

Edgar Filing: LPL Financial Holdings Inc. - Form 10-Q

LPL Financial Holdings Inc.

Form 10-Q

October 30, 2018

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2018

or

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

For the transition period from _____ to _____

Commission File Number: 001-34963

LPL Financial Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware **20-3717839**

(State or other jurisdiction of (I.R.S. Employer incorporation or organization) Identification No.)

75 State Street, Boston, MA 02109

(Address of Principal Executive Offices) (Zip Code)

(617) 423-3644

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

The number of shares of Common Stock, par value \$0.001 per share, outstanding as of October 22, 2018 was 86,711,957.

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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, 22nd 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, outlook, growth, plans, business strategies, liquidity, future share repurchases and future dividends, including statements regarding future resolution of regulatory matters, legal proceedings and related costs, future revenues and expenses, and projected savings and anticipated improvements to the Company’s operating model, services, and technologies as a result of its initiatives, programs and/or acquisitions, 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 October 30, 2018. 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; changes in interest rates and fees payable by banks participating in the Company’s cash sweep program, including the Company’s success in negotiating agreements with current or additional counterparties; the Company’s strategy in managing cash sweep program fees; fluctuations in the levels of brokerage and advisory assets, including net new assets, and the related impact on fee revenue; effects of competition in the financial services industry; the success of the Company in attracting and retaining financial advisors and institutions, and their ability to market effectively financial products and services; changes in the growth and profitability of the Company’s fee-based business; the effect of current, pending, and future legislation, regulation, and regulatory actions, including with respect to retail retirement savings and disciplinary actions imposed by federal and state regulators and self-regulatory organizations; the costs of settling and remediating issues related to past, pending or future regulatory matters or legal proceedings; changes made to the Company’s offerings and services in response to current, pending, and future legislation, regulation, and regulatory actions, and the effect that such changes may have on the Company’s gross profit streams and costs; execution of the Company’s capital management plans, including its

compliance with the terms of its credit agreement and the indenture governing its senior notes; the price, the availability of shares, and trading volumes of the Company's common stock, which will affect the timing and size of future share repurchases by the Company; execution of the Company's plans and its success in realizing the synergies, expense savings and service improvements and efficiencies expected to result from its initiatives and programs, including its acquisition of the broker-dealer network of National Planning Holdings, Inc. and its expense plans and technology initiatives; the performance of third-party service providers to which business processes are transitioned; 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 2017 Annual Report on Form 10-K, as amended by Amendment No. 1 on Form 10-K/A filed on

February 27, 2018 (collectively, the "2017 Annual Report on Form 10-K"), as may be amended or updated in the Company's 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.

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PART I — FINANCIAL INFORMATION

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Business Overview

We are a leader in the retail financial advice market and the nation's largest independent broker-dealer. We serve independent financial advisors and financial institutions, providing them with the technology, research, clearing and compliance services, and practice management programs they need to create and grow their practices. We enable them to provide objective financial guidance to millions of American families seeking wealth management, retirement planning, financial planning and asset management solutions.

We believe that objective financial guidance is a fundamental need for everyone. We enable our advisors to focus on what they do best—create the personal, long-term relationships that are the foundation for turning life’s aspirations into financial realities. We do that through a singular focus on providing our advisors with the front-, middle-, and back-office support they need to serve the large and growing market for independent investment advice. We believe that we are the only company that offers advisors the unique combination of an integrated technology platform, comprehensive self-clearing services, and open architecture access to a wide range of non-proprietary products, all delivered in an environment unencumbered by conflicts from product manufacturing, underwriting, and market-making.

We believe investors achieve better outcomes when working with a financial advisor. We strive to make it easy for advisors to do what is best for their clients, while protecting advisors and investors and promoting independence and choice through access to a wide range of diligently evaluated non-proprietary products.

