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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF CALIFORNIA

PLAINTIFF, Individually and on Behalf
of All Others Similarly Situated,

Plaintiff,

vs.

LPL FINANCIAL HOLDINGS INC.,
MARK S. CASADY and MATTHEW J.
AUDETTE,

Defendants.

CLASS ACTION

COMPLAINT FOR VIOLATION OF
THE FEDERAL SECURITIES LAWS

DEMAND FOR JURY TRIAL

1 Plaintiff, individually and on behalf of all others similarly situated, by
2 plaintiff's undersigned attorneys, for plaintiff's complaint against defendants,
3 alleges the following based upon personal knowledge as to plaintiff and plaintiff's
4 own acts, and upon information and belief as to all other matters based on the
5 investigation conducted by and through plaintiff's attorneys, which included, among
6 other things, a review of U.S. Securities and Exchange Commission ("SEC") filings
7 by LPL Financial Holdings Inc. ("LPL" or the "Company"), as well as media and
8 analyst reports about the Company and Company press releases. Plaintiff
9 believes that substantial additional evidentiary support will exist for the allegations
10 set forth herein after a reasonable opportunity for discovery.

11 **NATURE OF THE ACTION**

12 1. This is a securities class action on behalf of all purchasers of LPL
13 common stock between December 8, 2015 and February 11, 2016, inclusive (the
14 "Class Period"), against LPL and certain of its officers and/or directors for violations
15 of the Securities Exchange Act of 1934 ("1934 Act").

16 2. Defendant LPL is an independent broker-dealer, a custodian for
17 registered investment advisors ("RIAs") and an independent consultant to retirement
18 plans. The Company provides a platform of brokerage and investment advisory
19 services to independent financial advisors enabling them to provide their retail
20 investors with financial and investment advice. The Company generates revenues
21 primarily from fees and commissions on clients' brokerage and advisory assets.

22 3. Prior to 2010, LPL was majority owned by TPG Capital ("TPG") and
23 Hellman & Friedman LLC ("Hellman & Friedman"), two private equity firms. In
24 November 2010, these private equity firms took LPL public in an initial public
25 offering ("IPO") in which 15.7 million LPL shares were sold to the public at \$30 per
26 share.

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1 4. After the IPO, TPG retained a substantial ownership stake in the
2 Company and influence over its affairs. For example, two TPG partners, Richard
3 Boyce and Richard Schifter, served as directors of the Company. LPL has also
4 identified TPG as a “related party” in SEC filings and stated that it has continued to
5 enter into various related-party transactions with TPG and certain of TPG’s portfolio
6 companies since the IPO. As of December 31, 2014, TPG owned approximately 13%
7 of the outstanding shares of LPL common stock. LPL’s annual report on Form 10-K
8 for fiscal 2014 stated that as a result of this ownership interest, ***TPG “will continue to***
9 ***be able to influence our decisions***, regardless of whether or not other stockholders
10 believe that the transaction is in their own best interests.”

11 5. Following the IPO, the Company became the subject of several
12 regulatory and governmental investigations into allegedly fraudulent, deceptive and/or
13 legally deficient business practices at LPL and among its network of financial
14 advisors. For example:

- 15 • In February 2013 it was announced that LPL had settled allegations by
16 Massachusetts securities regulators that it had failed to adequately
17 supervise its brokers who sold investments in non-traded real estate
18 investment trusts (“REITs”) for \$2.5 million.
- 19 • In May 2015 the Financial Industry Regulatory Authority (“FINRA”) announced that it had sanctioned LPL \$11.7 million for “[w]idespread [s]upervisory [f]ailures [r]elated to [c]omplex [p]roduct [s]ales, [t]rade [s]urveillance and [t]rade [c]onfirmations [d]elivery.”
- 20 • In September 2015 it was announced that LPL had agreed to pay \$1.8
21 million to settle charges by the Massachusetts Attorney General that it
22 had improperly sold and marketed risky exchange-traded funds (“ETFs”) to retail investors.
- 23 • Also in September 2015, it was announced that LPL had agreed to
24 remediate investor losses and pay \$1.425 million in civil penalties to
25 regulators in 48 states, the District of Columbia, Puerto Rico and the
26 U.S. Virgin Islands for its alleged failure to implement an adequate
27 supervisory system regarding its sale of non-traded REITs and its failure
28 to enforce its written procedures regarding the sale of non-traded REITs.

26 6. On October 29, 2015, LPL announced its third quarter fiscal 2015
27 financial results. LPL reported adjusted earnings per share (“EPS”) for the quarter of
28 \$0.55 per share, above consensus analyst estimates, and stated that it expected to

1 move on from its regulatory problems with “meaningfully lower” regulatory-related
2 charges going forward. It also announced that it would be implementing a new
3 “capital management plan to create greater shareholder value.” Key to this plan was a
4 \$500 million share repurchase program authorized by LPL’s board of directors (the
5 “Board”). The Company stated that in order to pay for this share repurchase it
6 planned to significantly increase its leverage from a target ratio in the range of two to
7 three times net debt-to-earnings before interest, taxes, depreciation and amortization
8 (“EBITDA”) to a target ratio of four times net debt-to-EBITDA. On a conference call
9 to discuss the quarterly results, defendant Mark S. Casady (“Casady”), LPL’s Chief
10 Executive Officer (“CEO”) and Chairman of the Board, stated that the share buyback
11 was a “*bargain*,” as he believed LPL shares were trading “*at a significant discount to*
12 *what we believe is their intrinsic value*.” Defendant Matthew J. Audette (“Audette”),
13 LPL’s Chief Financial Officer (“CFO”), meanwhile stated that increasing the
14 Company’s leverage to a four times net debt-to-EBITDA ratio is “*what makes the*
15 *most sense today*,” and that LPL would only exceed the four times net debt-to-
16 EBITDA ratio if there were “*very good returns to justify doing so*.”

