

LPL Financial Holdings Inc.  
Form 10-Q  
October 31, 2012

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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, 2012

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 26, 2012 was 108,544,407.

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## WHERE YOU CAN FIND MORE INFORMATION

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

On our internet site, <http://www.lpl.com>, we post the following filings as soon as reasonably practicable after they are electronically filed with or furnished to the SEC: our annual reports on Form 10-K, our proxy statements, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act. Hard copies of all such filings are available free of charge by request via email ([investor.relations@lpl.com](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", the "firm" 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, projected costs, plans, liquidity and ability and plans to repurchase shares and pay future dividends, as well as any other statements 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 31, 2012. 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 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; 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 2011 Annual Report on Form 10-K. For example, the Company may be unable to successfully integrate the systems and operations related to our acquisitions of Concord Wealth Management, Fortigent Holdings Company, Inc. and Veritat Advisors Inc. and realize the expected synergies from these transactions. 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 those statements as representing the Company's views as of any date subsequent to the date of this quarterly report.



## PART I — FINANCIAL INFORMATION

## Item 1. Financial Statements

## LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Income

(Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
<b>REVENUES:</b>				
Commissions	\$442,129	\$438,294	\$1,353,025	\$1,350,053
Advisory fees	267,334	267,878	786,507	776,254
Asset-based fees	100,024	89,691	300,049	270,018
Transaction and other fees	84,730	78,476	238,196	220,980
Interest income, net of interest expense	4,629	5,036	14,139	15,288
Other	8,382	3,482	24,928	18,129
Total net revenues	907,228	882,857	2,716,844	2,650,722
<b>EXPENSES:</b>				
Commissions and advisory fees	620,165	614,068	1,858,139	1,833,433
Compensation and benefits	91,309	77,337	273,355	242,889
Promotional	31,844	28,660	74,797	62,985
Depreciation and amortization	18,423	19,222	53,010	55,794
Professional services	15,672	10,656	46,992	33,309
Occupancy and equipment	13,914	13,637	42,418	41,556
Brokerage, clearing and exchange	9,938	9,818	29,007	28,868
Communications and data processing	10,249	9,235	28,945	26,823
Regulatory fees and expenses	6,979	6,441	21,416	19,385
Restructuring charges	1,211	7,684	4,962	13,035
Other	20,460	7,434	36,573	20,617
Total operating expenses	840,164	804,192	2,469,614	2,378,694
Non-operating interest expense	12,826	16,603	42,297	52,929
Loss on extinguishment of debt	—	—	16,524	—
Total expenses	852,990	820,795	2,528,435	2,431,623
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	54,238	62,062	188,409	219,099
<b>PROVISION FOR INCOME TAXES</b>	19,939	25,634	73,429	88,165
<b>NET INCOME</b>	\$34,299	\$36,428	\$114,980	\$130,934
<b>EARNINGS PER SHARE (Note 12):</b>				
Basic	\$0.31	\$0.33	\$1.05	\$1.19
Diluted	\$0.31	\$0.32	\$1.02	\$1.15

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		Nine Months Ended	
	September 30,		September 30,	
	2012	2011	2012	2011
NET INCOME	\$34,299	\$36,428	\$114,980	\$130,934
Other comprehensive income, net of tax:				
Unrealized gain on interest rate swaps, net of tax expense of \$0 and \$304 for the three months ended September 30, 2012 and 2011, and \$527 and \$2,004 for the nine months ended September 30, 2012 and 2011, respectively	—	464	850	3,209
Total other comprehensive income, net of tax	—	464	850	3,209
TOTAL COMPREHENSIVE INCOME	\$34,299	\$36,892	\$115,830	\$134,143

