LPL Financial Holdings Inc.
Form 10-Q
August 05, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended June 30, 2015
or

o 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 incorporation or organization)	(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. x Yes o 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). x Yes o 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 x	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

The number of shares of Common Stock, par value $0.001 per share, outstanding as of July 31, 2015 was 95,262,247.

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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 and 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 August 5, 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; execution of the Company's plans and its success in realizing the service improvements and efficiencies expected to result from its initiatives and programs, particularly its 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 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.

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
REVENUES:				
Commission	$509,689	$535,177	$1,033,088	$1,069,751
Advisory	344,884	330,394	686,996	657,647
Asset-based	125,072	118,537	245,704	233,211
Transaction and fee	97,811	91,625	199,506	181,610
Interest income, net of interest expense	5,177	4,791	9,755	9,552
Other	8,028	12,205	24,914	28,389
Total net revenues	1,090,661	1,092,729	2,199,963	2,180,160
EXPENSES:				
Commission and advisory	736,854	751,662	1,478,101	1,496,205
Compensation and benefits	112,337	104,821	224,617	211,169
Promotional	26,684	29,729	62,376	56,912
Depreciation and amortization	26,732	23,818	52,798	46,099
Occupancy and equipment	21,315	21,798	42,197	43,879
Professional services	14,529	15,715	28,573	30,028
Brokerage, clearing and exchange	13,536	12,329	26,277	24,504
Communications and data processing	11,107	10,463	22,721	21,122
Restructuring charges	4,492	9,225	8,416	16,545
Other	25,822	29,094	57,944	49,235
Total operating expenses	993,408	1,008,654	2,004,020	1,995,698
Non-operating interest expense	13,163	12,914	27,178	25,754
Total expenses	1,006,571	1,021,568	2,031,198	2,021,452
INCOME BEFORE PROVISION FOR INCOME TAXES	84,090	71,161	168,765	158,708
PROVISION FOR INCOME TAXES	33,848	28,070	67,845	62,482
NET INCOME	$50,242	$43,091	$100,920	$96,226
EARNINGS PER SHARE (NOTE 12)				
Earnings per share, basic	$0.52	$0.43	$1.05	$0.96
Earnings per share, diluted	$0.52	$0.42	$1.03	$0.94
Weighted-average shares outstanding, basic	95,724	100,244	96,136	100,756
Weighted-average shares outstanding, diluted	97,239	102,029	97,715	102,672

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 June 30,		Six Months Ended June 30,	
	2015	2014	2015	2014
NET INCOME	$50,242	$43,091	$100,920	$96,226
Other comprehensive income, net of tax:				
Unrealized (loss) gain on cash flow hedges, net of tax expense of ($93), $251, $194, and $926 for the three and six months ended June 30, 2015 and 2014, respectively	(175)	400	277	1,462
Reclassification adjustment for realized gain on cash flow hedges included in net income, net of tax expense of $143, $28, $228, and $28 for the three and six months ended June 30, 2015 and 2014, respectively	(228)	(45)	(363)	(45)
Total other comprehensive income, net of tax	(403)	355	(86)	1,417
TOTAL COMPREHENSIVE INCOME	$49,839	$43,446	$100,834	$97,643

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)

	June 30, 2015	December 31, 2014
ASSETS		
Cash and cash equivalents	$547,320	$412,332
Cash and securities segregated under federal and other regulations	399,875	568,930
Restricted cash	27,176	1,109
Receivables from:		
Clients, net of allowance of $1,283 at June 30, 2015 and $1,245 at December 31, 2014	331,992	365,390
Product sponsors, broker-dealers, and clearing organizations	164,033	177,470
Others, net of allowance of $10,751 at June 30, 2015 and $8,379 at December 31, 2014	314,805	291,449
Securities owned:		
Trading — at fair value	11,986	13,466
Held-to-maturity — at amortized cost	8,599	8,594
Securities borrowed	5,603	5,035
Income taxes receivable	9,355	84
Fixed assets, net of accumulated depreciation and amortization of $304,879 at June 30, 2015 and $288,834 at December 31, 2014	237,116	214,154
Debt issuance costs, net of accumulated amortization of $13,190 at June 30, 2015 and $11,724 at December 31, 2014	11,775	13,241
Goodwill	1,365,838	1,365,838
Intangible assets, net of accumulated amortization of $323,673 at June 30, 2015 and $305,154 at December 31, 2014	411,097	430,704
Other assets	195,950	183,197
Total assets	$4,042,520	$4,050,993
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	$133,579	$180,099
Payables to clients	617,763	652,714
Payables to broker-dealers and clearing organizations	38,952	45,427
Accrued commission and advisory expenses payable	134,364	146,504
Accounts payable and accrued liabilities	304,883	289,426
Unearned revenue	82,991	64,482
Securities sold, but not yet purchased — at fair value	1,735	302
Senior secured credit facilities	1,693,838	1,634,258
Leasehold financing obligation	26,337	—
Deferred income taxes, net	64,990	66,181
Total liabilities	3,099,432	3,079,393
Commitments and contingencies		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 600,000,000 shares authorized; 119,046,228 shares issued at June 30, 2015 and 118,234,552 shares issued at December 31, 2014	119	118
Additional paid-in capital	1,390,594	1,355,085
	(897,270)	(780,661)

