

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

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, 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
*(State or other jurisdiction of
incorporation or organization)*

20-3717839
*(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.

TABLE OF CONTENTS

Item Number		Page
<u>PART I. FINANCIAL INFORMATION</u>		1
1.	<u>Financial Statements</u>	1
	<u>Condensed Consolidated Statements of Income (unaudited)</u>	1
	<u>Condensed Consolidated Statements of Financial Condition (unaudited)</u>	2
	<u>Condensed Consolidated Statements of Stockholders' Equity (unaudited)</u>	3
	<u>Condensed Consolidated Statements of Cash Flows (unaudited)</u>	4
	<u>Notes to Condensed Consolidated Financial Statements (unaudited)</u>	6
2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	48
4.	<u>Controls and Procedures</u>	51
<u>PART II. OTHER INFORMATION</u>		52
1.	<u>Legal Proceedings</u>	52
1A.	<u>Risk Factors</u>	52
2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	52
3.	<u>Defaults Upon Senior Securities</u>	52
4.	<u>Reserved</u>	52
5.	<u>Other Information</u>	52
6.	<u>Exhibits</u>	52
<u>SIGNATURES</u>		53
<u>EXHIBIT INDEX</u>		
	<u>EX-31.1</u>	
	<u>EX-31.2</u>	
	<u>EX-32.1</u>	

EX-32.2

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, 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)**

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
REVENUES:				
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
EXPENSES:				
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
INCOME (LOSS) BEFORE PROVISION FOR				
(BENEFIT FROM) INCOME TAXES	46,012	(6,485)	99,356	52,448
PROVISION FOR (BENEFIT FROM) INCOME				
TAXES	19,868	(5,029)	39,658	23,526
NET INCOME (LOSS)	\$ 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.

1

Table of Contents

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

(Dollars in thousands, except par value)

	September 30, 2010	December 31, 2009
ASSETS		
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
Total assets	\$ 3,364,896	\$ 3,336,936

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
Total liabilities	2,437,561	2,486,061

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.

Table of Contents

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

	Common	Additional		Accumulated		Total
	Stock	Paid-In	Stockholder	Other	Retained	Stockholders
		Capital	Loans	Comprehensive	Earnings	Equity
				Income		
				(Loss)		
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.

3

Table of Contents

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

	Nine Months Ended	
	September 30,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
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.

Table of Contents

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

	Nine Months Ended	
	September 30,	
	2010	2009
CASH FLOWS FROM INVESTING ACTIVITIES:		
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)
CASH FLOWS FROM FINANCING ACTIVITIES:		
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
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	\$ 73,994	\$ 61,997
Income taxes paid	\$ 62,804	\$ 41,420
NONCASH DISCLOSURES:		
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.

Table of Contents

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 environment and quantitative thresholds.

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

Fair Value of Financial Instruments The Company's financial assets and liabilities are carried at fair value or at amounts that, because of their short-term nature, approximate current fair value, with the exception of its indebtedness. The Company carries borrowings on its senior secured credit facilities and unsecured subordinated notes at amortized cost. As of September 30, 2010, the carrying amount and fair value of these borrowings were approximately \$1,390 million and \$1,371 million, respectively. As of December 31, 2009, the carrying amount and fair value were approximately \$1,369 million and \$1,278 million, respectively. See Note 4 for additional detail regarding the Company's fair value measurements.

Recently Issued Accounting Pronouncements Recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2010, as compared to the recent accounting pronouncements described in the Company's 2009 Annual Report on Form 10-K, that are of significance, or potential significance, to the Company are discussed below.

In January 2010, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820) Improving Disclosures about Fair Value Measurements* (ASU 2010-6). ASU 2010-6 requires new disclosures regarding significant transfers into and out of Level 1 and Level 2 fair value measurements and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. This ASU also clarifies existing disclosures of inputs and valuation techniques for Level 2 and Level 3 fair value measurements. ASU 2010-6 is effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosure of activity within Level 3 fair value measurements, which is effective for fiscal years beginning after December 15, 2010 and for interim periods within those years. The adoption of ASU 2010-6 did not have a material impact on the Company's unaudited condensed consolidated financial statements.

3. Restructuring**Strategic Business Review Initiative**

On December 29, 2008, the Company committed to an organizational restructuring plan intended to reduce its cost structure and improve operating efficiencies, which resulted in a reduction in its overall workforce of approximately 250 employees. In accordance with Accounting Standards Codification Topic 420, *Accounting for Costs Associated with Exit or Disposal Activities*, the Company has recorded severance and one-time involuntary termination benefit accruals in accounts payable and accrued liabilities within the unaudited condensed consolidated statements of financial condition. The Company completed this initiative and expects to pay all costs by April 2011.