17 7. Also on October 29, 2015, national credit rating agency Moody’s
18 Investors Service, Inc. (“Moody’s”) downgraded LPL’s corporate credit rating to Ba3
19 from Ba2 as a result of the Company’s announced share repurchase plan and expected
20 leverage increases.

21 8. On November 24, 2015, LPL issued a press release announcing that it
22 had entered into \$700 million of new term loans due November 20, 2022 and had
23 extended \$631 million of existing term loans to March 29, 2021 in order to pay for a
24 \$250 million accelerated share repurchase plan. As a result of the debt transaction, the
25 Company stated its net target leverage had increased to a 3.7 times net debt-to-
26 EBITDA ratio, and that it would breach its credit covenants if its leverage exceeded a
27 five times net debt-to-EBITDA ratio. In connection with the transaction, the
28 Company incurred \$21 million of debt issuance costs and its total weighted average

1 interest rate for debt outstanding increased from 3.1% to 3.9%. The Company also
2 announced that it had entered into an agreement with Goldman, Sachs & Co.
3 (“Goldman”) whereby it would pay Goldman \$250 million to carry out the accelerated
4 share repurchase on LPL’s behalf. The press release stated that LPL estimated the
5 accelerated share repurchase “*will take several months to complete.*”

6 9. Analysts widely panned the debt transaction as unfavorably increasing
7 LPL’s cost of debt. For example, following the announcement a UBS analyst lowered
8 LPL’s stock price target based on what were viewed as “[u]nattractive [d]ebt [t]erms.”
9 Another analyst at Susquehanna Financial Group put things more bluntly, writing the
10 “*Transaction Does Not Make Economic Sense.*”

11 10. On December 2, 2015, LPL announced that it would be presenting at a
12 financial services conference sponsored by Goldman on December 8, 2015. Around
13 this time, TPG approached Goldman about cashing out a significant portion of its LPL
14 stock as part of the accelerated share repurchase program.

15 11. At the December 8, 2015 conference and in the related slide presentation,
16 defendants Casady and Audette made false and misleading statements regarding
17 LPL’s business, prospects and financial results. Specifically, defendants provided a
18 near-end-of-quarter financial update for LPL stating, among other false and
19 misleading statements, that:

20 (a) LPL had an “*earnings stream that is quite steady,*” and the
21 Company had been “*executing it all well*” over “the last two months,” when in fact
22 quarterly adjusted earnings and net income would be down 46% and 45% year over
23 year, respectively;

24 (b) LPL was in the midst of a “*recovery*” and had experienced a “*nice*
25 *rebound*” in client assets since the end of the third quarter, specifically highlighting
26 \$483 billion in client assets at the end of October 2015, when in fact client assets had
27 deteriorated and would actually decline by billions of dollars by quarter end;

28

1 (c) gross profits would likely decline *only “slightly on a sequential*
2 *basis,”* when in fact LPL would experience its worst sequential gross profit decline in
3 four years;

4 (d) commission revenues were “slow” but would be “*more of the*
5 *same that we saw in the third quarter,”* when in fact alternative investment revenues
6 (including investment categories in which LPL had paid substantial regulatory fines,
7 settlements and penalties) would drop a staggering 75% year-over-year;

8 (e) the Company was “*still on track*” to meet its general and
9 administrative (“G&A”) expenses for the year, but would in fact have higher non-
10 G&A expenses, including \$8 million in regulatory-related charges and \$22.5 million
11 in depreciation and amortization costs (a 37% sequential increase); and

12 (f) the recently announced share repurchase plan was the “*best use*” of
13 the Company’s capital because of the then-current “price” of LPL’s common stock,
14 when in fact defendants knew that LPL’s stock price was artificially inflated and if the
15 truth had been disclosed LPL would have suffered a negative share price decline, and
16 thus its proposed share repurchase was a wasteful and inefficient use of Company
17 capital that also increased the risk that LPL would violate the leverage covenants in its
18 credit agreements.

19 12. As a result of defendants’ false statements, LPL common stock traded at
20 artificially inflated prices during the Class Period, with its shares reaching a high of
21 \$45.06 per share on December 8, 2015, the day of the conference.