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, 2012	December 31, 2011
<b>ASSETS</b>		
Cash and cash equivalents	\$445,971	\$720,772
Cash and securities segregated under federal and other regulations	393,583	382,905
Receivables from:		
Clients, net of allowance of \$791 at September 30, 2012 and \$716 at December 31, 2011	326,873	301,292
Product sponsors, broker-dealers and clearing organizations	135,442	143,493
Others, net of allowance of \$6,918 at September 30, 2012 and \$8,833 at December 31, 2011	210,926	187,408
Securities owned:		
Trading — at fair value	7,158	6,290
Held-to-maturity	7,676	11,167
Securities borrowed	10,039	7,890
Income taxes receivable	1,517	—
Fixed assets, net of accumulated depreciation and amortization of \$326,547 at September 30, 2012 and \$305,143 at December 31, 2011	121,718	91,317
Debt issuance costs, net of accumulated amortization of \$3,782 at September 30, 2012 and \$19,197 at December 31, 2011	22,375	18,620
Goodwill	1,372,987	1,334,086
Intangible assets, net of accumulated amortization of \$227,890 at September 30, 2012 and \$198,139 at December 31, 2011	513,319	537,670
Other assets	106,993	73,416
Total assets	\$3,676,577	\$3,816,326
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES:</b>		
Drafts payable	\$166,011	\$187,575
Payables to clients	406,022	456,719
Payables to broker-dealers and clearing organizations	37,799	34,755
Accrued commissions and advisory fees payable	107,724	109,715
Accounts payable and accrued liabilities	200,592	161,776
Income taxes payable	—	906
Unearned revenue	56,872	59,537
Securities sold, but not yet purchased — at fair value	60,097	161
Senior secured credit facilities	1,328,550	1,332,668
Deferred income taxes — net	119,626	127,766
Total liabilities	2,483,293	2,471,578
<b>STOCKHOLDERS' EQUITY:</b>		
Common stock, \$.001 par value; 600,000,000 shares authorized; 115,431,259 shares issued at September 30, 2012 and 110,531,939 shares issued at December 31, 2011	115	110
Additional paid-in capital	1,216,756	1,137,723
Treasury stock, at cost — 6,228,440 shares at September 30, 2012 and 2,617,629 shares at December 31, 2011	(199,570)	(89,037)
Accumulated other comprehensive loss	—	(850)

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Retained earnings	175,983	296,802
Total stockholders' equity	1,193,284	1,344,748
Total liabilities and stockholders' equity	\$3,676,577	\$3,816,326

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)  
(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, 2010	108,715	\$ 109	\$ 1,051,722	—	\$—	\$ (4,496 )	\$ 126,420	\$ 1,173,755
Net income and other comprehensive income, net of tax expense						3,209	130,934	134,143
Treasury stock purchases				2,618	(89,037 )			(89,037 )
Stock option exercises and other	1,652	1	8,746					8,747
Share-based compensation			12,530					12,530
Excess tax benefits from share-based compensation			57,277					57,277
BALANCE — September 30, 2011	110,367	\$ 110	\$ 1,130,275	2,618	\$ (89,037 )	\$ (1,287 )	\$ 257,354	\$ 1,297,415
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 (Note 11)				3,610	(110,533 )			(110,533 )
Cash dividends on common stock							(235,799 )	(235,799 )
Stock option exercises and other	2,054	2	12,832					12,834
Share-based compensation	22		16,451					16,451
Excess tax benefits from share-based compensation			49,753					49,753
BALANCE — September 30, 2012	115,431	\$ 115	\$ 1,216,756	6,228	\$ (199,570)	\$—	\$ 175,983	\$ 1,193,284

See notes to unaudited condensed consolidated financial statements.



## LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

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

	Nine Months Ended September 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 114,980	\$ 130,934
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	53,010	55,794
Amortization of debt issuance costs	3,470	3,818
Share-based compensation	16,451	12,530
Excess tax benefits related to share-based compensation	(49,753)	(57,277)
Provision for bad debts	1,221	1,111
Deferred income tax provision	(12,297)	(5,953)
Impairment of intangible assets	—	2,643
Loss on extinguishment of debt	16,524	—
Change in estimated fair value of contingent consideration obligations	9,882	933
Loan forgiveness	1,126	1,146
Other	665	2,267
Changes in operating assets and liabilities:		
Cash and securities segregated under federal and other regulations	(10,678)	105,789
Receivables from clients	(25,656)	(11,301)
Receivables from product sponsors, broker-dealers and clearing organizations	8,051	37,872
Receivables from others	(22,242)	(20,908)
Securities owned	(633)	1,234
Securities borrowed	(2,149)	(2,056)
Other assets	(37,575)	(1,150)
Drafts payable	(21,564)	(45,195)
Payables to clients	(50,697)	(4,547)
Payables to broker-dealers and clearing organizations	3,044	10,954
Accrued commissions and advisory fees payable	(1,991)	(21,092)
Accounts payable and accrued liabilities	3,637	(25,196)
Income taxes receivable/payable	47,330	193,230
Unearned revenue	(2,665)	2,831
Securities sold, but not yet purchased	59,936	(4,665)
Net cash provided by operating activities	\$ 101,427	\$ 363,746

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows - (Continued)

(Unaudited)

(Dollars in thousands)

	Nine Months Ended September 30,	
	2012	2011
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	\$(32,534	) \$(24,339 )
Purchase of securities classified as held-to-maturity	(2,914	) (4,634 )
Proceeds from maturity of securities classified as held-to-maturity	6,350	4,000
Deposits of restricted cash	(67	)