The following table summarizes the balance of accrued expenses related to the strategic business review and the changes in the accrued amounts as of and for the nine months ended September 30, 2010 (in thousands):

	Accrued Balance			Accrued Balance at September 30, 2010	Cumulative Costs Incurred to Date(2)
	at December 31, 2009	Costs Incurred(1)	Payments		
Severance and benefits	\$ 1,996	\$ 43	\$ (1,209)	\$ 830	\$ 14,548

(1) Represents adjustments for changes in the Company's estimates for the cost of providing

post employment
benefits to
employees
impacted by
restructuring
activities.

(2)

At
September 30,
2010,
cumulative costs
incurred to date
represent the
total expected
costs.

7

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****Consolidation of Affiliated Entities Initiative**

On July 10, 2009, the Company committed to a corporate restructuring plan that consolidated the operations of Mutual Service Corporation (MSC), Associated Financial Group, Inc., Associated Securities Corp., Inc. (Associated), Associated Planners Investment Advisory, Inc. and Waterstone Financial Group, Inc. (WFG) (together, the Affiliated Entities) with LPL Financial Corporation (LPL Financial). This restructuring was effected to enhance service offerings to advisors while also generating efficiencies. The Company expects total costs associated with the initiative to be approximately \$73.7 million. The Company has incurred the majority of these costs and anticipates recognizing the remaining costs by December 2013; however, adjustments may occur due to estimates of abandoned lease obligations with terms that extend through 2018.

The Company paid charges related to the conversion and transfer of certain advisors associated with the Affiliated Entities and their client accounts. Following the completion of these transfer activities, the registered representatives and client accounts that transferred are associated with LPL Financial. In 2009, as a condition for the regulatory approval of the transfer, the Affiliated Entities were required to deposit \$12.8 million into escrow accounts pending the resolution of certain matters, of which \$7.3 million was released. During the nine months ended September 30, 2010, the Company was required to deposit an additional \$4.1 million into the escrow accounts and \$3.0 million has been released.

The Company paid charges related to early termination costs associated with certain contracts held by the Affiliated Entities. Additionally, the Company recorded accruals for employee related costs, including severance and one-time involuntary termination benefits that will be recognized ratably over the employees remaining service period.

The Company recognized charges related to the early termination and partial abandonment of certain lease arrangements offset by estimates for sub-lease efforts. The Company anticipates additional costs of approximately \$0.1 million related to the abandonment of the remaining office space, which can not be fully estimated until the date of abandonment. The Company also recorded non-cash charges for the impairment of fixed assets associated with abandoned lease arrangements.

The following table summarizes the balance of accrued expenses and the changes in the accrued amounts as of and for the nine months ended September 30, 2010 (in thousands):

	Accrued Balance at December 31, 2009	Costs Incurred	Payments	Non-cash	Accrued Balance at September 30, 2010	Cumulative Costs Incurred to Date	Total Expected Restructuring Costs
Severance and benefits	\$ 2,759	\$ 2,113	\$ (3,569)	\$ (456)	\$ 847	\$ 11,549	\$ 11,549
Lease and contract termination fees	7,458	2,352	(3,195)	80	6,695	18,271	18,402
Asset impairments		840		(840)		20,764	20,764
Conversion and transfer costs	304	5,086	(1,843)	(3,422)	125	18,969	22,988
Total	\$ 10,521	\$ 10,391	\$ (8,607)	\$ (4,638)	\$ 7,667	\$ 69,553	\$ 73,703

4. Fair Value Measurements

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

unobservable inputs. The three levels of inputs used to measure fair value are as follows:

8

Table of Contents

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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

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

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

The Company's fair value measurements are evaluated within the fair value hierarchy, based on the nature of inputs used to determine the fair value at the measurement date. At September 30, 2010, the Company had the following financial assets and liabilities that are measured at fair value on a recurring basis:

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

Securities Segregated Under Federal and Other Regulations The Company's segregated accounts contain U.S. treasury securities that are short term in nature with readily determinable values derived from quoted prices in active markets.