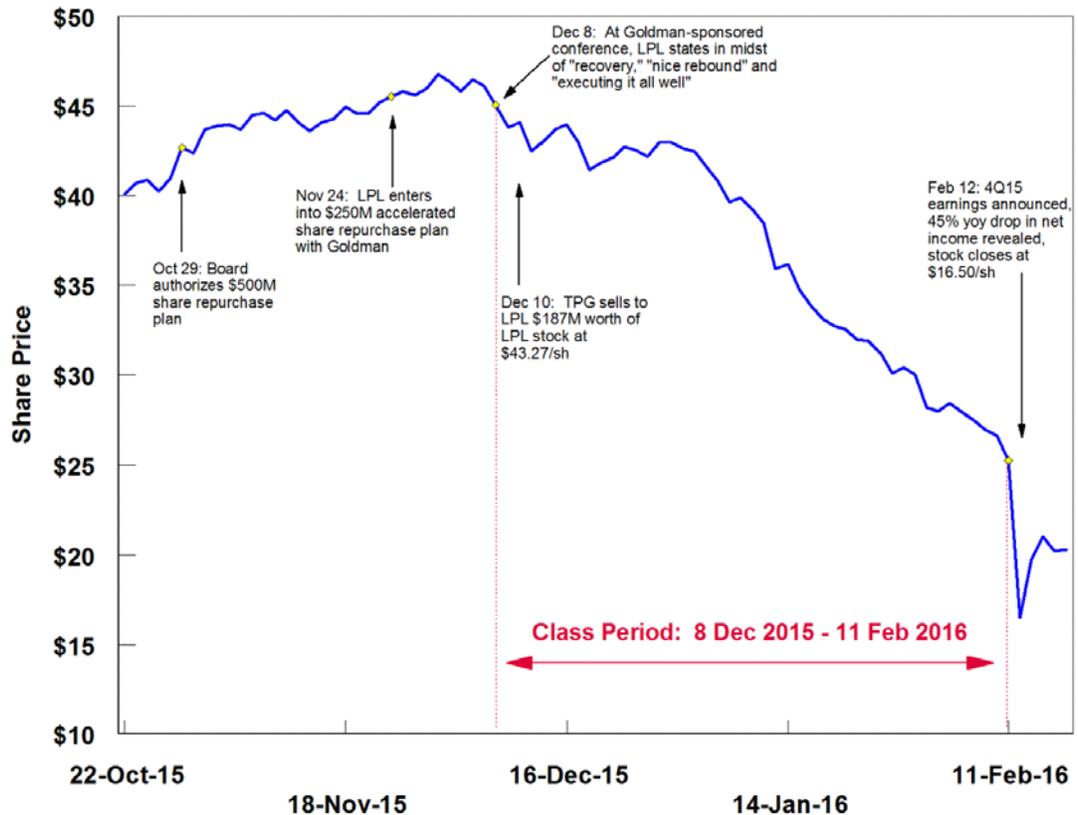
22 13. On December 10, 2015, LPL issued a press release announcing the early
23 completion of its accelerated share repurchase program, stating that TPG had
24 “approached Goldman about selling a block of shares, providing the opportunity to
25 settle the [accelerated share repurchase program] more quickly.” TPG sold 4.3
26 million shares of LPL common stock at \$43.27 per share to Goldman to be delivered
27 to the Company through the accelerated share repurchase program. As a result, TPG
28 generated approximately *\$187 million* in insider sales proceeds. The release stated

1 that TPG had approached Goldman as it was “buying the Company’s shares” for the
2 accelerated share repurchase program, a process which began prior to defendants’
3 December 8, 2015 conference.

4 14. On February 11, 2016, LPL issued a press release announcing its fourth
5 quarter and full year 2015 financial results. The Company reported results that fell
6 well below analyst’s estimates. For example, LPL stated that it had generated only
7 \$0.37 per share in adjusted EPS, well below consensus analyst estimates of \$0.51 per
8 share. The Company also stated that client assets at quarter end totaled only \$476
9 billion, \$7 billion below the amount of client assets touted at the December 8, 2015
10 conference. The Company also revealed disappointing revenues, primarily as a result
11 of dramatically lower commission revenues and revenues from alternative
12 investments, as well as higher-than-expected expenses for the quarter.

13 15. As a result of this news, the price of LPL common stock dropped \$8.76
14 per share to close at \$16.50 per share on February 12, 2016, a one-day decline of
15 nearly 35% on unusually high trading volume of over 11.4 million shares. Analysts
16 described the results as “[u]gly” and noted a “lack of confidence in management,”
17 with some expressing concern over the Company’s substantially increased leverage
18 and ability to remain under its maximum leverage ratio as required by its revised
19 credit agreements.

20 16. Notably, if TPG had sold the same 4.3 million shares of LPL stock to the
21 Company at the February 12, 2016 closing price, its sale proceeds would have been
22 diminished by approximately *\$115 million*. By the same token, if LPL had waited to
23 purchase shares from TPG until after announcing its fourth quarter results, it could
24 have purchased the same number of shares from TPG for \$115 million less. Thus, its
25 purchase from TPG of LPL shares at \$43.27 per share was a wasteful and inefficient
26 use of Company capital. The following chart illustrates defendants’ fraudulent
27 scheme to allow TPG to cash out at artificially inflated price before LPL’s true
28 business, prospects and financial results were revealed:



17. As a result of defendants' false statements, LPL common stock traded at artificially inflated prices during the Class Period. However, after the above revelations seeped into the market, the Company's common stock was hammered by massive sales, sending the price of the Company's stock down 63% from its Class Period high and causing economic harm and damages to class members. TPG, meanwhile, avoided tens of millions of dollars in investment losses and pocketed \$187 million in insider sales proceeds.