Executive Summary

Financial Highlights

Net income for the third quarter of 2018 was \$106.9 million or \$1.19 per share, which compares to \$58.1 million, or \$0.63 per share, in the third quarter of 2017. Increased advisory fee revenue and cash sweep revenue contributed to the earnings per share growth.

Asset Growth Trends

Total brokerage and advisory assets served were \$681.0 billion as of September 30, 2018, up 22% from \$560.0 billion as of September 30, 2017. Total net new assets were \$4.4 billion for the three months ended September 30, 2018, compared to \$2.9 billion for the same period in 2017.

Net new advisory assets were \$5.1 billion for the three months ended September 30, 2018, compared to \$6.9 billion in the same period in 2017. As of September 30, 2018, our advisory assets had grown to \$306.1 billion from the prior year balance of \$250.2 billion and represented 45% of total brokerage and advisory assets served.

Net new brokerage assets were an outflow of \$0.8 billion for the three months ended September 30, 2018, compared to an outflow of \$4.0 billion for the same period in 2017. As of September 30, 2018, our brokerage assets had grown to \$374.9 billion from \$309.8 billion as of September 30, 2017.

Gross Profit Trends

Gross profit, a non-GAAP financial measure, was \$493.2 million for the three months ended September 30, 2018, an increase of 27.5% in comparison to \$386.9 million for the quarter ended September 30, 2017.

Management presents gross profit, which is calculated as net revenues less commission and advisory expenses and brokerage, clearing, and exchange fees, because we believe that measure may be useful to investors in evaluating the Company’s core operating performance before indirect costs that are general and administrative in nature. See footnote 8 to the Financial Metrics table within the “How We Evaluate Our Business” section for additional information on gross profit. The increase in period-over-period gross profit was primarily due to increases in cash sweep revenue from the impact of the increases in the target range for the federal funds effective rate in 2017 through September 2018, increases in advisory revenues resulting from net new assets, and market gains as represented by higher levels of the S&P 500 index.

Shareholder Capital Returns

We returned \$144.4 million of capital to shareholders during the three months ended September 30, 2018, including \$21.9 million of dividends and \$122.5 million of share repurchases, representing 1,849,027

shares.

1

Our Sources of Revenue

Our revenues are derived primarily from fees and commissions from products and advisory services offered by our advisors to their clients, a substantial portion of which we pay out to our advisors, as well as fees we receive from our advisors for the use of our technology, custody, clearing, trust, and reporting platforms.

We also generate asset-based revenues through our cash sweep program and the access we provide to a variety of product providers with the following product lines:

- Alternative Investments
- Retirement Plan Products
- Annuities
- Separately Managed Accounts
- Exchange Traded Products
- Structured Products
- Insurance Based Products
- Unit Investment Trusts
- Mutual Funds

Under our self-clearing platform, we custody the majority of client assets invested in these financial products, for which we provide statements, transaction processing, and ongoing account management. In return for these services, mutual funds, insurance companies, banks, and other financial product manufacturers pay us fees based on asset levels or number of accounts managed. We also earn interest from margin loans made to our advisors' clients.

We regularly review various aspects of our operations and service offerings, including our policies, procedures, and platforms, in response to marketplace developments. We seek to continuously improve and enhance aspects of our operations and service offerings in order to position our advisors for long-term growth and to align with competitive and regulatory developments. For example, we regularly review the structure and fees of our advisory programs, including related disclosures, in the context of the changing regulatory environment for retirement accounts.

