

LPL Investment Holdings Inc.  
Form 10-Q  
October 29, 2010

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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, 2010  
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: 000-52609  
LPL Investment 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.)*  
**One Beacon Street, Boston, MA 02108**  
*(Address of Principal Executive Offices) (Zip Code)*  
**(617) 423-3644**  
*(Registrant's telephone number, including area code)*

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

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

(Do not check if a smaller reporting company)

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

The number of shares of Common Stock, par value \$0.001 per share, outstanding as of October 20, 2010 was 94,249,753.90.

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**WHERE YOU CAN FIND MORE INFORMATION**

We are required to file annual, quarterly and current reports and other information required by the Securities Exchange Act of 1934, as amended, with the Securities and Exchange Commission, or 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>.

*When we use the terms LPLIH, we, us, our, and the Company we mean LPL Investment Holdings Inc., a Delaware corporation, and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.*

**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Quarterly Report on Form 10-Q in Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations and in other sections includes forward-looking statements (regarding the Company's future financial condition, results of operations, business strategy, financial needs and other similar matters) that involve risks and uncertainties. Forward-looking statements can be identified by words such as anticipates, expects, believes, plans, predicts, and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements including, but not limited to, changes in general economic and financial market conditions, fluctuations in the value of advisory and brokerage assets, effects of competition in the financial services industry, changes in the number of our financial advisors and institutions and their ability to effectively market financial products and services, the effect of current, pending and future legislation and regulation and regulatory actions. In particular, you should consider the numerous risks outlined in Risk Factors in the Company's Registration Statement on Form S-1, filed on June 4, 2010, as amended.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. You should not rely upon forward-looking statements as predictions of future events. We will not undertake and we specifically disclaim any obligation to release publicly the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of events, whether or not anticipated. In that respect, we wish to caution readers not to place undue reliance on any such forward-looking statements, which speak only as of the date made.

**Table of Contents****PART I FINANCIAL INFORMATION****Item 1. Financial Statements****LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****Condensed Consolidated Statements of Income****(Unaudited)****(Dollars in thousands, except per share data)**

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
<b>REVENUES:</b>				
Commissions	\$ 385,273	\$ 370,249	\$ 1,194,414	\$ 1,084,900
Advisory fees	212,344	182,141	633,820	507,509
Asset-based fees	81,599	70,894	230,485	201,287
Transaction and other fees	70,243	68,764	205,738	191,711
Interest income, net of operating interest expense	5,105	4,992	14,882	15,379
Other	5,400	5,286	14,192	13,835
 Net revenues	 759,964	 702,326	 2,293,531	 2,014,621
<b>EXPENSES:</b>				
Commissions and advisory fees	517,266	472,960	1,569,424	1,363,583
Compensation and benefits	74,627	66,337	223,024	198,156
Depreciation and amortization	19,772	26,924	67,472	81,596
Promotional	23,497	24,492	49,141	50,108
Professional services	14,683	10,002	37,950	26,939
Occupancy and equipment	12,979	13,207	36,742	37,469
Brokerage, clearing and exchange	8,362	8,222	25,944	24,118
Communications and data processing	7,693	8,809	24,509	26,352
Regulatory fees and expenses	6,038	7,106	18,715	18,022
Restructuring charges	1,863	42,219	10,434	41,695
Travel and entertainment	3,908	2,171	9,528	6,269
Other	3,750	1,640	11,801	11,003
 Total operating expenses	 694,438	 684,089	 2,084,684	 1,885,310
Non-operating interest expense	19,511	24,626	71,530	76,599
Loss on extinguishment of debt			37,979	
Loss (gain) on equity method investment	3	96	(18)	264
 Total expenses	 713,952	 708,811	 2,194,175	 1,962,173
 <b>INCOME (LOSS) BEFORE PROVISION FOR</b>				
<b>(BENEFIT FROM) INCOME TAXES</b>	46,012	(6,485)	99,356	52,448
<b>PROVISION FOR (BENEFIT FROM) INCOME</b>				
<b>TAXES</b>	19,868	(5,029)	39,658	23,526
 <b>NET INCOME (LOSS)</b>	 \$ 26,144	 \$ (1,456)	 \$ 59,698	 \$ 28,922

EARNINGS (LOSS) PER SHARE (Note 12):

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Basic	\$	0.30	\$	(0.02)	\$	0.68	\$	0.33
Diluted	\$	0.26	\$	(0.02)	\$	0.59	\$	0.29

See notes to unaudited condensed consolidated financial statements.