JURISDICTION AND VENUE

18. The claims asserted herein arise under and pursuant to §§10(b) and 20(a) of the 1934 Act, 15 U.S.C. §§78j(b) and 78t(a), and Rule 10b-5 promulgated thereunder by the SEC, 17 C.F.R. §240.10b-5.

19. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and §27 of the 1934 Act.

1 misleading prior to or shortly after their issuance and had the ability and opportunity
2 to prevent their issuance or cause them to be corrected. They also participated in
3 conference calls with securities analysts and investors in which they made materially
4 misleading statements and omissions and held themselves out to be knowledgeable on
5 the topics which they discussed. Because of their positions with the Company, and
6 their access to material non-public information available to them but not to the public,
7 the Individual Defendants knew that the adverse facts specified herein had not been
8 disclosed to and were being concealed from the public, and that the positive
9 representations being made were then materially false and misleading. The Individual
10 Defendants are liable for the false and misleading statements pleaded herein.

11 **DEFENDANTS' FRAUDULENT SCHEME**
12 **AND COURSE OF BUSINESS**

13 28. Defendants are liable for: (i) making false statements; or (ii) failing to
14 disclose adverse facts known to them about LPL. Defendants' fraudulent scheme and
15 course of business that operated as a fraud or deceit on purchasers of LPL common
16 stock was a success, as it: (i) deceived the investing public regarding LPL's prospects
17 and business; (ii) artificially inflated the price of LPL common stock; and (iii) caused
18 plaintiff and other members of the Class (as defined below) to purchase LPL common
19 stock at inflated prices.

20 **BACKGROUND**

21 29. LPL, together with its subsidiaries, provides an integrated platform of
22 brokerage and investment advisory services to independent financial advisors and
23 financial advisors at financial institutions in the United States. Its brokerage offerings
24 include variable and fixed annuities, mutual funds, equities, retirement and 529
25 education savings plans, fixed income products, insurance and alternative investments.
26 LPL's insurance offerings comprise personalized advance case design, point-of-sale
27 service, and product support for a range of life, disability, and long-term care
28 products. The Company also offers fee-based advisory platforms and support, which

1 provide access to no-load/load-waived mutual funds, ETFs, stocks, bonds,
2 conservative option strategies, unit investment trusts, institutional money managers,
3 and no-load multi-manager variable annuities. In addition, it offers cash sweep
4 programs and retirement solution, a fee-based service that allows qualified advisors to
5 provide consultation and advice. Further, it provides other services comprising tools
6 and services enabling advisors to maintain and grow their practices and custodial
7 services to trusts for estates and families. The Company offers its services to
8 approximately 14,000 independent financial advisors, including financial advisors at
9 approximately 700 financial institutions.

10 30. The majority of LPL's revenue streams fall into two categories:
11 commission revenues and advisory revenues. For fiscal 2014, commission revenues
12 and advisory revenues generated 48% and 31%, respectively, of LPL's total net
13 revenues. Commission revenues derive from upfront advisor fees and commissions
14 for investment products and, for certain products, a trailing commission. Advisory
15 revenues derive from fee-based advisory platforms and the provision of ongoing
16 investment advisory services. For fiscal 2014, 68% of LPL's revenue was recurring in
17 nature, providing the Company substantial visibility into its future revenue streams.
18 In addition, for transaction-based commissions, the Company generates revenues "at
19 the point of sale," providing the Company with further visibility into its commission-
20 based revenues at a given point in time. LPL also has significant visibility into its
21 depreciation and amortization expenses. These expenses are computed by taking the
22 book values of long-lived assets, such as internally developed software, leasehold
23 improvements, computers and software, and furniture and equipment (recorded at
24 historical cost and reduced by accumulated depreciation and amortization), and then
25 dividing those assets on a straight-line basis over the estimated useful lives of the
26 assets – all things readily determined and anticipated and under the control of
27 management.

28

1 31. Prior to 2010, LPL was majority owned by TPG and Hellman &
2 Friedman, two private equity firms that owned a combined 72% stake in the
3 Company. In November 2010, these private equity firms took LPL public in an IPO
4 in which 15.7 million LPL shares were sold to the public at \$30 per share.

5 32. Even after the IPO, TPG retained a substantial ownership stake in the
6 Company and influence over its affairs. For example, two TPG partners, Richard
7 Boyce and Richard Schifter, served as directors of the Company. While Boyce and
8 Schifter retired from their positions with TPG in 2013, they remained on the Board
9 throughout the relevant time frame and kept in close contact with TPG. LPL has also
10 identified TPG as a “related party” in SEC filings, and stated that it has continued to
11 enter into various related-party transactions with TPG and certain of TPG’s portfolio
12 companies since the IPO. As of December 31, 2014, TPG owned approximately 13%
13 of the outstanding shares of LPL common stock. LPL’s annual report on Form 10-K
14 for fiscal 2014 stated that as a result of this ownership interest, ***TPG “will continue to***
15 ***be able to influence our decisions***, regardless of whether or not other stockholders
16 believe that the transaction is in their own best interests.”