How We Evaluate Our Business

We focus on several key operating and financial metrics in evaluating the success of our business relationships and our resulting financial position and operating performance. Our key operating and financial metrics are as follows:

Operating Metrics (dollars in billions) (balances may not foot due to rounding)	Nine Months Ended September 30,		% Change	
	2018	2017		
Advisory assets ⁽¹⁾⁽²⁾	\$306.1	\$250.2	22 %	
Brokerage assets ⁽¹⁾⁽³⁾	374.9	309.8	21 %	
Total Brokerage and Advisory Assets served(in billions)⁽¹⁾	\$681.0	\$560.0	22 %	
Net new advisory assets ⁽⁴⁾	\$22.6	\$18.8	n/m	
Net new brokerage assets ⁽⁵⁾	23.2	(12.9)	n/m	
Total Brokerage and Advisory Net New Assets	\$45.8	\$5.9	n/m	
Insured cash account balances ⁽¹⁾	\$21.0	\$21.9	(4 %)	
Deposit cash account balances ⁽¹⁾	3.9	4.1	(5 %)	
Money market account balances ⁽¹⁾	3.3	2.3	43 %	
Total Cash Sweep Balances	\$28.2	\$28.3	— %	
Advisors	16,174	14,253	13 %	
	Three Months Ended September 30,	Nine Months Ended September 30,		
Financial Metrics (dollars in millions, except per share data)	2018	2017	2018	2017
Total net revenues	\$1,331.0	\$1,064.1	\$3,871.4	\$3,165.0
Recurring gross profit rate (trailing twelve months) ⁽⁶⁾	85.0 %	82.2 %	85.0 %	82.2 %
Pre-tax income	\$147.4	\$96.6	\$430.2	\$284.7
Net income	\$106.9	\$58.1	\$319.2	\$174.8
Earnings per share, diluted	\$1.19	\$0.63	\$3.49	\$1.90
Non-GAAP Financial Measures ⁽⁷⁾				
Gross profit ⁽⁸⁾	\$493.2	\$386.9	\$1,439.9	\$1,151.6
Gross profit growth from prior period ⁽⁸⁾	27.5 %	11.5 %	25.0 %	9.9 %
Gross profit as a % of net revenue ⁽⁸⁾	37.1 %	36.4 %	37.2 %	36.4 %

(1) Brokerage and advisory assets are comprised of assets that are custodied, networked, and non-networked and reflect market movement in addition to new assets, inclusive of new business development and net of attrition. Insured cash account balances, money market account balances, and deposit cash account balances are also included in brokerage and advisory assets served.

(2) Advisory assets consists of total advisory assets under custody at our broker-dealer subsidiary, LPL Financial LLC ("LPL Financial"), consisting of total assets on LPL Financial's corporate advisory platform serviced by investment advisor representatives of LPL Financial and total assets on LPL Financial's independent advisory platform serviced by investment advisor representatives of separate investment advisor firms ("Hybrid RIAs") rather than of LPL Financial. See "Results of Operations" for a tabular presentation of advisory assets.

(3) Brokerage assets consists of assets serviced by advisors licensed with LPL Financial.

(4) Net new advisory assets consists of total client deposits into custodied advisory accounts less total client withdrawals from custodied advisory accounts. We consider conversions from and to brokerage accounts as deposits and withdrawals, respectively.

Net new brokerage assets consists of total client deposits into brokerage accounts less total client (5) withdrawals from brokerage accounts. We consider conversions from and to advisory accounts as deposits and withdrawals, respectively.

3

Recurring gross profit rate refers to the percentage of our gross profit, a non-GAAP financial measure, that was recurring for the trailing twelve months ended September 30, 2018 or September 30, 2017, as applicable. We track recurring gross profit, a characterization of gross profit and a statistical measure, which is defined to include our revenues from asset-based fees, advisory fees, trailing commissions, cash sweep programs, and certain other fees that are based upon the number of client accounts and advisors, less the expenses associated with such revenues and certain other recurring expenses not specifically associated with a revenue line. We allocate such other recurring expenses, such as (6) non-GDC sensitive production expenses, on a pro-rata basis against specific revenue lines at our discretion. Because certain sources of recurring gross profit are associated with asset balances, they will fluctuate depending on the market values and current interest rates. Accordingly, our recurring gross profit can be negatively impacted by adverse external market conditions. However, we believe that recurring gross profit is meaningful despite these fluctuations because it is not dependent upon transaction volumes or other activity-based revenues, which are more difficult to predict, particularly in declining or volatile markets.

