

LPL Financial Holdings Inc.  
Form 10-Q  
April 25, 2013

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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 March 31, 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 April 17, 2013 was 106,549,679.

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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, 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 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 25, 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. 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 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 March 31,	
	2013	2012
<b>REVENUES:</b>		
Commission	\$485,572	\$463,653
Advisory	281,226	250,981
Asset-based	103,766	97,241
Transaction and other	89,378	74,572
Interest income, net of interest expense	4,408	4,710
Other	10,446	10,616
Total net revenues	974,796	901,773
<b>EXPENSES:</b>		
Commission and advisory	659,553	617,392
Compensation and benefits	98,780	89,012
Promotional	23,665	16,831
Depreciation and amortization	19,774	17,175
Occupancy and equipment	16,798	14,497
Professional services	14,510	13,121
Brokerage, clearing and exchange	10,170	9,515
Communications and data processing	9,492	8,899
Regulatory fees and other	7,419	7,546
Restructuring charges	6,037	1,694
Other	5,887	6,672
Total operating expenses	872,085	802,354
Non-operating interest expense	12,160	16,032
Loss on extinguishment of debt	—	16,524
Total expenses	884,245	834,910
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>	<b>90,551</b>	<b>66,863</b>
<b>PROVISION FOR INCOME TAXES</b>	<b>35,834</b>	<b>25,684</b>
<b>NET INCOME</b>	<b>\$54,717</b>	<b>\$41,179</b>
<b>EARNINGS PER SHARE (Note 11):</b>		
Basic	\$0.51	\$0.38
Diluted	\$0.51	\$0.37

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 March 31,	
	2013	2012
NET INCOME	\$54,717	\$41,179
Other comprehensive income, net of tax:		
Adjustment for items reclassified to earnings, net of tax expense of \$254 for the three months ended March 31, 2012	—	409
Total other comprehensive income, net of tax	—	409
TOTAL COMPREHENSIVE INCOME	\$54,717	\$41,588

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, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and cash equivalents	\$436,032	\$466,261
Cash and securities segregated under federal and other regulations	399,933	577,433
Receivables from:		
Clients, net of allowance of \$544 at March 31, 2013 and \$587 at December 31, 2012	341,444	369,814
Product sponsors, broker-dealers and clearing organizations	181,655	152,950
Others, net of allowance of \$6,838 at March 31, 2013 and \$6,675 at December 31, 2012	268,492	241,324
Securities owned:		
Trading — at fair value	7,525	