17 33. Following the IPO, LPL became the subject of several regulatory and
18 governmental investigations into allegedly fraudulent, deceptive and/or legally
19 deficient business practices at the Company and among its network of financial
20 advisors. For example:

- 21 • In February 2013 it was announced LPL had settled allegations by
22 Massachusetts securities regulators that it had failed to adequately
23 supervise its brokers who sold investments in non-traded REITs for \$2.5
24 million.
- 24 • In May 2015 FINRA announced that it had sanctioned LPL \$11.7
25 million for “[w]idespread [s]upervisory [f]ailures [r]elated to [c]omplex
26 [p]roduct [s]ales, [t]rade [s]urveillance and [t]rade [c]onfirmations
27 [d]elivery.”
- 26 • In September 2015 it was announced that LPL had agreed to pay \$1.8
27 million to settle charges by the Massachusetts Attorney General that it
28 had improperly sold and marketed risky ETFs to retail investors.

- 1 • Also in September 2015, it was announced that LPL had agreed to
2 remediate investor losses and pay \$1.425 million in civil penalties to
3 regulators in 48 states, the District of Columbia, Puerto Rico and the
4 U.S. Virgin Islands for its alleged failure to implement an adequate
5 supervisory system regarding its sale of non-traded REITs and its failure
6 to enforce its written procedures regarding the sale of non-traded REITs.

7 34. On October 29, 2015, LPL financial announced its third quarter fiscal
8 2015 financial results. LPL reported adjusted EPS for the quarter of \$0.55 per share,
9 above consensus analyst estimates, and stated that it expected to move on from its
10 regulatory problems with “meaningfully lower” regulatory-related charges going
11 forward. It also announced that it would be implementing a new “capital management
12 plan to create greater shareholder value.” Key to this plan was a \$500 million share
13 repurchase program authorized by the Board. The Company stated that in order to
14 pay for this share repurchase it planned to significantly increase its target leverage
15 ratio from a range of two to three times net debt-to-EBITDA to a ratio of four times
16 net debt-to-EBITDA. On a conference call to discuss the quarterly results, defendant
17 Casady stated that the share buyback was a “*bargain,*” as he believed LPL shares
18 were trading “*at a significant discount to what we believe is their intrinsic value.*”
19 Defendant Audette meanwhile stated that increasing the Company’s leverage to a four
20 times net debt-to-EBITDA ratio is “*what makes the most sense today,*” and that LPL
21 would only go above the four times debt-to-EBITDA ratio if there were “*very good*
22 *returns to justify doing so.*”

23 35. Also on October 29, 2015, national credit rating agency Moody’s
24 downgraded LPL’s corporate credit rating to Ba3 from Ba2 as a result of “increased
25 credit risk” following the Company’s announced share repurchase plan and expected
26 leverage increases.

27 36. On November 24, 2015, LPL issued a press release announcing that it
28 had entered into \$700 million of new term loans due November 20, 2022 and had
29 extended \$631 million of existing term loans to March 29, 2021 in order to pay for a
30 \$250 million accelerated share repurchase plan. As a result of the debt transaction, the

1 Company stated its net target leverage had increased to a 3.7 times net debt-to-
2 EBITDA ratio, and that it would breach its revised credit covenants if its leverage
3 exceeded a five times net debt-to-EBITDA ratio. In connection with the transaction,
4 the Company incurred \$21 million of debt issuance costs and its total weighted
5 average interest rate for debt outstanding increased from 3.1% to 3.9%. The Company
6 also announced that it had entered into an agreement with Goldman whereby it would
7 pay Goldman \$250 million to carry out the accelerated share repurchase on LPL's
8 behalf. The press release stated that LPL estimated the accelerated share repurchase
9 *“will take several months to complete.”*

10 37. Analysts widely panned the debt transaction as unfavorably increasing
11 LPL's cost of debt. For example, following the announcement a UBS analyst lowered
12 LPL's stock price target based on what were viewed as “[u]nattractive [d]ebt [t]erms.”
13 Another analyst at Susquehanna Financial Group put things more bluntly, writing the
14 *“Transaction Does Not Make Economic Sense.”*

15 38. On December 2, 2015, LPL announced that it would be presenting at a
16 financial services conference sponsored by Goldman on December 8, 2015. This was
17 around the same time TPG approached Goldman to discuss cashing out a significant
18 portion of its LPL stock through the accelerated share repurchase program.

19 **FALSE AND MISLEADING STATEMENTS**
20 **ISSUED DURING THE CLASS PERIOD**

21 39. At the December 8, 2015 conference and in the related slide presentation,
22 defendants Casady and Audette made false and misleading statements regarding
23 LPL's business, prospects and financial results. For example, in response to an
24 analyst question about how LPL would “turn the page” on its recent regulatory
25 problems, defendant Casady stated that “execut[ing]” the share repurchase would be
26 “key.”