Treasury stock, at cost — 23,831,516 shares at June 30, 2015 and 21,089,882 shares at December 31, 2014		
Accumulated other comprehensive income	851	937
Retained earnings	448,794	396,121
Total stockholders’ equity	943,088	971,600
Total liabilities and stockholders’ equity	$4,042,520	$4,050,993

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Stockholders’ Equity
(Unaudited)
(In thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		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						1,417	96,226	97,643
Issuance of common stock to settle restricted stock units, net	35	1		11	(600)			(599)
Treasury stock purchases				2,458	(125,010)			(125,010)
Cash dividends on common stock							(48,109)	(48,109)
Stock option exercises and other	884		21,572	(19)	700		60	22,332
Share-based compensation			15,609					15,609
Excess tax benefits from share-based compensation			6,755					6,755
BALANCE — June 30, 2014	118,031	$118	$1,336,310	17,666	$(631,115)	$1,532	$361,747	$1,068,592
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						(86)	100,920	100,834
Issuance of common stock to settle restricted stock units, net	116	1		41	(1,849)			(1,848)
Treasury stock purchases				2,731	(115,824)			(115,824)
Cash dividends on common stock							(48,274)	(48,274)
Stock option exercises and other	695		18,651	(30)	1,064		27	19,742
Share-based compensation			15,850					15,850
			1,008					1,008

Excess tax benefits from share-based compensation								
BALANCE — June 30, 2015	119,046	$119	$1,390,594	23,832	$(897,270)	$851	$448,794	$943,088

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)

	Six Months Ended June 30,	
	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$100,920	$96,226
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	52,798	46,099
Amortization of debt issuance costs	1,466	2,160
Share-based compensation	15,850	15,609
Excess tax benefits related to share-based compensation	(1,855)	(6,842)
Provision for bad debts	1,269	860
Deferred income tax provision	(1,157)	792
Loan forgiveness	17,904	12,950
Other	4,414	1,262
Changes in operating assets and liabilities:		
Cash and securities segregated under federal and other regulations	169,055	104,126
Receivables from clients	33,360	19,271
Receivables from product sponsors, broker-dealers, and clearing organizations	13,437	729
Receivables from others	(42,935)	(17,773)
Securities owned	1,240	(1,929)
Securities borrowed	(568)	(2,448)
Other assets	(16,404)	(25,853)
Drafts payable	(46,520)	(42,807)
Payables to clients	(34,951)	(17,639)
Payables to broker-dealers and clearing organizations	(6,475)	(11,323)
Accrued commission and advisory expenses payable	(12,140)	1,078
Accounts payable and accrued liabilities	16,472	(36,777)
Income taxes receivable/payable	(7,416)	(18,420)
Unearned revenue	18,509	(2,739)
Securities sold, but not yet purchased	1,433	(131)
Net cash provided by operating activities	$277,706	$116,481

Continued on following page

CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	$(31,876)	$(45,923)
Proceeds from disposal of fixed assets	—	1,059
Purchase of securities classified as held-to-maturity	(1,506)	—
Proceeds from maturity of securities classified as held-to-maturity	1,500	3,500
Deposits of restricted cash	(26,676)	—
Release of restricted cash	609	138
Net cash used in investing activities	(57,949)	(41,226)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from revolving credit facility	65,000	—
Repayment of senior secured credit facilities	(5,420)	(5,419)
Payment of contingent consideration	—	(3,300)
Tax payments related to settlement of restricted stock units	(1,848)	(599)
Repurchase of common stock	(115,824)	(125,010)
Dividends on common stock	(48,274)	(48,109)
Excess tax benefits related to share-based compensation	1,855	6,842
Proceeds from stock option exercises and other	19,742	22,332
Net cash used in financing activities	(84,769)	(153,263)
NET INCREASE (DECREASE) CASH AND CASH EQUIVALENTS	134,988	(78,008)
CASH AND CASH EQUIVALENTS — Beginning of period	412,332	516,584
CASH AND CASH EQUIVALENTS — End of period	$547,320	$438,576
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$25,457	$25,973
Income taxes paid	$77,282	$83,855
NONCASH DISCLOSURES:		
Capital expenditures included in accounts payable and accrued liabilities	$7,082	$12,904
Fixed assets acquired under build-to-suit lease	$—	$8,114
Finance obligation related to real estate projects	$26,337	$—

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES

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

See notes to unaudited condensed consolidated financial statements.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

1. Organization and Description of the Company

LPL Financial Holdings Inc. (“LPLFH”), a Delaware holding corporation, together with its consolidated subsidiaries (collectively, the “Company”) provides an integrated platform of brokerage and investment advisory services to independent financial advisors and financial advisors at financial institutions (collectively “advisors”) in the United States of America. Through its custody and clearing platform, using both proprietary and third-party technology, the Company provides access to diversified financial products and services enabling its advisors to offer independent financial advice and brokerage services to retail investors (their “clients”).