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**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Financial Condition**  
**(Unaudited)**

**(Dollars in thousands, except par value)**

	<b>September 30, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 442,547	\$ 378,594
Cash and securities segregated under federal and other regulations	243,949	288,608
Receivables from:		
Clients, net of allowance of \$1,474 at September 30, 2010 and \$792 at December 31, 2009	274,598	257,529
Product sponsors, broker-dealers and clearing organizations	184,352	171,900
Others, net of allowances of \$8,652 at September 30, 2010 and \$6,159 at December 31, 2009	159,128	139,317
Securities owned:		
Trading(1)	18,561	15,361
Held-to-maturity	10,582	10,454
Securities borrowed	5,732	4,950
Fixed assets, net of accumulated depreciation and amortization of \$267,831 at September 30, 2010 and \$239,868 at December 31, 2009	74,273	101,584
Goodwill	1,293,366	1,293,366
Intangible assets, net of accumulated amortization of \$163,499 at September 30, 2010 and \$136,177 at December 31, 2009	569,303	597,083
Debt issuance costs, net of accumulated amortization of \$12,833 at September 30, 2010 and \$15,724 at December 31, 2009	24,984	16,542
Other assets	63,521	61,648
<b>Total assets</b>	<b>\$ 3,364,896</b>	<b>\$ 3,336,936</b>

**LIABILITIES AND STOCKHOLDERS EQUITY**

**LIABILITIES:**

Drafts payable	\$ 144,669	\$ 125,767
Payables to clients	408,245	493,943
Payables to broker-dealers and clearing organizations	26,420	18,217
Accrued commissions and advisory fees payable	121,008	110,040
Accounts payable and accrued liabilities	183,599	175,742
Income taxes payable	24,017	24,226
Interest rate swaps	9,665	17,292
Securities sold but not yet purchased at market value	2,680	4,003
Senior credit facilities and subordinated notes	1,390,132	1,369,223
Deferred income taxes net	127,126	147,608
<b>Total liabilities</b>	<b>2,437,561</b>	<b>2,486,061</b>

**STOCKHOLDERS EQUITY:**



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Common stock, \$.001 par value; 200,000,000 shares authorized; 94,246,414 shares issued and outstanding at September 30, 2010 of which 7,405,811 are restricted, and 94,214,762 shares issued and outstanding at December 31, 2009 of which 7,423,973 are restricted	87	87
Additional paid-in capital	690,194	679,277
Stockholder loans	(52)	(499)
Accumulated other comprehensive loss	(5,874)	(11,272)
Retained earnings	242,980	183,282
 Total stockholders' equity	 927,335	 850,875
 Total liabilities and stockholders' equity	 \$ 3,364,896	 \$ 3,336,936

(1) Includes \$10,799 and \$7,797 pledged to clearing organizations at September 30, 2010 and December 31, 2009, respectively.

See notes to unaudited condensed consolidated financial statements.

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**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Stockholders' Equity**  
**(Unaudited)**  
**(Dollars in thousands)**

	<b>Common</b>	<b>Additional</b>		<b>Accumulated</b>		<b>Total</b>
	<b>Stock</b>	<b>Paid-In</b>	<b>Stockholder</b>	<b>Other</b>	<b>Retained</b>	<b>Stockholders</b>
		<b>Capital</b>	<b>Loans</b>	<b>Comprehensive</b>	<b>Earnings</b>	<b>Equity</b>
				<b>Income</b>		
				<b>(Loss)</b>		
BALANCE						
December 31, 2008	\$ 87	\$ 670,897	\$ (936)	\$ (15,498)	\$ 135,762	\$ 790,312
Comprehensive income:						
Net income					28,922	28,922
Unrealized gain on interest rate swaps, net of tax expense of \$1,793				3,163		3,163
Total comprehensive income						32,085
Exercise of stock options		258				258
Tax benefits from share-based compensation		147				147
Stockholder loans			443			443
Share-based compensation		4,965				4,965
Repurchase of 10,000 shares of common stock		(181)				(181)
BALANCE						
September 30, 2009	\$ 87	\$ 676,086	\$ (493)	\$ (12,335)	\$ 164,684	\$ 828,029
BALANCE						
December 31, 2009	\$ 87	\$ 679,277	\$ (499)	\$ (11,272)	\$ 183,282	\$ 850,875
Comprehensive income:						
Net income					59,698	59,698
Unrealized gain on interest rate swaps, net of tax expense of \$2,229				5,398		5,398
Total comprehensive income						65,096
Exercise of stock options		56				56
Tax benefits from share-based compensation		272				272
Stockholder loans			447			447
		10,121				10,121

Share-based compensation Issuance of 20,000 shares of common stock			468				468					
BALANCE												
September 30, 2010	\$	87	\$	690,194	\$	(52)	\$	(5,874)	\$	242,980	\$	927,335

See notes to unaudited condensed consolidated financial statements.