Securities Owned and Securities Sold But Not Yet Purchased The Company's securities owned consist of house account model portfolios for the purpose of benchmarking the performance of its fee based advisory platforms and temporary positions resulting from the processing of client transactions. Examples of these securities include money market funds, U.S. treasuries, mutual funds, certificates of deposit, traded equity securities and debt securities. The Company uses prices obtained from independent third-party pricing services to measure the fair value of its securities owned. Prices received from the pricing services are validated using various methods including comparison to prices received from additional pricing services, comparison to available quoted market prices and review of other relevant market data including implied yields of major categories of securities. In general, these quoted prices are derived from active markets for identical assets or liabilities. When quoted prices in active markets for identical assets and liabilities are not available, the quoted prices are based on similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. For certificates of deposit and treasury securities, the Company utilizes market-based inputs including observable market interest rates that correspond to the remaining maturities or the next interest reset dates. At September 30, 2010, the Company did not adjust prices received from the independent third-party pricing services.

Other Assets The Company's other assets include deferred compensation plan assets that are invested in money market funds and mutual funds which are actively traded and valued based on quoted market prices in active markets.

Interest Rate Swaps The Company's interest rate swaps are not traded on a market exchange; therefore, the fair values are determined using externally developed valuation models which include assumptions about the London Interbank Offered Rate (LIBOR) yield curve at interim reporting dates as well as counterparty credit risk and the Company's own non-performance risk.

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

There have been no transfers of assets or liabilities between fair value measurement classifications during the nine months ended September 30, 2010. The following tables summarize the Company's financial assets and financial liabilities measured at fair value on a recurring basis (in thousands):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurements
At September 30, 2010:				
Assets				
Cash equivalents	\$ 296,865	\$	\$	\$ 296,865
Securities segregated under federal and other regulations	242,022			242,022
Securities owned trading:				
Money market funds	113			113
Mutual funds	7,248			7,248
Debt securities		360		360
U.S. treasury obligations	10,799			10,799
Certificates of deposit		41		41
Total securities owned trading	18,160	401		18,561
Other assets	15,550			15,550
Total assets at fair value	\$ 572,597	\$ 401	\$	\$ 572,998
Liabilities				
Securities sold but not yet purchased:				
Mutual funds	\$ 2,434	\$	\$	\$ 2,434
Certificates of deposit		225		225
Equity securities	4			4
Debt securities		17		17
Total securities sold but not yet purchased	2,438	242		2,680
Interest rate swaps		9,665		9,665
Total liabilities at fair value	\$ 2,438	\$ 9,907	\$	\$ 12,345

Table of Contents

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

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value Measurements
At December 31, 2009:				
Assets				
Cash equivalents	\$ 223,665	\$	\$	\$ 223,665
Securities segregated under federal and other regulations	279,579			279,579
Securities owned trading:				
Money market funds	181			181
Mutual funds	6,694			6,694
Equity securities	11			11
Debt securities		425		425
U.S. treasury obligations	7,797			7,797
Certificates of deposit		253		253
Total securities owned trading	14,683	678		15,361
Other assets	12,739			12,739
Total assets at fair value	\$ 530,666	\$ 678	\$	\$ 531,344
Liabilities				
Securities sold but not yet purchased:				
Mutual funds	\$ 3,773	\$	\$	\$ 3,773
U.S. treasury obligations	5			5
Equity securities	7			7
Certificates of deposit		123		123
Debt securities		95		95
Total securities sold but not yet purchased	3,785	218		4,003
Interest rate swaps		17,292		17,292
Total liabilities at fair value	\$ 3,785	\$ 17,510	\$	\$ 21,295

Table of Contents**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES****Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)****5. Held-to-Maturity Securities**

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

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

	Amortized Cost	Gross Unrealized Gains	Fair Value
At September 30, 2010:			
U.S. government notes	\$ 10,582	\$ 91	\$ 10,673
At December 31, 2009:			
U.S. government notes	\$ 10,354	\$ 49	\$ 10,403
Certificate of deposit	100		100
Total	\$ 10,454	\$ 49	\$ 10,503

The maturities of securities held-to-maturity at September 30, 2010 were as follows (in thousands):

	Within 1 Year	1-3 Years	Total
U.S. government notes at amortized cost	\$ 5,059	\$ 5,523	\$ 10,582
U.S. government notes at fair value	\$ 5,071	\$ 5,602	\$ 10,673

6. Intangible Assets

The components of intangible assets as of September 30, 2010 and December 31, 2009 are as follows (in thousands):

	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
At September 30, 2010:			
Definite-lived intangible assets:			
Advisor and financial institution relationships	\$ 458,424	\$ (110,437)	\$ 347,987
Product sponsor relationships	231,930	(52,312)	179,618
Trust client relationships	2,630	(751)	1,879
Total definite-lived intangible assets	\$ 692,984	\$ (163,500)	\$ 529,484
Indefinite-lived intangible assets:			
Trademark and trade name			39,819
Total intangible assets			\$ 569,303