We believe that presenting certain non-GAAP financial measures by excluding or including certain items can be helpful to investors and analysts who may wish to use some or all of this information to analyze (7) our current performance, prospects, and valuation. We use this non-GAAP information internally to evaluate operating performance and in formulating the budget for future periods. We believe that the non-GAAP financial measures and metrics presented above and discussed below are appropriate for evaluating the performance of the Company.

Set forth below is a calculation of gross profit (in millions), calculated as net revenues less commission and advisory expenses and brokerage, clearing, and exchange fees. All other expense categories, including depreciation and amortization of fixed assets and amortization of intangible assets, are (8) considered general and administrative in nature. Because our gross profit amounts do not include any depreciation and amortization expense, we consider our gross profit amounts to be non-GAAP financial measures that may not be comparable to those of others in our industry. We believe that gross profit amounts can provide investors with useful insight into our core operating performance before indirect costs that are general and administrative in nature.

	Three Months		Nine Months	
	Ended September 30,		Ended September 30,	
Gross Profit (in millions)	2018	2017	2018	2017
Total net revenues	\$1,331.0	\$1,064.1	\$3,871.4	\$3,165.0
Commission and advisory expense	822.0	663.8	2,384.3	1,971.9
Brokerage, clearing, and exchange fees	15.8	13.4	47.2	41.5
Gross profit	\$493.2	\$386.9	\$1,439.9	\$1,151.6

Legal & Regulatory Matters

As a regulated entity, we are subject to regulatory oversight and inquiries related to, among other items, our compliance and supervisory systems and procedures and other controls, as well as our disclosures, supervision and reporting. The environment of additional regulation, increased regulatory compliance obligations, and enhanced regulatory enforcement has resulted, and may result in the future, in additional operational and compliance costs, as well as increased costs in the form of penalties and fines, investigatory and settlement costs, customer restitution, and remediation related to regulatory matters. In the ordinary course of business, we periodically identify or become aware of purported inadequacies, deficiencies, and other issues. It is our policy to evaluate these matters for potential securities law or regulatory violations, and other potential compliance issues. It is also our policy to self-report known violations and issues as required by applicable law and regulation. When deemed probable that matters may result in financial losses, we accrue for those losses based on an estimate of possible fines, customer restitution, and losses related to the repurchase of sold securities and other losses, as applicable. Certain regulatory and other legal claims and losses may be covered through our wholly-owned captive insurance

subsidiary, which is chartered with the insurance commissioner in the state of Tennessee. Assessing the probability of a loss occurring and the timing and amount of any loss related to a regulatory matter or a legal proceeding is inherently difficult and requires judgments based on a variety of factors and assumptions. There are particular uncertainties and complexities involved when assessing the potential liabilities that are self-insured by our captive insurance subsidiary.

Our accruals, including those established through the captive insurance subsidiary at September 30, 2018, include estimated costs for significant regulatory matters, generally relating to the adequacy of our compliance and

supervisory systems and procedures and other controls, for which we believe losses are both probable and reasonably estimable. For example, on May 1, 2018, we agreed to a settlement structure with the North American Securities Administrators Association related to our historical compliance with certain state “blue sky” laws. We are in the process of entering into separate administrative orders with 53 jurisdictions, which would result in aggregate fines of approximately \$26.4 million. As part of the settlement structure, we agreed to engage independent third party consultants to conduct a historical review of certain equity and fixed income securities transactions, as well as an operational review of our systems for complying with blue sky securities registration requirements. We also agreed to offer remediation to customers who purchased certain equity and fixed-income securities since October 2006. We expect to incur costs related to this matter over the next few years, and we expect the majority of these costs to be covered by our captive insurance subsidiary or expense plans as of September 30, 2018.

