

LPL Investment Holdings Inc.  
Form 10-Q  
August 14, 2007

# 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 June 30, 2007

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-

## 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 is a large accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

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 \$0.01 per share, outstanding as of June 18, 2007 was 8,615,908.19.

---

TABLE OF CONTENTS

Item Number	Page
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<b><u>1. Unaudited Consolidated Financial Statements</u></b>	2
<u>Consolidated Statements of Financial Condition</u>	2
<u>Consolidated Statements of Income</u>	4
<u>Consolidated Statements of Changes in Shareholders' Equity</u>	5
<u>Consolidated Statements of Cash Flows</u>	6
<u>Notes to Unaudited Consolidated Financial Statements</u>	8
<b><u>2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	36
<b><u>3. Quantitative and Qualitative Disclosures About Market Risk</u></b>	59
<b><u>4. Controls and Procedures</u></b>	60
<b><u>PART II. OTHER INFORMATION</u></b>	
<b><u>1. Legal Proceedings</u></b>	61
<b><u>1A. Risk Factors</u></b>	61
<b><u>2. Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	61
<b><u>3. Defaults Upon Senior Securities</u></b>	62
<b><u>4. Submission of Matters to a Vote of Security Holders</u></b>	62
<b><u>5. Other Information</u></b>	62
<b><u>6. Exhibits</u></b>	63
<b><u>SIGNATURES</u></b>	64
<b><u>EXHIBIT INDEX</u></b>	
EXHIBIT 31.1	
EXHIBIT 31.2	
EXHIBIT 32.1	
EXHIBIT 32.2	

### **Where You Can Find More Information**

We are required to file annual, quarterly and current reports, proxy statements 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 firm 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 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 the Form 10-A filed by the Company on July 31, 2007.

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.

**PART I FINANCIAL INFORMATION****Item 1. Unaudited Consolidated Financial Statements.**

**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**AS OF JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006**  
**(Dollars in thousands)**

	2007	2006
<b>ASSETS</b>		
Cash and cash equivalents	\$ 203,912	\$ 245,163
Cash and securities segregated under federal and other regulations	24,758	52,178
Receivable from:		
Customers, net of allowance of \$385 at June 30, 2007 and \$202 at December 31, 2006	342,868	326,376
Product sponsors, broker-dealers, and clearing organizations	117,106	89,706
Others, net of allowances of \$2,660 at June 30, 2007 and \$2,590 at December 31, 2006	68,962	52,088
Securities owned:		
Marketable securities(1) at market value	14,834	9,524
Other securities at amortized cost	9,893	10,635
Securities borrowed	16,162	12,686
Mortgage loans held for sale net	3,478	4,362
Fixed assets, net of accumulated depreciation and amortization of \$112,115 at June 30, 2007 and \$90,731 at December 31, 2006	133,352	121,594
Debt issuance costs, net of accumulated amortization of \$6,367 at June 30, 2007 and \$4,564 at December 31, 2006	25,541	26,469
Goodwill	1,287,665	1,249,159
Intangible assets, net of accumulated amortization of \$47,382 at June 30, 2007 and \$31,245 at December 31, 2006	639,945	535,289
Trademarks and trade names, net of accumulated amortization of \$324 at June 30, 2007 and \$0 at December 31, 2006	44,373	39,819
Interest rate swaps	7,039	3,188
Prepaid expenses	16,360	15,423
Other assets	25,464	3,885
<b>Total assets</b>	<b>\$ 2,981,712</b>	<b>\$ 2,797,544</b>

(1) Includes \$2,647 and \$2,643 pledged to clearing organizations at June 30, 2007 and December 31, 2006, respectively.

**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**  
**AS OF JUNE 30, 2007 (UNAUDITED) AND DECEMBER 31, 2006**  
**(Dollars in thousands, except par value)**

	2007	2006
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>LIABILITIES:</b>		
Warehouse lines of credit	\$ 1,927	\$ 3,718
Drafts payable	107,619	104,344
Payable to customers	233,630	294,574
Payable to broker-dealers and clearing organizations	34,458	30,354
Accrued commissions and advisory fees payable	117,612	70,096
Accounts payable and accrued liabilities	69,662	34,381
Income taxes payable	12,972	969
Unearned revenue	38,736	31,113
Securities sold but not yet purchased at market value	5,779	10,806
Senior credit facilities and subordinated notes	1,390,283	1,344,375
Deferred income taxes net	233,525	245,897
Total liabilities	2,246,203	2,170,627
<b>COMMITMENTS AND CONTINGENCIES (Note 15)</b>		
<b>STOCKHOLDERS EQUITY:</b>		
Common stock, \$.01 par value; 20,000,000 shares authorized; 8,615,908 shares issued and outstanding at June 30, 2007, and 8,284,360 shares issued and outstanding at December 31, 2006	86	83
Additional paid-in capital	661,949	591,254
Stockholder loans	(1,747 )	
Accumulated other comprehensive income	4,278	1,938
Retained earnings	70,943	33,642
Total stockholders equity	735,509	626,917
Total liabilities and stockholders equity	\$ 2,981,712	\$ 2,797,544

See notes to unaudited consolidated financial statements.