At December 31, 2009:

Definite-lived intangible assets:			
Advisor and financial institution relationships	\$ 458,424	\$ (91,586)	\$ 366,838
Product sponsor relationships	231,930	(43,482)	188,448
Trust client relationships	2,630	(652)	1,978
Trademarks and trade names	457	(457)	
 Total definite-lived intangible assets	 \$ 693,441	 \$ (136,177)	 \$ 557,264
 Indefinite-lived intangible assets:			
Trademark and trade name			39,819
 Total intangible assets			 \$ 597,083

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

Total amortization expense of intangible assets was \$9.3 million and \$27.8 million for the three and nine months ended September 30, 2010, respectively, and \$9.8 million and \$29.7 million for the three and nine months ended September 30, 2009, respectively. Amortization expense for each of the fiscal years ended December 2010 (remainder) through 2014 and thereafter is estimated as follows (in thousands):

2010 remainder	\$ 9,226
2011	36,840
2012	36,548
2013	35,927
2014	35,927
Thereafter	375,016
Total	\$ 529,484

7. Income Taxes

The Company's effective income tax rate differs from the federal corporate tax rate of 35%, primarily as a result of state taxes, settlement contingencies and expenses that are not deductible for tax purposes. These items resulted in effective tax rates of 43.2% and 77.5% for the three months ended September 30, 2010 and 2009, respectively, and 39.9% and 44.9% for the nine months ended September 30, 2010 and 2009, respectively. Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

8. Indebtedness

Senior Secured Credit Facilities Term Loans On May 24, 2010, the Company entered into a Third Amended and Restated Credit Agreement (the "Amended Credit Agreement"). The Amended Credit Agreement amends and restates the Company's Second Amended and Restated Credit Agreement, dated as of June 18, 2007. Pursuant to the Amended Credit Agreement, the Company established a new term loan tranche of \$580.0 million maturing on June 28, 2017 (the "2017 Term Loans") and recorded \$16.6 million in debt issuance costs that are capitalized in the unaudited condensed consolidated statements of financial condition. The Company also extended the maturity of a \$500.0 million tranche of its term loan facility to June 25, 2015 (the "2015 Term Loans"), with the remaining \$317.1 million tranche of the term loan facility maturing on the original maturity date of June 28, 2013 (the "2013 Term Loans").

The applicable margin for borrowings with respect to the (a) 2013 Term Loans is currently 0.75% for base rate borrowings and 1.75% for LIBOR borrowings and could change depending on the Company's credit rating; (b) 2015 Term Loans is currently 1.75% for base rate borrowings and 2.75% for LIBOR borrowings, and (c) 2017 Term Loans is currently 2.75% for base rate borrowings and 3.75% for LIBOR borrowings. The LIBOR Rate with respect to the 2015 Term Loans and the 2017 Term Loans shall in no event be less than 1.50%.

Borrowings under the Company's senior secured term loan facilities bear interest at a base rate equal to either one, two, three, six, nine or twelve-month LIBOR plus the applicable margin, or an alternative base rate ("ABR") plus the applicable margin. The ABR is equal to the greater of the prime rate or the effective federal funds rate plus 1/2 of 1.00% for the 2013 Term Loans and the greater of the prime rate, effective federal funds rate plus 1/2 of 1.00%, or 2.50% for the 2015 Term Loans and the 2017 Term Loans. The senior secured credit facilities are subject to certain financial and nonfinancial covenants. As of September 30, 2010 and December 31, 2009, the Company was in compliance with such covenants.

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

The Company may voluntarily repay outstanding loans under its senior secured credit facilities at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans.

Senior Secured Credit Facilities – Revolving Line of Credit On January 25, 2010, the Company amended its senior secured credit facilities to increase the revolving credit facility from \$100.0 million to \$218.2 million, \$10.0 million of which is being used to support the issuance of an irrevocable letter of credit for its subsidiary, The Private Trust Company, N.A. (PTC). As a result of the amendment, the Company paid \$2.8 million in debt issuance costs, which have been capitalized within the unaudited condensed consolidated statements of financial condition and are being amortized as additional interest expense over the expected term of the related debt agreement. The Company also extended the maturity of a \$163.5 million tranche of the revolving credit facility to June 28, 2013, while the remaining \$54.7 million tranche retains its original maturity date of December 28, 2011. The tranche maturing in 2013 is priced at LIBOR + 3.50% with a commitment fee of 0.75%. The tranche maturing in 2011 maintains its previous pricing of LIBOR + 2.00% with a commitment fee of 0.375%. There was no outstanding balance on the revolving credit facility at September 30, 2010 and December 31, 2009.