27 40. The analyst also asked defendant Audette what he had seen in his short
28 time with the Company, having only joined as CFO in September 2015. Audette

1 responded by again highlighting the share repurchase capital plan, claiming that it was
2 “in the best interest of shareholders,” and stating that he had witnessed a Company
3 that was a “lot more powerful and compelling than I thought from the outside,” with
4 “an earnings stream that is quite steady and produces cash flow over time,” and that
5 LPL had been “executing it all well” since he had come on board:

6 But, now, being here, a little bit over two months, spending a lot of time
7 with the team just getting up to speed on what our offering is, and
8 starting to think through our key customer and client; the advisor running
9 a small advisory shop in their hometown area and thinking through
10 we’ve got the ability to have them offer brokerage services through us, to
11 offer advisory services, whether I’m a small firm that wants [to] utilize
12 our compliance work and regulatory work on the corporate side, or if I’m
13 a bigger player and I want to utilize the overall hybrid platform and have
14 both brokerage and independent advisory. *Being here for these two
months and spending a lot of time, I wouldn’t say it was a surprise
because it was expected, but I think it’s a lot more powerful and
compelling than I thought from the outside.*

15 Third, and what Mark kind of hinted to on the capital plan side,
16 being at a place where there’s a lot less approvals necessary to go
17 *execute on a capital plan in the best interest of shareholders*. So, the
18 way we speak about it, a capital-lite *model, an earnings stream that is
quite steady and produces cash flow over time*. Hopefully, the last two
19 months have shown that that opportunity absolutely was there. *We’re
executing it all well.*

20 41. Defendant Audette continued by giving a mid-quarter update that
21 concealed the amount and extent of LPL’s gross profit, earnings and revenue declines
22 and non-G&A expense growth, claiming LPL was in the midst of a “recovery” with
23 client assets experiencing a “nice rebound” since the end of the third quarter:

24 I would say, very broadly, we say *more of the same that we saw in the
third quarter*. Just the very top bullet point, we did see market levels
25 and asset levels recover nicely. Those of you that I’m sure follow
26 closely, September 30th or Q3 quarter end, markets went down a fair bit
27 on that day. *So, we’re up at the end of October to \$483 billion versus
\$462 billion at the end of the quarter. So, nice rebound there.*

28 Second thing is in that first bullet, net new advisory assets
continue to flow in well. And we are averaging about \$1.5 billion a
month. And you see that we had that in October. Now, at the same time,

1 on that second bullet, I think the key thing here, and ***I would underscore***
2 ***the word slightly***, is that Q4 gross profit is likely to decline slightly for a
3 few reasons, including the one that I just mentioned, is that first sub-
4 bullet; that advisory fees are really grounded in the prior quarter's
balances, meaning right on September 30th. ***So the recovery we see***,
there will be a little bit of a lag of that showing up in gross profit going
forward.

5 In the second bullet, sales commissions continue to be slow. ***They***
6 ***were slow last quarter. They continue to be slow from what we've seen***
7 ***so far this quarter***. So, I think those are probably the key drivers on the
gross profit side.

8 Final bullet here, advisor headcount growth consistent with what
9 we saw in the third quarter. The numbers are relatively small with high-
quality, higher asset level advisors coming in being offset by the lower
asset size or the lower-quality items, advisors.

10 Turning to page 21, I would say, broadly, this page ***with respect to***
11 ***expenses and the capital plan, is largely just reiterating that what we***
12 ***said on the earnings call is we are still on track to do and that's still***
13 ***our guidance***. And just quickly, to highlight probably the most notable
ones in the first two sub bullet points in the top half of the page on
expenses; that our 2015 core G&A guidance is 7.5% to 8.5% and, in
dollars, roughly \$700 million, that \$697 million to \$703 million. ***We're***
14 ***still on track***.

15 And then, specifically for next year, 2016, core G&A in that \$715
16 million to \$730 million range, which is that 2% to 4% growth. So that
largely – not largely – that remains on track. So, no news here. ***Just***
17 ***reiterating that what we said on the call is still the case***.

18 42. Defendant Casady then responded to an analyst's question about what he
19 was seeing in terms of advisor growth, stating that he "like[d] th[e] trend," as he was
20 seeing more productive advisors join the Company's network while less productive
advisors were leaving:

21 How we know that's true is that we have 97% retention revenue.
22 So, with the folks who are leaving, it's clear that they're small producers.
23 ***And we see good advisory asset growth overall***. And we know that the
24 market data that tells us about movement of advisors puts us right at the
25 top of the league tables as it relates to advisors joining LPL. So,
fundamentally, ***this year is sort of like any other in terms of the gross***
amount and what's different is that we do have the smaller producers
leaving.

26 Classes that are coming in are bigger, on average, in terms of
27 production than those who are with us already. So, ***we like that trend, as***
well. And we're staying right around that \$0.25 to the dollar, on
28 average, cost of acquisition transition assistance, which is very good vis
a vis the market. We do see a strong pipeline. So, we do think that the
numbers will pick up in terms of the gross – again, it would be larger.

1 Not so sure about the small producers continuing to move out. *But we*
2 *do see the pipeline building in strength over time. So, I'd call this a*
3 *pretty typical year or average year for us.*

4 43. Defendant Audette later stressed that he and the Company were focused
5 on providing investors with “transparency of [LPL’s] results” and “[j]ust grounding it
6 all.”