2. Summary of Significant Accounting Policies

Basis of Presentation

The unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). These unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management, necessary for a fair statement of the results for the interim periods presented. These adjustments are of a normal recurring nature. The Company’s results for any interim period are not necessarily indicative of results for a full year or any other interim period.

The unaudited condensed consolidated financial statements do not include all information and notes necessary for a complete presentation of results of income, comprehensive income, financial position, and cash flows in conformity with generally accepted accounting principles in the United States of America (“GAAP”). Accordingly, these financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the related notes for the year ended December 31, 2014, contained in the Company’s Annual Report on Form 10-K as filed with the SEC.

The Company’s significant accounting policies are included in Note 2. Summary of Significant Accounting Policies, in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. There have been no significant changes to these accounting policies during the first six months of 2015.

Consolidation

These unaudited condensed consolidated financial statements include the accounts of LPLFH and its subsidiaries. Intercompany transactions and balances have been eliminated. Equity investments in which the Company exercises significant influence but does not exercise control and is not the primary beneficiary are accounted for using the equity method.

Use of Estimates

The preparation of the unaudited condensed consolidated financial statements in conformity with GAAP requires the Company to make estimates and judgments that affect the reported amounts of assets and liabilities, revenue and expenses, and related disclosures of contingent assets and liabilities. These estimates are based on the information that is currently available and on various other assumptions that the Company believes to be reasonable under the circumstances. Actual results could vary from these estimates.

Reportable Segment

The Company's internal reporting is organized into two service channels: Independent Advisor Services and Institution Services. These service channels are aggregated and viewed as one operating segment, and therefore, one reportable segment due to their similar economic characteristics, products and services, production and distribution processes, and regulatory environment.

Restricted Cash

Restricted cash primarily represents cash restricted for use by the Company’s captive insurance subsidiary.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

Fair Value of Financial Instruments
The Company’s financial assets and liabilities are carried at fair value or at amounts that, because of their short-term nature, approximate current fair value, with the exception of its held-to-maturity securities and indebtedness. The Company carries its held-to-maturity securities and indebtedness at amortized cost. The Company measures the implied fair value of its debt instruments using trading levels obtained from a third-party service provider. Accordingly, the debt instruments qualify as Level 2 fair value measurements. See Note 4. Fair Value Measurements, for additional detail regarding the Company’s fair value measurements. As of June 30, 2015, the carrying amount and fair value of the Company’s indebtedness was approximately $1,693.8 million and $1,698.6 million, respectively. As of December 31, 2014, the carrying amount and fair value was approximately $1,634.3 million and $1,620.8 million, respectively.
Leasehold Financing Obligation
The Company is involved with the construction of a building in Fort Mill, South Carolina and has determined that it has substantially all of the risks of ownership during construction of the leased property. Accordingly, from an accounting perspective, the Company is deemed to be the owner of the construction project. As such, the Company records an asset for the amount of the total project costs and an amount related to the value attributed to the building under construction in fixed assets, net and the related financing obligation in leasehold financing obligations on the unaudited condensed consolidated statement of financial condition. Once construction is complete, the Company determines if the asset qualifies for sale-leaseback accounting treatment.
Recently Issued Accounting Pronouncements
There are no recently issued accounting pronouncements that would materially impact the Company's condensed consolidated statements of income, comprehensive income, financial condition, or cash flows.
3. Restructuring
In February 2013, the Company committed to an expansion of its Service Value Commitment initiative (the “Program”), an ongoing effort to position the Company's people, processes, and technology for sustainable long-term growth while improving the service experience of its advisors and delivering efficiencies in its operating model. The Program is expected to be completed in 2015.
The following table summarizes the balance of accrued expenses and the changes in the accrued amounts for the Program as of and for the six months ended June 30, 2015 (in thousands):

	Accrued Balance at December 31, 2014	Costs Incurred	Payments	Accrued Balance at June 30, 2015	Cumulative Costs Incurred to Date	Total Expected Restructuring Costs
Outsourcing and other related costs	$—	$1,298	$(1,298)	$—	$22,786	$23,500
Technology transformation costs	4,458	297	(4,000)	755	30,215	30,300
Employee severance obligations and other related costs	1,999	1,837	(1,794)	2,042	10,722	13,400
Asset impairments	—	—	—	—	842	842
Total	$6,457	$3,432	$(7,092)	$2,797	$64,565	$68,042

In February 2015, the Company committed to a course of action to restructure the business of its subsidiary, Fortigent Holdings Company, Inc. (together with its subsidiaries, “Fortigent”). The Company acquired Fortigent, which provides outsourced wealth management solutions, in April 2012. The intention of the restructuring plan is to migrate Fortigent’s operations from Rockville, Maryland to the Company’s office in Charlotte, North Carolina, simplify and improve the efficiency of Fortigent’s existing service offerings, and position Fortigent to capitalize on the Company's future technology investments and service offerings for financial institutions and advisors focused on high-net-worth clients.