Senior Unsecured Subordinated Notes On May 24, 2010, the Company gave notice of redemption of all of its outstanding senior unsecured subordinated notes due 2015 (the 2015 Notes), representing an aggregate principal amount of \$550.0 million. The redemption price of the 2015 Notes was 105.375% of the outstanding aggregate principal amount, or approximately \$579.6 million, plus accrued and unpaid interest thereon up to but not including June 22, 2010 (the Redemption Date). The Company redeemed the 2015 Notes on the Redemption Date and accordingly, recorded the charge as a loss on debt extinguishment within its unaudited condensed consolidated statements of income. None of the 2015 Notes remain outstanding. The Company used the proceeds from the 2017 Term Loans under its Amended Credit Agreement and additional cash on hand to finance the redemption. The aggregate cash payment for the redemption, including accrued and unpaid interest, was approximately \$610.4 million. Prior to the Redemption Date, the Company had \$550.0 million of senior unsecured subordinated notes due December 15, 2015 bearing interest at 10.75% per annum. The interest payments were payable semiannually in arrears.

Bank Loans Payable The Company maintains two uncommitted lines of credit. One line has an unspecified limit, and is primarily dependent on the Company's ability to provide sufficient collateral. The other line has a \$150.0 million limit and allows for both collateralized and uncollateralized borrowings. Both lines were utilized in 2010 and 2009; however, there were no balances outstanding at September 30, 2010 or December 31, 2009.

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

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

		September 30, 2010		December 31, 2009	
	Maturity	Balance	Interest Rate	Balance	Interest Rate
Senior secured term loan:					
Hedged with interest rate swaps	6/28/2013	\$ 210,000	2.04%(1)	\$ 400,000	2.00%(6)
Unhedged:					
2013 Term Loans	6/28/2013	105,532	2.04%(2)	419,223	2.00%(7)
2015 Term Loans	6/25/2015	497,500	4.25%(3)		
2017 Term Loans	6/28/2017	577,100	5.25%(4)		
Senior unsecured subordinated notes	(5)			550,000	10.75%
Total borrowings		1,390,132		1,369,223	
Less current borrowings (maturities within 12 months)		13,971		8,424	
Long-term borrowings net of current portion		\$ 1,376,161		\$ 1,360,799	

(1) As of September 30, 2010, the variable interest rate for the hedged portion of the 2013 Term Loans is based on the three-month LIBOR of 0.29%, plus the applicable interest rate margin of 1.75%.

(2) As of September 30, 2010, the variable interest rate for the unhedged portion of the 2013 Term Loans is based on the

three-month
LIBOR of
0.29%, plus the
applicable
interest rate
margin of
1.75%.

- (3) As of
September 30,
2010, the
variable interest
rate for the
unhedged
portion of the
2015 Term
Loans is based
on the greater of
the three-month
LIBOR of 0.29%
or 1.50%, plus
the applicable
interest rate
margin of
2.75%.

- (4) As of
September 30,
2010, the
variable interest
rate for the
unhedged
portion of the
2017 Term
Loans is based
on the greater of
the three-month
LIBOR of 0.29%
or 1.50%, plus
the applicable
interest rate
margin of
3.75%.

- (5) On June 22,
2010, the
Company
redeemed its
2015 Notes,
which had an
original maturity

date of
December 15,
2015.

(6) As of
December 31,
2009, the
variable interest
rate for the
hedged portion
of the 2013
Term Loans is
based on the
three-month
LIBOR of
0.25%, plus the
applicable
interest rate
margin of
1.75%.

(7) As of
December 31,
2009, the
variable interest
rate for the
unhedged
portion of the
2013 Term
Loans is based
on the
three-month
LIBOR of 0.25%
plus the
applicable
interest rate
margin of
1.75%.

The following summarizes borrowing activity in the revolving and uncommitted line of credit facilities (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Average balance outstanding	\$ 89	\$ 44,559	\$ 2,766	\$ 75,276
Weighted-average interest rate	1.00%	2.32%	1.16%	2.41%

Table of Contents

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

The minimum calendar year payments and maturities of the senior secured borrowings as of September 30, 2010 are as follows (in thousands):

2010 remainder	\$ 3,493
2011	13,971
2012	13,971
2013	319,197
2014	10,800