The outcome of regulatory matters could result in legal liability, regulatory fines, or monetary penalties in excess of our accruals and insurance, which could have a material adverse effect on our business, results of operations, cash flows, or financial condition. For more information on management’s loss contingency policies, see Note 9. *Commitments and Contingencies*, within the notes to the unaudited condensed consolidated financial statements.

In June 2018, the U.S. Court of Appeals for the Fifth Circuit issued a mandate invalidating regulations previously enacted by the U.S. Department of Labor (“DOL”) that expanded the definition of “fiduciary” and would have resulted in significant new restrictions on our servicing of certain retirement plan accounts subject to the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), and individual retirement accounts (“IRAs”), including compliance with expanded prohibited transaction requirements under section 4975 of the Internal Revenue Code (the “DOL Rule”). However, in April 2018, the SEC introduced a proposal for a best interest standard for retail brokerage accounts (the “SEC Rule”). Certain state securities and insurance regulators have adopted or are considering adopting similar laws and regulations. In addition, it is unclear how and whether other regulators – including FINRA, banking regulators, and the state securities and insurance regulators – may respond to or attempt to enforce similar issues addressed by the former DOL Rule and the proposed SEC Rule.

Because ERISA plans and IRAs comprise a significant portion of our business, we continue to expect that compliance with current and future laws and regulations governing retail retirement savings, including reliance on prohibited transaction exemptions under such laws and regulations, will require increased legal, compliance, information technology, and other costs and could lead to a greater risk of class action lawsuits and other litigation. Moreover, uncertainty regarding the status of further guidance or rulemaking from the DOL, as well as pending and future laws and regulations, including the SEC Rule and state rules, relating to the standards of conduct applicable to both retirement and non-retirement accounts, impacts on our business in ways which cannot be anticipated or planned for, and which may have further impact on our products and services, and results of operations.

Acquisitions, Integrations, and Divestitures

From time to time we undertake acquisitions or divestitures based on opportunities in the competitive landscape. These activities are part of our overall growth strategy, but can distort comparability when reviewing revenue and expense trends for periods presented.

On August 15, 2017, LPL Financial entered into an asset purchase agreement (the “Asset Purchase Agreement”) with National Planning Holdings, Inc. (“NPH”), and its four broker-dealer subsidiaries (collectively with NPH, the “NPH Sellers”) to acquire certain assets and rights of the NPH Sellers, including business relationships with financial advisors who became affiliated with LPL Financial (the “NPH Acquisition”). We paid \$325 million to the NPH Sellers at closing, which occurred on August 15, 2017, and agreed to a potential contingent payment of up to \$122.8 million. The conversion period under the Asset Purchase Agreement concluded in the first quarter of 2018, and no resulting contingent payment was due to the NPH Sellers. We incurred increased costs related to this transaction, including compensation and benefits expense related to the additional staffing, as well as contingent labor costs, needed to support the onboarding of NPH advisors and their clients to our systems, and fees for account closure and transfers

that we agreed to pay on behalf of NPH advisors under the Asset Purchase Agreement. Although these onboarding costs were substantially complete prior to the third quarter of 2018, we expect to continue to incur increased costs related to providing ongoing support to the increased numbers of advisors, clients, and total assets served on our platform, as well as financial assistance costs for advisors that joined LPL Financial. See Note 4 *Acquisitions*, within the notes to the unaudited condensed consolidated financial statements for further detail.

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Economic Overview and Impact of Financial Market Events

Our business is directly and indirectly sensitive to several macroeconomic factors and the state of the U.S. financial markets. In the United States, economic data continued to point to steady economic growth through September 30, 2018. According to the most recent estimate by the Bureau of Economic Analysis, real gross domestic product (“GDP”) grew at an annualized rate of 4.2% in the second quarter of 2018 and 3.0% compared to the second quarter a year ago. Data received in the third quarter suggest continued steady growth with a healthy labor market, stable consumer spending, signs of improved business investment, and low interest rates relative to historical rates. U.S. business and consumer confidence remained elevated, with only modest declines since the run-up following the U.S. elections in November 2016. Inflation picked up with improved economic growth but remained contained. While the overall data were largely positive, concerns about U.S. trade policy increased, with some anecdotal evidence that uncertainty led some businesses to scale back capital spending plans. The Federal Reserve’s (“Fed”) most recent median projection for 2018 GDP put growth at 3.1%, with slower but still above-trend 2.5% growth in 2019. Growth in this range could further tighten the labor market, push wages higher, and increase the probability the Fed will follow through on its median projection of four rate hikes in total in 2018 and three in 2019.