LPL FINANCIAL HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)

The following table summarizes the balance of accrued expenses and the changes in the accrued amounts for the Fortigent restructuring as of and for the six months ended June 30, 2015 (in thousands):

	Costs Incurred	Payments	Non-cash	Accrued Balance at June 30, 2015	Cumulative Costs Incurred to Date	Total Expected Restructuring Costs
Employee severance obligations and other related costs	$2,219	$(639)	$—	$1,580	$2,219	$4,500
Relocation and related costs	1,758	(1,188)	—	570	1,758	2,000
Lease restructuring charges	—	—	—	—	—	1,300
Asset impairments	433	(433)	—	—	433	1,200
Total	$4,410	$(2,260)	$—	$2,150	$4,410	$9,000

4. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Inputs used to measure fair value are prioritized within a three-level fair value hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies, and similar techniques that use significant unobservable inputs.

There have been no transfers of assets or liabilities between these fair value measurement classifications during the six months ended June 30, 2015.

The Company’s fair value measurements are evaluated within the fair value hierarchy, based on the nature of inputs used to determine the fair value at the measurement date. At June 30, 2015, the Company had the following financial assets and liabilities that are measured at fair value on a recurring basis:

Cash Equivalents — The Company’s cash equivalents include money market funds, which are short term in nature with readily determinable values derived from active markets.

Securities Owned and Securities Sold, But Not Yet Purchased — The Company's trading securities consist of house account model portfolios established and managed for the purpose of benchmarking the performance of its fee-based advisory platforms and temporary positions resulting from the processing of client transactions. Examples of these securities include money market funds, U.S. treasury obligations, mutual funds, certificates of deposit, and traded equity and debt securities.

The Company uses prices obtained from independent third-party pricing services to measure the fair value of its trading securities. Prices received from the pricing services are validated using various methods including comparison to prices received from additional pricing services, comparison to available quoted market prices, and review of other relevant market data including implied yields of major categories of securities. In general, these quoted prices are derived from active markets for identical assets or liabilities. When quoted prices in active markets for identical assets and liabilities are not available, the quoted prices are based on similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. For certificates of deposit and treasury securities, the Company utilizes market-based inputs, including observable market interest rates that correspond to the remaining maturities or the next interest reset dates. At June 30, 2015, the Company did not adjust prices received from the independent third-party pricing services.

Other Assets — The Company's other assets include: (1) deferred compensation plan assets that are invested in money market and other mutual funds, which are actively traded and valued based on quoted market prices; (2) certain non-traded real estate investment trusts and auction rate notes, which are valued using quoted prices for identical or similar securities and other inputs that are observable or can be corroborated by observable market data; and (3) cash flow hedges, which are measured using quoted prices for similar cash flow hedges, taking into account counterparty credit risk and the Company's own non-performance risk.

Accounts Payable and Accrued Liabilities — The Company's accounts payable and accrued liabilities include contingent consideration liabilities that are measured using Level 3 inputs.

The following table summarizes the Company’s financial assets and financial liabilities measured at fair value on a recurring basis at June 30, 2015 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$8,234	$—	$—	$8,234
Securities owned — trading:				
Money market funds	262	—	—	262
Mutual funds	7,333	—	—	7,333
Equity securities	60	—	—	60
Debt securities	—	21	—	21
U.S. treasury obligations	4,310	—	—	4,310
Total securities owned — trading	11,965	21	—	11,986
Other assets	98,804	4,100	—	102,904
Total assets at fair value	$119,003	$4,121	$—	$123,124
Liabilities				
Securities sold, but not yet purchased:				
Equity securities	$42	$—	$—	$42
Debt securities	—	1,693	—	1,693
Total securities sold, but not yet purchased	42	1,693	—	1,735
Accounts payable and accrued liabilities	—	—	527	527
Total liabilities at fair value	$42	$1,693	$527	$2,262

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The following table summarizes the Company’s financial assets and financial liabilities measured at fair value on a recurring basis at December 31, 2014 (in thousands):

	Level 1	Level 2	Level 3	Total
Assets				
Cash equivalents	$22,592	$—	$—	$22,592
Securities owned — trading:				
Money market funds	293	—	—	293
Mutual funds	7,570	—	—	7,570
Equity securities	224	—	—	224
Debt securities	—	1,379	—	1,379
U.S. treasury obligations	4,000	—	—	4,000
Total securities owned — trading	12,087	1,379	—	13,466
Other assets	75,540	5,058	—	80,598
Total assets at fair value	$110,219	$6,437	$—	$116,656
Liabilities				
Securities sold, but not yet purchased:				
Mutual funds	$13	$—	$—	$13
Equity securities	279	—	—	279
Debt securities	—	10	—	10
Total securities sold, but not yet purchased	292	10	—	302
Accounts payable and accrued liabilities	—	—	527	527
Total liabilities at fair value	$292	$10	$527	$829

Level 3 Recurring Fair Value Measurements

The Company determines the fair value for its contingent consideration obligations using an income approach whereby the Company assesses the probability and timing of the achievement of the applicable milestones, which are based on contractually negotiated financial or operating targets that vary by acquisition transaction, such as revenues. The contingent payments are estimated using a probability weighted, multi-scenario analysis of expected future performance of the acquired businesses. The Company then discounts these expected payment amounts to calculate the fair value as of the valuation date. The Company's management evaluates the underlying projections and other related factors used in determining fair value each period and makes updates when there have been significant changes in management's expectations.

