

LPL Investment Holdings Inc.
Form 10-Q
November 09, 2009

Use these links to rapidly review the document

[TABLE OF CONTENTS](#)

[Table of Contents](#)

**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, 2009

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
(State or other jurisdiction of
incorporation or organization)

20-3717839
(I.R.S. Employer Identification No.)

**One Beacon Street, Floor 22
Boston MA 02108
(617) 423-3644**

(Address including zip code, and telephone number, including area code, of principal executive offices)

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 definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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 November 2, 2009 was 94,186,321.90.

Table of Contents

TABLE OF CONTENTS

	Page
Item Number	
<u>PART I. FINANCIAL INFORMATION</u>	<u>1</u>
<u>1. Financial Statements</u>	<u>1</u>
<u>Condensed Consolidated Statements of Financial Condition (unaudited)</u>	<u>1</u>
<u>Condensed Consolidated Statements of Income (unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Statements of Stockholders' Equity (unaudited)</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	<u>4</u>
<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	<u>6</u>
<u>2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>27</u>
<u>3. Quantitative and Qualitative Disclosures About Market Risk</u>	<u>44</u>
<u>4. Controls and Procedures</u>	<u>46</u>
<u>PART II. OTHER INFORMATION</u>	<u>46</u>
<u>1. Legal Proceedings</u>	<u>46</u>
<u>1A. Risk Factors</u>	<u>46</u>
<u>2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>46</u>
<u>3. Defaults Upon Senior Securities</u>	<u>46</u>
<u>4. Submission of Matters to a Vote of Security Holders</u>	<u>46</u>
<u>5. Other Information</u>	<u>47</u>
<u>6. Exhibits</u>	<u>47</u>
<u>SIGNATURES</u>	<u>48</u>
<u>EXHIBIT INDEX</u>	
EXHIBIT 3.1	
EXHIBIT 3.2	
EXHIBIT 3.3	
EXHIBIT 3.4	
EXHIBIT 3.5	
EXHIBIT 3.6	
EXHIBIT 31.1	
EXHIBIT 31.2	
EXHIBIT 32.1	
EXHIBIT 32.2	
EXHIBIT 99.1	

Table of Contents

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, as well as any predecessor entities, 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. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "intend" or "continue", the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include expectations as to our future financial performance, which in some cases may be based on our growth strategies and anticipated trends in our business. These statements are based on our current expectations and projections about future events. 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. In particular, you should consider the numerous risks outlined in Part I, Item 1A "Risk Factors" in our 2008 Annual Report on Form 10-K filed with the SEC.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. We are under no duty to update any of these forward-looking statements after the date of this filing to conform our prior forward-looking statements to actual results or revised expectations.

Table of Contents**PART I FINANCIAL INFORMATION****Item 1. Financial Statements**

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION
(UNAUDITED)

(Dollars in thousands, except par value)

	September 30, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	\$ 245,489	\$ 219,239
Cash and securities segregated under federal and other regulations	269,589	341,575
Receivables from:		
Clients, net of allowance of \$738 at September 30, 2009 and \$972 at December 31, 2008	274,480	295,797
Product sponsors, broker-dealers and clearing organizations	176,490	231,400
Others, net of allowances of \$6,237 at September 30, 2009 and \$4,076 at December 31, 2008	121,549	93,771
Securities owned:		
Trading	16,209	10,811
Held-to-maturity	10,479	10,504
Securities borrowed	1,632	604
Fixed assets, net of accumulated depreciation and amortization of \$234,365 at September 30, 2009 and \$185,537 at December 31, 2008	116,190	161,760
Goodwill	1,293,366	1,293,366
Intangible assets, net of accumulated amortization of \$126,895 at September 30, 2009 and \$106,563 at December 31, 2008	607,128	654,703
Other assets	81,278	68,249
 Total assets	 \$ 3,213,879	 \$ 3,381,779
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	\$ 103,228	\$ 154,431
Revolving line of credit	33,500	90,000
Payables to clients	390,929	463,011
Payables to broker-dealers and clearing organizations	21,379	21,734
Accrued commissions and advisory fees payable	102,456	100,327
Accounts payable and accrued liabilities	157,571	157,540

Table of Contents

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Dollars in thousands)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
REVENUES:				
Commissions	\$ 370,249	\$ 413,370	\$ 1,084,900	\$ 1,275,180
Advisory fees	182,141	212,686	507,509	638,414
Asset-based fees	70,894	95,781	201,287	278,565
Transaction and other fees	68,764	62,791	191,711	175,734
Interest income	5,044	9,265	15,542	27,930
Other	5,286	5,644	13,835	17,308
Total revenues	702,378	799,537	2,014,784	2,413,131
EXPENSES:				
Commissions and advisory fees	472,960	539,160	1,363,583	1,649,128
Compensation and benefits	66,337	87,590	198,156	269,454
Depreciation and amortization	26,924	24,786	81,596	72,179
Promotional	24,492	32,251	50,108	78,792
Restructuring charges	42,219		41,695	
Occupancy and equipment	13,207	15,580	37,469	45,474
Professional services	10,002	8,556	26,939	30,596
Communications and data processing	8,809	9,874	26,352	29,666
Brokerage, clearing and exchange	8,222	8,393	24,118	21,925
Regulatory fees and expenses	7,106	4,856	18,022	16,550
Travel and entertainment	2,171	3,764	6,269	11,645
Other	1,640	2,798	11,003	13,411
Total non-interest expenses	684,089	737,608	1,885,310	2,238,820
Interest expense from senior credit facilities, subordinated notes and revolving line of credit	24,626	27,205	76,599	86,226
Interest expense from brokerage operations	52	196	163	621
Loss on equity method investment	96	111	264	2,344
Total expenses	708,863	765,120	1,962,336	2,328,011
(LOSS) INCOME BEFORE (BENEFIT FROM) PROVISION FOR INCOME TAXES	(6,485)	34,417	52,448	85,120
(BENEFIT FROM) PROVISION FOR INCOME TAXES	(5,029)	17,249	23,526	41,984
NET (LOSS) INCOME	\$ (1,456)	\$ 17,168	\$ 28,922	\$ 43,136

See notes to unaudited condensed consolidated financial statements.

Table of Contents

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

(UNAUDITED)

(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Stockholder Loans	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
BALANCE December 31, 2007	\$ 86	\$ 664,568	\$ (1,242)	\$ (6,512)	\$ 90,266	\$ 747,166
Comprehensive income:						
Net income					43,136	43,136
Unrealized loss on interest rate swaps, net of tax benefit of \$31				(144)		(144)
Total comprehensive income						42,992
Exercise of stock options		556				