U.S. stocks returned 7.7% during the third quarter, based on the S&P 500 Index, bringing the year-to-date total return for the index to 10.6% through September 30, 2018. U.S. stocks outpaced international developed and, in particular, emerging market stocks as measured by MSCI indexes. Emerging market stocks fell over the quarter and entered bear market territory (a price decline of more than 20%) in September. Bonds were flat during the quarter in the face of rising interest rates, based on the Bloomberg Barclays Aggregate Bond Index. The 10-year Treasury yield continued to push higher, ending the third quarter above 3.0%. At the same time, credit spreads for high yield corporate bonds finished the quarter near their tightest of the expansion, signaling investor confidence in the ability of bond issuers to meet their obligations.

Our business is also sensitive to current and expected short-term interest rates, which are largely driven by Fed policy. Please consult the Risks Related to Our Business and Industry section within Part I, “Item 1A. Risk Factors” in our 2017 Annual Report on Form 10-K for more information about the risks associated with significant interest rate changes, and the potential related effects on our profitability and financial condition. Following the conclusion of its September 25-26, 2018 policy meeting, the Fed’s policy arm, the Federal Open Market Committee (“FOMC”) raised the target range of the federal funds rate to 2.00 - 2.25%, its third hike of 2018 and eighth of the expansion. Projection materials that accompanied the statement indicated a median expectation of one additional rate hike in 2018 and three in 2019. Growth expectations rose slightly from the prior set of forecasts for 2018 and 2019, while inflation expectations were largely unchanged. The policy statement indicated that the current policy of gradual rate increases was expected to continue but would remain data dependent.

Results of Operations

The following discussion presents an analysis of our results of operations for the three and nine months ended September 30, 2018 and 2017. Where appropriate, we have identified specific events and changes that affect comparability or trends, and where possible and practical, have quantified the impact of such items.

(In thousands)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2018	2017	% Change	2018	2017	% Change
REVENUES						
Commission	\$486,875	\$403,011	20.8 %	\$1,449,771	\$1,244,881	16.5 %
Advisory	458,087	356,945	28.3 %	1,319,391	1,033,319	27.7 %
Asset-based	248,895	183,953	35.3 %	706,834	514,626	37.3 %
Transaction and fee	118,941	103,999	14.4 %	352,045	321,522	9.5 %
Interest income, net of interest expense	10,512	6,162	70.6 %	28,426	17,931	58.5 %
Other	7,687	10,038	(23.4)%	14,891	32,760	(54.5)%
Total net revenues	1,330,997	1,064,108	25.1 %	3,871,358	3,165,039	22.3 %
EXPENSES						
Commission and advisory	821,950	663,765	23.8 %	2,384,266	1,971,874	20.9 %
Compensation and benefits	128,007	113,659	12.6 %	373,884	337,170	10.9 %
Promotional	52,628	42,935	22.6 %	163,462	111,595	46.5 %
Depreciation and amortization	22,838	21,996	3.8 %	65,759	63,933	2.9 %
Amortization of intangible assets	15,676	9,352	67.6 %	44,580	28,296	57.5 %
Occupancy and equipment	30,308	22,803	32.9 %	84,848	70,989	19.5 %
Professional services	23,129	16,438	40.7 %	61,223	50,732	20.7 %
Brokerage, clearing, and exchange	15,844	13,491	17.4 %	47,154		