5. Held-to-Maturity Securities

The Company holds certain investments in securities, primarily U.S. government notes, which are recorded at amortized cost because the Company has both the intent and the ability to hold these investments to maturity. Interest income is accrued as earned. Premiums and discounts are amortized using a method that approximates the effective yield method over the term of the security and are recorded as an adjustment to the investment yield.

The amortized cost, gross unrealized gain or loss, and fair value of securities held-to-maturity were as follows (in thousands):

	June 30, 2015	December 31, 2014
Amortized cost	$8,599	$8,594
Gross unrealized gain (loss)	2	(14)
Fair value	$8,601	$8,580

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At June 30, 2015, the securities held-to-maturity were scheduled to mature as follows (in thousands):

	Within one year	After one but within five years	After five but within ten years	Total
U.S. government notes — at amortized cost	$4,098	$4,001	$500	$8,599
U.S. government notes — at fair value	$4,103	$4,004	$494	$8,601

6. Derivative Financial Instruments

In May 2013, in conjunction with its Service Value Commitment initiative, the Company entered into a long-term contractual obligation (the "Agreement") with a third-party provider to enhance the quality, speed, and cost of processes by outsourcing certain functions. The Agreement enables the third-party provider to use the services of its affiliates in India to provide services to the Company and provides for the Company to settle the cost of its contractual obligation to the third-party provider in U.S. dollars each month. However, the Agreement provides that on each annual anniversary date of the signing of the Agreement, the price for services (denominated in U.S. dollars) is to be adjusted for the then-current exchange rate between the U.S. dollar ("USD") and the Indian rupee ("INR"). The Agreement provides that, once an annual adjustment is calculated, there are no further modifications to the amounts paid by the Company to the third-party provider for fluctuations in the exchange rate between the USD and the INR until the reset on the next anniversary date of the signing of the Agreement.

The third-party provider bore the risk of currency movement from the date of signing the Agreement until the reset on the first anniversary of its signing, and bears such risk during each period until the next annual reset date. The Company bears the risk of currency movement at each of the annual reset dates following the first anniversary.

To mitigate foreign currency risk arising from these annual anniversary events, the Company entered into four non-deliverable foreign currency contracts, all of which have been designated as cash flow hedges. The first cash flow hedge, with a notional amount of 560.4 million INR, or $8.5 million, settled in June 2014. The Company received a settlement of $1.0 million, which was reclassified out of accumulated other comprehensive income and recognized in net income ratably over the 12-month period ending May 31, 2015 to match the timing of the underlying hedged item. The second cash flow hedge, with a notional amount of 560.4 million INR, or $8.1 million, settled in June 2015. The Company received a settlement of $0.7 million, which will be reclassified out of accumulated other comprehensive income and recognized in net income ratably over a 12-month period ending May 31, 2016 to match the timing of the underlying hedged item.

The details related to the remaining non-deliverable foreign currency contracts at June 30, 2015 are as follows (in millions, except foreign exchange rate):

	Settlement Date	Hedged Notional Amount (INR)	Contractual INR/USD Foreign Exchange Rate	Hedged Notional Amount (USD)
Cash flow hedge #3	6/2/2016	560.4	72.21	7.8
Cash flow hedge #4	6/2/2017	560.4	74.20	7.5
Total hedged amount				$15.3

The fair value of the derivative instruments, included in other assets in the unaudited condensed consolidated statements of financial condition, were as follows (in thousands):

	June 30, 2015	December 31, 2014
Cash flow hedges	$914	$1,179

7. Goodwill and Other Intangible Assets

Goodwill and intangible assets were a result of various acquisitions. See Note 8. Goodwill and Other Intangible Assets, in the Company's 2014 Annual Report on Form 10-K for a discussion of the components of goodwill and additional information regarding intangible assets.

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8. Debt

Senior Secured Credit Facilities — In October 2014, the Company entered into the Second Amendment, Extension and Incremental Assumption Agreement (“Credit Agreement”) with its wholly owned subsidiary, LPL Holdings, Inc., and the other parties thereto. The Credit Agreement includes a term loan A (“Term Loan A”), a term loan B (“Term Loan B”), and a revolving credit facility (“Revolving Credit Facility”), which has a borrowing capacity of $400.0 million.