7 44. Later during the conference, defendant Casady was asked about the
8 Company’s recently announced share repurchase program and he reaffirmed that the
9 share repurchase would be the “best use” of Company capital because of LPL’s then-
10 current share price:

11 *So, it’s just price.* At the end of the day, we can buy our own stock at 8-
12 to 9-times EBITDA. And what seems to be available to us in the M&A
13 market appears to be more like 10-, 12-, 14-times EBITDA. And, quite
14 simply, *I think it’s a question of allocation of capital, the best use.* And
15 so, it’s no more complex than that.

16 45. The statements referenced above in ¶¶39-44 were materially false and
17 misleading when made because they failed to disclose the following adverse facts
18 which were known by defendants or recklessly disregarded by them:

19 (a) that LPL’s earnings and revenue were not “steady,” but were
20 substantially declining, as LPL’s fourth quarter adjusted earnings, EPS and net income
21 would be down double digits year over year;

22 (b) that LPL’s client assets were not “rebound[ing]” nicely and in the
23 midst of a “recovery,” but were actually deteriorating and would decline by billions of
24 dollars from the October figure provided at the conference through the end of the
25 fourth quarter;

26 (c) that LPL’s gross profits would not decline “slightly on a
27 sequential basis,” but significantly, and LPL would in fact experience its worst
28 sequential gross profit decline in four years;

(d) that commission revenues would not be “more of the same that
[LPL] saw in the third quarter,” but down sequentially from the end of the third

1 quarter, and in fact, LPL was suffering a staggering loss of revenue from alternative
2 investments, including from investment categories in which LPL had paid substantial
3 regulatory fines, settlements and penalties;

4 (e) that the Company was expecting a substantial increase in non-
5 G&A expenses, including \$8 million in regulatory-related charges and a 37%
6 sequential increase in depreciation and amortization costs; and

7 (f) that the announced share repurchase plan was not the “best use” of
8 the Company’s capital because of the then-current “price” of LPL’s common stock,
9 but rather a wasteful and inefficient use of Company capital in light of the inflated
10 price of LPL shares, which also increased the risk that LPL would violate the leverage
11 covenants in its credit agreements.

12 46. As a result of defendants’ false statements, LPL common stock traded at
13 artificially inflated prices during the Class Period, with its shares reaching a high of
14 \$45.06 per share on December 8, 2015, the day of the conference.

15 47. On December 10, 2015, LPL issued a press release announcing the early
16 completion of its accelerated share repurchase program, stating that TPG had
17 “approached Goldman about selling a block of shares, providing the opportunity to
18 settle the [accelerated share repurchase program] more quickly.” TPG sold 4.3
19 million shares of LPL common stock at \$43.27 per share to Goldman to be delivered
20 to the Company through the accelerated share repurchase program. As a result, TPG
21 generated approximately ***\$187 million*** in insider sales proceeds. The release stated
22 that TPG had approached Goldman as it was “buying the Company’s shares” for the
23 accelerated share repurchase program, a process which began prior to the December 8,
24 2015 conference.

25 48. On February 11, 2016, LPL issued a press release announcing its fourth
26 quarter and full year 2015 financial results. The Company reported results that fell
27 well below analyst’s estimates. For example, LPL stated that it had generated only
28 \$0.37 per share in adjusted EPS, 27% below consensus analyst estimates of \$0.51 per

1 share. The Company also stated that gross profit had declined more than 5% since the
2 end of the third quarter, the largest sequential decline in four years. The Company
3 also revealed that client assets at quarter end totaled only \$476 billion, \$7 billion
4 below the amount of client assets at the end of October that defendants had touted at
5 the December 8, 2015 conference. In addition, LPL revealed disappointing revenues,
6 including a 4% sequential decline in quarterly commission revenues and a staggering
7 75% decline in alternative investments year over year. Further, LPL disclosed that
8 depreciation and amortization expenses had increased 37% sequentially and that it had
9 recorded an \$8 million regulatory charge during the quarter.

10 49. As a result of this news, the price of LPL common stock dropped \$8.76
11 per share to close at \$16.50 per share on February 12, 2016, a one-day decline of 35%
12 on unusually high trading volume of over 11.4 million shares. Analysts described the
13 results as “[u]gly” and noted a “lack of confidence in management,” with some
14 expressing concern over the Company’s substantially increased leverage and ability to
15 remain under its maximum leverage ratio as required by its credit agreements.

16 50. Notably, if TPG had sold the same 4.3 million shares of LPL stock to the
17 Company at the February 12, 2016 closing price, its sale proceeds would have been
18 diminished by approximately *\$115 million*. By the same token, if LPL had waited to
19 purchase shares from TPG until after announcing its fourth quarter results, it could
20 have purchased the same number of shares from TPG for \$115 million less. Thus, its
21 purchase from TPG of LPL shares at \$43.27 per share was a wasteful and inefficient
22 use of Company capital.

