

LPL Financial Holdings Inc.
Form 10-Q
April 30, 2015

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 March 31, 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

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 April 27, 2015 was
96,103,531.

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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, 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, plans, liquidity, 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 Service Value Commitment initiative or restructuring initiatives, 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 April 30, 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 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; the Company’s success in integrating the operations of acquired businesses; execution of the Company’s plans related to its Service Value Commitment initiative or restructuring initiatives, 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 its Service Value Commitment initiative or restructuring initiatives; 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, 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

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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 e

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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 March	
	31,	
	2015	2014
REVENUES:		
Commission	\$523,399	\$534,574
Advisory	342,112	327,253
Asset-based	120,632	114,674
Transaction and fee	101,695	89,985
Interest income, net of interest expense	4,578	4,761
Other	16,886	16,184
Total net revenues	1,109,302	1,087,431
EXPENSES:		
Commission and advisory	741,247	744,543
Compensation and benefits	112,280	106,348
Promotional	35,692	27,183
Depreciation and amortization	26,066	22,281
Occupancy and equipment	20,882	22,081
Professional services	14,044	14,313
Brokerage, clearing and exchange	12,741	12,175
Communications and data processing	11,614	10,659
Restructuring charges	3,924	7,320
Other	32,122	20,141
Total operating expenses	1,010,612	987,044
Non-operating interest expense	14,015	12,840
Total expenses	1,024,627	999,884
INCOME BEFORE PROVISION FOR INCOME TAXES	84,675	87,547
PROVISION FOR INCOME TAXES	33,997	34,412
NET INCOME	\$50,678	\$53,135
EARNINGS PER SHARE (NOTE 12)		
Earnings per share, basic	\$0.52	\$0.52
Earnings per share, diluted	\$0.52	\$0.51
Weighted-average shares outstanding, basic	96,551	101,279
Weighted-average shares outstanding, diluted	98,227	103,339

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 March 31,	
	2015	2014
NET INCOME	\$50,678	\$53,135
Other comprehensive income, net of tax:		
Unrealized gain on cash flow hedges, net of tax expense of \$287 and \$675 for the three months ended March 31, 2015 and 2014, respectively	452	1,062
Reclassification adjustment for realized gain on cash flow hedges included in net income, net of tax expense of \$85 and \$0 for the three months ended March 31, 2015 and 2014, respectively	(135) —
Total other comprehensive income, net of tax	317	1,062
TOTAL COMPREHENSIVE INCOME	\$50,995	\$54,197

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)

	March 31, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	\$484,694	\$412,332
Cash and securities segregated under federal and other regulations	516,350	568,930
Restricted cash	16,960	1,109
Receivables from:		
Clients, net of allowance of \$1,258 at March 31, 2015 and \$1,245 at December 31, 2014	324,458	365,390
Product sponsors, broker-dealers and clearing organizations	172,713	177,470
Others, net of allowance of \$9,520 at March 31, 2015 and \$8,379 at December 31, 2014	318,199	291,449
Securities owned:		
Trading — at fair value	16,290	13,466
Held-to-maturity	9,350	8,594
Securities borrowed	7,893	5,035
Income taxes receivable	—	84
Fixed assets, net of accumulated depreciation and amortization of \$288,538 at March 31, 2015 and \$288,834 at December 31, 2014	209,194	214,154
Debt issuance costs, net of accumulated amortization of \$12,457 at March 31, 2015 and \$11,724 at December 31, 2014	12,508	13,241
Goodwill	1,365,838	1,365,838
Intangible assets, net of accumulated amortization of \$314,137 at March 31, 2015 and \$305,154 at December 31, 2014	420,633	430,704
Other assets	183,639	183,197
Total assets	\$4,058,719	\$4,050,993
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	\$170,212	\$180,099
Payables to clients	629,936	652,714
Payables to broker-dealers and clearing organizations	44,658	45,427
Accrued commission and advisory expenses payable	131,329	146,504
Accounts payable and accrued liabilities	291,248	289,426
Income taxes payable	25,308	—
Unearned revenue	80,262	64,482
Securities sold, but not yet purchased — at fair value	77	302
Senior secured credit facilities	1,641,548	1,634,258
Deferred income taxes, net	64,583	66,181
Total liabilities	3,079,161	3,079,393
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Common stock, \$.001 par value; 600,000,000 shares authorized; 118,490,826 shares issued at March 31, 2015 and 118,234,552 shares issued at December 31, 2014	118	118
Additional paid-in capital	1,367,426	1,355,085

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Treasury stock, at cost — 21,792,887 shares at March 31, 2015 and 21,089,882 shares at December 31, 2014	(811,895) (780,661)
Accumulated other comprehensive income	1,254	937	
Retained earnings	422,655	396,121	
Total stockholders' equity	979,558	971,600	
Total liabilities and stockholders' equity	\$4,058,719	\$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						1,062	53,135	54,197
Issuance of common stock to settle restricted stock units, net	34	1		11	(585)			(584)
Treasury stock purchases				1,923	(100,000)			(100,000)
Cash dividends on common stock							(24,097)	(24,097)
Stock option exercises and other	545		13,747	(9)	316		(3)	14,060
Share-based compensation			8,287					8,287
Excess tax benefits from share-based compensation			4,415					4,415
BALANCE — March 31, 2014	117,691	\$ 118	\$ 1,318,823	17,141	\$(606,474)	\$ 1,177	\$ 342,605	\$ 1,056,249
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, net of tax expense						317	50,678	50,995
Issuance of common stock to settle restricted stock units, net	110			38	(1,752)			(1,752)
Treasury stock purchases				680	(30,014)			(30,014)
Cash dividends on common stock							(24,156)	(24,156)
Stock option exercises and other	146		4,176					