The Company’s outstanding borrowings were as follows (dollars in thousands):

Senior Secured Credit Facilities	Maturity	June 30, 2015 Balance	June 30, 2015 Interest Rate		December 31, 2014 Balance	December 31, 2014 Interest Rate	
Revolving Credit Facility	9/30/2019	$175,000	3.87	%	$110,000	4.75	%
Senior secured term loans:							
Term Loan A	9/30/2019	459,375	2.69	%	459,375	2.67	%
Term Loan B	3/29/2019	1,059,463	3.25	%	1,064,883	3.25	%
Total borrowings		1,693,838			1,634,258		
Less current portion		185,839			120,839		
Long-term borrowings — net of current portion		$1,507,999			$1,513,419		

As of June 30, 2015, the Company also had $18.0 million of irrevocable letters of credit, with an applicable interest rate margin of 2.50%, which were supported by the Revolving Credit Facility.

The Credit Agreement subjects the Company to certain financial and non-financial covenants. As of June 30, 2015, the Company was in compliance with such covenants.

Bank Loans Payable — The Company maintains three uncommitted lines of credit. Two of the lines have unspecified limits, which are primarily dependent on the Company’s ability to provide sufficient collateral. The third line has a $200 million limit, and allows for both collateralized and uncollateralized borrowings. The lines have not been utilized in 2015 and were not utilized in 2014; therefore, there were no balances outstanding at June 30, 2015 or December 31, 2014.

9. Commitments and Contingencies

Leases

The Company leases office space and equipment under various operating leases. These leases are generally subject to scheduled base rent and maintenance cost increases, which are recognized on a straight-line basis over the period of the leases. Total rental expense for all operating leases was approximately $6.6 million and $8.2 million for the three months ended June 30, 2015 and 2014, respectively, and $13.2 million and $17.0 million for the six months ended June 30, 2015 and 2014, respectively.

Service and Development Contracts

The Company is party to certain long-term contracts for systems and services that enable back office trade processing and clearing for its product and service offerings.

Guarantees

The Company occasionally enters into certain types of contracts that contingently require it to indemnify certain parties against third-party claims. The terms of these obligations vary and, because a maximum obligation is not explicitly stated, the Company has determined that it is not possible to make an estimate of the amount that it could be obligated to pay under such contracts.

The Company’s subsidiary, LPL Financial, provides guarantees to securities clearing houses and exchanges under their standard membership agreements, which require a member to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearing houses and exchanges, all other members would be required to meet any shortfall. The Company’s liability under these

arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these agreements is remote. Accordingly, no liability has been recognized for these transactions.

Loan Commitments

From time to time, LPL Financial makes loans to its advisors, primarily to newly recruited advisors to assist in the transition process, which may be forgivable. Due to timing differences, LPL Financial may make commitments to issue such loans prior to actually funding them. These unfunded commitments are generally contingent upon certain events occurring, including but not limited to the advisor joining LPL Financial. LPL Financial had no such significant unfunded commitments at June 30, 2015.

Legal & Regulatory Matters

Assessing the probability of a loss occurring and the amount of any loss related to a legal proceeding or regulatory matter is inherently difficult. The Company exercises significant and complex judgments to make certain estimates presented in its consolidated financial statements, and there are particular uncertainties and complexities involved when assessing the potential outcomes of legal proceedings and regulatory matters. The Company's assessment process considers a variety of factors and assumptions, which may include the procedural status of the matter and any recent developments; prior experience and the experience of others in similar matters; the size and nature of potential exposures; available defenses; the progress of fact discovery; the opinions of counsel and experts; potential opportunities for settlement and the status of any settlement discussions; as well as the potential for insurance coverage and indemnification, if available. The Company monitors these factors and assumptions for new developments and re-assesses the likelihood that a loss will occur and the estimated range or amount of loss, if those amounts can be reasonably determined. The Company has established an accrual for those legal proceedings and regulatory matters for which a loss is both probable and the amount can be reasonably estimated. The Company's accruals at June 30, 2015, include estimated costs for regulatory matters generally relating to the adequacy of the Company's compliance and supervisory systems and procedures and other controls, for which the Company believes losses are both probable and reasonably estimable. When it is not probable but at least reasonably possible that a loss has been incurred, a disclosure of fact is made when the underlying loss or range of losses can also be reasonably estimated. The Company estimates that, as of June 30, 2015, exposure to those losses could range from $0 to $8 million in excess of the accrued liability, if any, related to those matters. Due to the inherent unpredictability of such matters, the Company may have exposure to losses that are not yet predictable or cannot yet be reasonably estimated in addition to those amounts that have been accrued or disclosed.

Third-Party Insurance

The Company maintains third-party insurance coverage for certain legal proceedings, including those involving client claims. With respect to client claims, the estimated losses on many of the pending matters are less than the applicable deductibles of the insurance policies. The Company is also subject to extensive regulation and supervision by U.S. federal and state agencies and various self-regulatory organizations. The Company and its advisors periodically engage with such agencies and organizations, in the context of examinations or otherwise, to respond to inquiries, informational requests, and investigations. From time to time, such engagements result in regulatory complaints or other matters, the resolution of which can include fines and other remediation.

