — September 30, 2015	119,239	\$ 119	\$ 1,401,441	24,435	\$(922,817)	\$ 595		\$ 466,059	\$ 945,397

See notes to unaudited condensed consolidated financial statements.

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## LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

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

	Nine Months Ended September 30,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 141,972	\$ 129,498
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	79,564	70,618
Amortization of debt issuance costs	2,198	3,241
Share-based compensation	22,577	22,649
Excess tax benefits related to share-based compensation	(2,420)	(7,666)
Provision for bad debts	1,632	2,124
Deferred income tax provision	(1,354)	585
Loan forgiveness	27,469	20,326
Other	13,308	3,339
Changes in operating assets and liabilities:		
Cash and securities segregated under federal and other regulations	98,208	93,844
Receivables from clients	20,948	30,723
Receivables from product sponsors, broker-dealers, and clearing organizations	23,164	(4,369)
Receivables from others	(61,523)	(31,195)
Securities owned	(3,763)	(3,999)
Securities borrowed	(1,453)	(1,225)
Other assets	3,457	(8,534)
Drafts payable	(35,792)	(59,876)
Payables to clients	(94,174)	17
Payables to broker-dealers and clearing organizations	(1,896)	(4,842)
Accrued commission and advisory expenses payable	(13,822)	7,875
Accounts payable and accrued liabilities	19,706	(11,580)
Income taxes receivable/payable	(14,866)	(22,187)
Unearned revenue	7,365	(4,922)
Securities sold, but not yet purchased	(76)	(193)
Net cash provided by operating activities	\$ 230,429	\$ 224,251

Continued on following page