

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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2013

or

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, 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 21, 2013 was 101,719,374.

TABLE OF CONTENTS

Item Number	Page
<u>PART I — FINANCIAL INFORMATION</u>	
<u>1. Financial Statements</u>	
<u>Condensed Consolidated Statements of Income (unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Statements of Comprehensive Income (unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Financial Condition (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Stockholders' Equity (unaudited)</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>7</u>
<u>2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>26</u>
<u>3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>56</u>
<u>4. Controls and Procedures</u>	<u>59</u>
<u>PART II — OTHER INFORMATION</u>	
<u>1. Legal Proceedings</u>	<u>60</u>
<u>1A. Risk Factors</u>	<u>60</u>
<u>2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>60</u>
<u>3. Defaults Upon Senior Securities</u>	<u>60</u>
<u>4. Mine Safety Disclosures</u>	<u>60</u>
<u>5. Other Information</u>	<u>60</u>
<u>6. Exhibits</u>	<u>61</u>
<u>SIGNATURES</u>	<u>62</u>

WHERE YOU CAN FIND MORE INFORMATION

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

On our internet site, <http://www.lpl.com>, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our annual reports on Form 10-K, our proxy statements, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. Hard copies of all such filings are available free of charge by request via email (investor.relations@lpl.com), telephone (617) 897-4574, or mail (LPL Financial Investor Relations at 75 State Street, 24th Floor, Boston, MA 02109). The information contained or incorporated on our website is not a part of this Quarterly Report on Form 10-Q.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Statements in Item 2 - "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Quarterly Report on Form 10-Q regarding the Company's future financial and operating results, growth, business strategy, plans, liquidity, ability and plans to repurchase shares and pay dividends in the future, including statements regarding projected costs, projected savings, projected expenses and anticipated improvements to the Company's operating model, services, and technology as a result of the Service Value Commitment, as well as any other statements that are not related to present facts or current conditions or that are not purely historical, constitute forward-looking statements. These forward-looking statements are based on the Company's historical performance and its plans, estimates and expectations as of October 30, 2013. The words "anticipates," "believes," "expects," "may," "plans," "predicts," "will" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Forward-looking statements are not guarantees that the future results, plans, intentions or expectations expressed or implied by the Company will be achieved. Matters subject to forward-looking statements involve known and unknown risks and uncertainties, including economic, legislative, regulatory, competitive and other factors, which may cause actual financial or operating results, levels of activity, or the timing of events, to be materially different than those expressed or implied by forward-looking statements. Important factors that could cause or contribute to such differences include: changes in general economic and financial market conditions, including retail investor sentiment; fluctuations in the value of assets under custody; effects of competition in the financial services industry; changes in the number of the Company's financial advisors and institutions, and their ability to market effectively financial products and services; changes in interest rates and fees payable by banks participating in the Company's cash sweep program, including the Company's success in negotiating agreements with current or additional counterparties; the Company's success in integrating the operations of acquired businesses; execution of the Company's plans related to the Service Value Commitment, including the Company's ability to successfully transform and transition business processes to third party service providers; the Company's success in negotiating and developing commercial arrangements with third party service providers that will enable the Company to realize the service improvements and efficiencies expected to result from the Service Value Commitment; the performance of third party service providers to which business processes are transitioned from the Company; the Company's ability to control operating risks, information technology systems risks and sourcing risks; the effect of current, pending and future legislation, regulation and regulatory actions, including disciplinary actions imposed by self-regulatory organizations; and the other factors set forth in Part I, "Item 1A. Risk

Factors” in the Company's 2012 Annual Report on Form 10-K, as may be amended or updated in our Quarterly Reports on Form 10-Q. Except as required by law, the Company specifically disclaims any obligation to update any forward-looking statements as a result of developments occurring after the date of this quarterly report, even if its estimates change, and you should not rely on statements contained herein as representing the Company's views as of any date subsequent to the date of this quarterly report.

ii

PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Income

(Unaudited)

(Dollars in thousands, except per share data)

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

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(Dollars in thousands)

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

See notes to unaudited condensed consolidated financial statements.

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

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

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

See notes to unaudited condensed consolidated financial statements.

3

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders' Equity

(Unaudited)

(Amounts in thousands)

	Common Stock		Additional Paid-In	Treasury Stock		Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Capital	Shares	Amount			
BALANCE — December 31, 2011	110,532	\$ 110	\$ 1,137,723	2,618	\$(89,037)	\$ (850)	\$ 296,802	\$ 1,344,748
Net income and other comprehensive income, net of tax expense						850	114,980	115,830
Issuance of common stock to settle restricted stock units (Note 11)	2,823	3	(3)					—
Treasury stock purchases				3,610	(110,533)			