Self-Insurance Liabilities

The Company has self-insurance for certain potential liabilities, including various errors and omissions liabilities, through a wholly-owned captive insurance subsidiary. Liabilities associated with the risks that are retained by the Company are not discounted and are estimated by considering, in part, historical claims experience, severity factors, and other actuarial assumptions. The estimated accruals for these potential liabilities could be significantly affected if future occurrences and claims differ from such assumptions and historical trends. As of June 30, 2015, these self-insurance liabilities are included in accounts payable and accrued liabilities in the unaudited condensed consolidated balance sheet. Self-insurance related charges are included in other expenses in the unaudited condensed

consolidated statements of income for the three and six months ended June 30, 2015.
Other Commitments
As of June 30, 2015, the Company had received collateral primarily in connection with client margin loans with a market value of approximately $354.5 million, which it can re-pledge, loan, or sell. Of these securities, approximately $31.4 million were client-owned securities pledged to the Options Clearing Corporation as collateral

to secure client obligations related to options positions. As of June 30, 2015 there were no restrictions that materially limited the Company's ability to re-pledge, loan, or sell the remaining $323.1 million of client collateral.

Trading securities on the unaudited condensed consolidated statements of financial condition includes $4.3 million and $4.0 million pledged to clearing organizations at June 30, 2015 and December 31, 2014, respectively.

The Company is involved in a build-to-suit lease arrangement in Fort Mill, South Carolina, under which it serves as the construction agent on behalf of the landlord. Under such arrangement, the Company has obligations to fund cost over-runs in its capacity as the construction agent, and accordingly has determined that under lease accounting standards it bears substantially all of the risks and rewards of ownership as measured under GAAP. The Company is therefore required to report the landlord's costs of construction on its balance sheet as a fixed asset during the construction period as if the Company owned such asset. As of June 30, 2015, the Company has recorded $26.3 million in fixed assets in connection with this arrangement and an equal and off-setting leasehold financing obligation on the unaudited condensed consolidated statement of financial condition.

10. Stockholders' Equity

Dividends

The payment, timing, and amount of any dividends are subject to approval by the Board of Directors as well as certain limits under the Company's credit facilities. Cash dividends per share of common stock and total cash dividends paid on a quarterly basis were as follows for the periods indicated (in millions, except per share data):

	2015		2014	
	Dividend per Share	Total Cash Dividend	Dividend per Share	Total Cash Dividend
First quarter	$0.25	$24.2	$0.24	$24.1
Second quarter	$0.25	$24.1	$0.24	$24.0

Share Repurchases

The Board of Directors has approved several share repurchase programs pursuant to which the Company may repurchase its issued and outstanding shares of common stock from time to time. Repurchased shares are included in treasury stock on the unaudited condensed consolidated statements of financial condition. Purchases may be effected in open market or privately negotiated transactions, including transactions with affiliates, with the timing of purchases and the amount of stock purchased generally determined at the discretion of the Company's management within the constraints of the Credit Agreement and general liquidity needs.

For the three months ended June 30, 2015 and 2014, the Company had the following activity under its approved share repurchase programs (in millions, except share and per share data):

			Three Months Ended June 30,					
			2015			2014		
Approval Date	Authorized Repurchase Amount	Amount Remaining at June 30, 2015	Shares Purchased	Weighted-Average Price Paid Per Share	Total Cost(1)	Shares Purchased	Weighted-Average Price Paid Per Share	Total Cost(1)
February 10, 2014	$150.0	$—	—	$ —	$—	535,210	$ 46.73	$25.0
October 1, 2014	$150.0	$—	1,513,490	$ 41.60	$63.0	—	$ —	$—
April 28, 2015	$200.0	$177.2	537,922	$ 42.48	$22.8	—	$ —	$—
		$177.2	2,051,412	$ 41.83	$85.8	535,210	$ 46.73	$25.0

(1) Included in the total cost of shares purchased is a commission fee of $0.02 per share.

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For the six months ended June 30, 2015 and 2014, the Company had the following activity under its approved share repurchase programs (in millions, except share and per share data):

			Six Months Ended June 30,					
			2015			2014		
Approval Date	Authorized Repurchase Amount	Amount Remaining at June 30, 2015	Shares Purchased	Weighted Average Price Paid Per Share	Total Cost(1)	Shares Purchased	Weighted Average Price Paid Per Share	Total Cost(1)
May 28, 2013	$200.0	$—	—	$—	$—	1,306,288	$52.00	$67.9
February 10, 2014	$150.0	$—	—	$—	$—	1,151,998	$49.55	$57.1
October 1, 2014	$150.0	$—	2,193,262	$42.39	$93.0	—	$—	$—
April 28, 2015	$200.0	$177.2	537,922	$42.48	$22.8	—	$—	$—
		$177.2	2,731,184	$42.41	$115.8	2,458,286	$50.85	$125.0

(1) Included in the total cost of shares purchased is a commission fee of $0.02 per share.

See Note 14. Related Party Transactions, for details regarding the repurchase of shares from related parties in 2014.

11. Share-Based Compensation

Certain employees, advisors, institutions, officers, and directors of the Company participate in various long-term incentive plans, which provide for granting stock options, warrants, restricted stock awards, and restricted stock units. Stock options and warrants generally vest in equal increments over a three- to five-year period and expire on the tenth anniversary following the date of grant. Restricted stock awards and restricted stock units generally vest over a two- to four-year period.