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**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows**  
**(Unaudited)**  
**(Dollars in thousands)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 59,698	\$ 28,922
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	67,472	81,596
Amortization of debt issuance costs	3,623	2,807
Impairment of fixed assets	840	
Loss on extinguishment of debt	37,979	
Share-based compensation	10,121	4,965
Provision for bad debts	3,682	2,953
Deferred income tax provision	(22,711)	(21,678)
Impairment of intangible assets		17,873
Loan forgiveness	3,932	
Other	(79)	(165)
Changes in operating assets and liabilities:		
Cash and securities segregated under federal and other regulations	44,659	71,986
Receivables from clients	(17,804)	21,551
Receivables from product sponsors, broker-dealers and clearing organizations	(12,452)	54,910
Receivables from others	(26,234)	(30,965)
Securities owned	(3,284)	(4,868)
Securities borrowed	(782)	(1,028)
Other assets	2,548	(3,341)
Drafts payable	18,902	(51,203)
Payables to clients	(85,698)	(72,082)
Payables to broker-dealers and clearing organizations	8,203	(355)
Accrued commissions and advisory fees payable	10,968	2,129
Accounts payable and accrued liabilities	5,498	(74)
Income taxes payable	63	4,626
Securities sold but not yet purchased	(1,323)	(1,104)
Net cash provided by operating activities	107,821	107,455

See notes to unaudited condensed consolidated financial statements.

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**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**  
**Condensed Consolidated Statements of Cash Flows (Continued)**  
**(Unaudited)**  
**(Dollars in thousands)**

	<b>Nine Months Ended</b>	
	<b>September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Capital expenditures	\$ (10,934)	\$ (6,403)
Proceeds from the disposal of fixed assets		135
Purchase of securities classified as held-to-maturity	(5,392)	(3,746)
Proceeds from maturity of securities classified as held-to-maturity	5,200	3,700
Deposits of restricted cash	(4,121)	(12,759)
Release of restricted cash	2,971	
Net cash used in investing activities	(12,276)	(19,073)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from senior credit facilities	566,700	
Redemption of subordinated notes	(579,563)	
Net repayment of revolving line of credit		(56,500)
Repayment of senior credit facilities	(9,091)	(6,318)
Payment of debt issuance costs	(7,181)	
Payment of deferred transaction costs	(3,253)	
Repayment of stockholder loans		462
Proceeds from stock options exercised	56	258
Excess tax benefits from share-based compensation	272	147
Issuance of common stock	468	
Repurchase of common stock		(181)
Net cash used in financing activities	(31,592)	(62,132)
NET INCREASE IN CASH AND CASH EQUIVALENTS	63,953	26,250
CASH AND CASH EQUIVALENTS Beginning of period	378,594	219,239
CASH AND CASH EQUIVALENTS End of period	\$ 442,547	\$ 245,489
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Interest paid	\$ 73,994	\$ 61,997
Income taxes paid	\$ 62,804	\$ 41,420
<b>NONCASH DISCLOSURES:</b>		
Capital expenditures purchased through short-term credit	\$ 2,436	\$ 105
Increase in unrealized gain on interest rate swaps, net of tax expense	\$ 5,398	\$ 3,163
Discount on proceeds from senior credit facilities recorded as debt issuance costs	\$ 13,300	\$

See notes to unaudited condensed consolidated financial statements.

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

**1. Organization and Description of the Company**

LPL Investment Holdings Inc. ( LPLIH ), a Delaware holding corporation, together with its consolidated subsidiaries (collectively, the Company ) provides an integrated platform of proprietary technology, brokerage and investment advisory services to independent financial advisors and financial advisors at financial institutions (collectively advisors ) in the United States. Through its proprietary technology, custody and clearing platforms, 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. Basis of Presentation**

**Quarterly Reporting** 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. Certain reclassifications were made to previously reported amounts in the unaudited condensed consolidated financial statements and notes thereto to make them consistent with the current period presentation.

The unaudited condensed consolidated financial statements do not include all information and notes necessary for a complete presentation of financial position, results of operations 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, 2009, contained in the Company s Annual Report on Form 10-K as filed with the SEC. The Company has evaluated subsequent events up to and including the date these unaudited condensed consolidated financial statements were issued.

**Consolidation** These unaudited condensed consolidated financial statements include the accounts of LPLIH 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. On an on-going basis, the Company evaluates estimates, including those related to revenue and related expense recognition, asset impairment, valuation of accounts receivable, contingencies and litigation, and valuation and recognition of share-based payments. These accounting policies are stated in the notes to the audited consolidated financial statements for the year ended December 31, 2009, contained in the Annual Report on Form 10-K as filed with the SEC. 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 under different assumptions or conditions and the differences may be material to the unaudited condensed consolidated financial statements.

**Reportable Segment** The Company s internal reporting is organized into three business channels; Independent Advisor Services, Institution Services and Custom Clearing Services, which are designed to enhance the services provided to its advisors. These channels qualify as individual operating segments, but are aggregated and viewed as one single reportable segment due to their similar economic characteristics, products and services, production and distribution process, regulatory environme