23 51. As a result of defendants’ false statements, LPL common stock traded at
24 artificially inflated prices during the Class Period. However, after the above
25 revelations seeped into the market, the Company’s common stock was hammered by
26 massive sales, sending the price of the Company’s stock down 63% from its Class
27 Period high and causing economic harm and damages to Class members. TPG,
28

1 meanwhile, avoided tens of millions of dollars in investment losses and pocketed \$187
2 million in insider sales proceeds.

3 **LOSS CAUSATION/ECONOMIC LOSS**

4 52. During the Class Period, as detailed herein, defendants made false and
5 misleading statements by misrepresenting the Company's business and prospects and
6 engaged in a scheme to deceive the market and a course of conduct that artificially
7 inflated the price of LPL common stock and operated as a fraud or deceit on Class
8 Period purchasers of LPL common stock. Later, when defendants' prior
9 misrepresentations and fraudulent conduct became apparent to the market, the price of
10 LPL common stock fell precipitously, as the prior artificial inflation came out of the
11 price over time. As a result of their purchases of LPL common stock during the Class
12 Period, plaintiff and other members of the Class suffered economic loss, *i.e.*, damages,
13 under the federal securities laws.

14 **APPLICABILITY OF THE PRESUMPTION OF RELIANCE** 15 **AND FRAUD ON THE MARKET**

16 53. Plaintiff will rely upon the presumption of reliance established by the
17 fraud-on-the-market doctrine in that, among other things:

18 (a) Defendants made public misrepresentations or failed to disclose
19 material facts during the Class Period;

20 (b) The omissions and misrepresentations were material;

21 (c) The Company's stock traded in an efficient market;

22 (d) The misrepresentations alleged would tend to induce a reasonable
23 investor to misjudge the value of the Company's common stock; and

24 (e) Plaintiff and other members of the Class purchased LPL common
25 stock between the time defendants misrepresented or failed to disclose material facts
26 and the time the true facts were disclosed, without knowledge of the misrepresented or
27 omitted facts.
28

1 **CLASS ACTION ALLEGATIONS**

2 58. Plaintiff brings this action as a class action pursuant to Rule 23 of the
3 Federal Rules of Civil Procedure on behalf of all persons who purchased LPL
4 common stock during the Class Period (the “Class”). Excluded from the Class are
5 defendants and their families, the officers and directors of the Company, at all relevant
6 times, members of their immediate families and their legal representatives, heirs,
7 successors or assigns, and any entity in which defendants have or had a controlling
8 interest.

9 59. The members of the Class are so numerous that joinder of all members is
10 impracticable. LPL stock is actively traded on the NASDAQ and there are nearly 89
11 million shares of LPL common stock outstanding. While the exact number of Class
12 members is unknown to plaintiff at this time and can only be ascertained through
13 appropriate discovery, plaintiff believes that there are hundreds of members in the
14 proposed Class. Record owners and other members of the Class may be identified
15 from records maintained by LPL or its transfer agent and may be notified of the
16 pendency of this action by mail, using the form of notice similar to that customarily
17 used in securities class actions.

18 60. Common questions of law and fact predominate and include: (i) whether
19 defendants violated the 1934 Act; (ii) whether defendants omitted and/or
20 misrepresented material facts; (iii) whether defendants knew or recklessly disregarded
21 that their statements were false; and (iv) whether defendants’ statements and/or
22 omissions artificially inflated the price of LPL common stock and the extent and
23 appropriate measure of damages.

24 61. Plaintiff’s claims are typical of the claims of the members of the Class as
25 all members of the Class are similarly affected by defendants’ wrongful conduct in
26 violation of federal law that is complained of herein.

27
28

1 Plaintiff and the Class would not have purchased LPL common stock at the prices
2 they paid, or at all, if they had been aware that the market price had been artificially
3 and falsely inflated by defendants' misleading statements.

4 68. As a direct and proximate result of defendants' wrongful conduct,
5 plaintiff and the other members of the Class suffered damages in connection with their
6 purchases of LPL common stock during the Class Period.

7 **COUNT II**

8 **For Violation of §20(a) of the 1934 Act**
9 **Against All Defendants**

10 69. Plaintiff incorporates all allegations in ¶¶1-68 above by reference.

11 70. The Individual Defendants acted as controlling persons of LPL within the
12 meaning of §20(a) of the 1934 Act. By virtue of their positions with the Company,
13 and ownership of LPL common stock, the Individual Defendants had the power and
14 authority to cause LPL to engage in the wrongful conduct complained of herein. LPL
15 controlled the Individual Defendants and all of its employees. By reason of such
16 conduct, defendants are liable pursuant to §20(a) of the 1934 Act.

17 **PRAYER FOR RELIEF**

18 WHEREFORE, plaintiff prays for judgment as follows:

19 A. Determining that this action is a proper class action, designating plaintiff
20 as Lead Plaintiff and certifying plaintiff as a class representative under Rule 23 of the
21 Federal Rules of Civil Procedure and plaintiff's counsel as Lead Counsel;

22 B. Awarding damages and interest;

23 C. Awarding plaintiff's reasonable costs, including attorneys' fees; and

24 D. Awarding such equitable/injunctive or other relief as the Court may deem
25 just and proper.

26 **JURY DEMAND**

27 Plaintiff demands a trial by jury.

28