In November 2010, the Company adopted a 2010 Omnibus Equity Incentive Plan (as amended and restated in May 2015, the "2010 Plan"), which provides for the granting of stock options, warrants, restricted stock awards, restricted stock units, and other equity-based compensation. The 2010 Plan serves as the successor to the 2005 Stock Option Plan for Incentive Stock Options, the 2005 Stock Option Plan for Non-qualified Stock Options, the 2008 Advisor and Institution Incentive Plan, the 2008 Stock Option Plan, and the Director Restricted Stock Plan (collectively, the "Predecessor Plans"). Upon adoption of the 2010 Plan, awards were no longer made under the Predecessor Plans; however, awards previously granted under the Predecessor Plans remain outstanding until exercised or forfeited. There are 20,055,945 shares authorized for grant under the 2010 Plan. As of June 30, 2015, there were 5,462,060 shares reserved for issuance upon exercise or conversion of outstanding awards granted under the 2010 Plan and 12,918,506 shares remaining available for future issuance.

Stock Options and Warrants

The following table presents the weighted-average assumptions used in the Black-Scholes valuation model by the Company in calculating the fair value of its employee and officer stock options that have been granted during the six months ended June 30, 2015:

Expected life (in years)	5.30	
Expected stock price volatility	25.78	%
Expected dividend yield	2.30	%
Risk-free interest rate	1.58	%
Fair value of options	$8.83	

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The fair value of each stock option or warrant awarded to advisors and financial institutions is estimated on the date of the grant and revalued at each reporting period using the Black-Scholes valuation model with the following weighted-average assumptions used during the six months ended June 30, 2015:

Expected life (in years)	6.39	
Expected stock price volatility	25.57	%
Expected dividend yield	2.32	%
Risk-free interest rate	2.05	%
Fair value of options	$16.41	

The following table summarizes the Company's stock option and warrant activity for the six months ended June 30, 2015:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding — December 31, 2014	6,287,410	$31.59		
Granted	1,117,634	$45.58		
Exercised	(663,522)	$28.11		
Forfeited	(375,524)	$38.79		
Outstanding — June 30, 2015	6,365,998	$33.99	6.54	$79,594
Exercisable — June 30, 2015	3,605,127	$29.33	5.23	$61,850

The following table summarizes information about outstanding stock options and warrants at June 30, 2015:

	Outstanding			Exercisable	
Range of Exercise Prices	Total Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Life (Years)	Number of Shares	Weighted-Average Exercise Price
$18.04 - $23.02	1,150,974	$21.39	3.94	1,150,974	$21.39
$23.41 - $30.00	1,350,028	$28.24	5.41	878,749	$27.96
$31.60 - $32.33	1,199,189	$31.88	7.17	631,094	$31.91
$34.01 - $39.60	1,012,285	$34.59	5.68	753,158	$34.48
$45.55 - $54.81	1,653,522	$48.61	9.34	191,152	$54.70
	6,365,998	$33.99	6.54	3,605,127	$29.33

The Company recognizes share-based compensation for stock options awarded to employees, officers, and directors based on the grant date fair value over the requisite service period of the award, which generally equals the vesting period. The Company recognized share-based compensation related to the vesting of these awards of $4.3 million and $3.8 million during the three months ended June 30, 2015 and 2014, respectively, and $8.3 million and $7.6 million during the six months ended June 30, 2015 and 2014, respectively, which is included in compensation and benefits expense on the unaudited condensed consolidated statements of income. As of June 30, 2015, total unrecognized compensation cost related to non-vested stock options granted to employees, officers, and directors was $18.2 million, which is expected to be recognized over a weighted-average period of 1.98 years.

The Company recognizes share-based compensation for stock options and warrants awarded to its advisors and to financial institutions based on the fair value of the awards at each reporting period. The Company recognized share-based compensation of $1.1 million and $1.6 million during the three months ended June 30, 2015 and 2014, respectively, and $1.8 million and $4.8 million for during the six months ended June 30, 2015 and 2014,

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respectively, related to the vesting of stock options and warrants awarded to its advisors and financial institutions, which is classified within commission and advisory expense on the unaudited condensed consolidated statements of income. As of June 30, 2015, total unrecognized compensation cost related to non-vested stock options and warrants granted to advisors and financial institutions was $6.2 million, which is expected to be recognized over a weighted-average period of 1.93 years.

Restricted Stock

The following summarizes the Company's activity in its restricted stock awards and restricted stock units for the six months ended June 30, 2015:

	Restricted Stock Awards		Restricted Stock Units	
	Number of Shares	Weighted-Average Grant-Date Fair Value	Number of Shares	Weighted-Average Grant-Date Fair Value
Nonvested at December 31, 2014	33,634	$ 42.78	546,725	$ 43.34
Granted	31,847	$ 41.42	325,032	$ 42.06
Vested	(18,832)	$ 37.66	(116,307)	$ 39.47
Forfeited	—	$ —	(54,306)	