**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2007 AND 2006**  
**(UNAUDITED) (Dollars in thousands)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
<b>REVENUES:</b>				
Commissions	\$ 364,451	\$ 231,952	\$ 663,732	\$ 444,702
Advisory fees	169,077	129,071	325,577	247,109
Asset-based fees	55,896	34,157	108,788	65,262
Transaction and other fees	41,124	34,620	80,237	68,659
Interest income	8,743	6,919	16,653	12,560
Other	8,478	3,304	15,499	6,134
Total revenues	647,769	440,023	1,210,486	844,426
<b>EXPENSES:</b>				
Commissions and advisory fees	459,848	310,728	847,982	592,762
Compensation and benefits	52,305	33,277	99,586	64,663
Depreciation and amortization	18,469	16,326	36,158	32,416
Promotional	7,468	5,302	21,529	15,785
Occupancy and equipment	9,564	6,289	17,470	12,167
Communications and data processing	5,782	5,918	11,540	11,225
Brokerage, clearing, and exchange	6,567	4,583	11,519	8,170
Professional services	6,657	2,765	11,130	5,491
Regulatory fees and expenses	3,714	4,289	7,706	8,718
Travel and entertainment	3,186	1,566	5,636	3,010
Other	2,069	1,220	4,293	2,802
Total noninterest expenses	575,629	392,263	1,074,549	757,209
Interest expense from brokerage operations and mortgage lending	161	144	280	196
Interest expense from senior credit facilities and subordinated notes	30,856	31,814	61,483	63,189
Total expenses	606,646	424,221	1,136,312	820,594
<b>INCOME BEFORE PROVISION FOR INCOME TAXES</b>				
TAXES	41,123	15,802	74,174	23,832
PROVISION FOR INCOME TAXES	17,864	5,303	32,428	8,676
NET INCOME	\$ 23,259	\$ 10,499	\$ 41,746	\$ 15,156

See notes to unaudited consolidated financial statements.

**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**  
**(UNAUDITED) (Dollars in thousands)**

	Common Stock	Additional Paid-In Capital	Stockholder Loans	Accumulated Other Comprehensive Income	Retained Earnings	Total Stockholders Equity
BALANCE December 31, 2005	\$ 83	\$ 588,341	\$	\$	\$	\$ 588,424
Comprehensive income:						
Net income					15,156	15,156
Change in unrealized gains on interest rate swaps, net of tax expense of \$5,297 (Note 13)				7,622		7,622
Total comprehensive income						22,778
Share-based compensation		1,456				1,456
BALANCE June 30, 2006	\$ 83	\$ 589,797	\$	\$ 7,622	\$ 15,156	\$ 612,658
BALANCE December 31, 2006	\$ 83	\$ 591,254	\$	\$ 1,938	\$ 33,642	\$ 626,917
Comprehensive income:						
Net income					41,746	41,746
Change in unrealized gains on interest rate swaps, net of tax expense of \$1,511 (Note 13)				2,340		2,340
Total comprehensive income						44,086
Cumulative effect of change in accounting principle upon adoption of FIN 48, net of tax benefit of \$2,101 (Note 11)					(4,445)	(4,445)
Loans to stockholders (Note 18)			(1,747)			(1,747)
Share-based compensation		902				902
Issuance of common stock for acquisitions (Note 3)	3	69,793				69,796
BALANCE June 30, 2007	\$ 86	\$ 661,949	\$ (1,747)	\$ 4,278	\$ 70,943	\$ 735,509

See notes to unaudited consolidated financial statements.

**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE SIX MONTHS ENDED JUNE 30, 2007 AND 2006**  
**(UNAUDITED) (Dollars in thousands)**

	2007	2006
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 41,746	\$ 15,156
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	36,158	32,416
Amortization of debt issuance costs	1,803	2,761
Loss (gain) on disposal of fixed assets	122	(9 )
Share-based compensation	902	1,456
Provision for bad debts	271	367
Deferred income tax provision	(11,782 )	(8,571 )
Other	12	(59 )
Mortgage loans held for sale:		
Originations of loans	(68,719 )	(32,280 )
Proceeds from sale of loans	70,289	31,879
Gain on sale	(703 )	(503 )
Changes in operating assets and liabilities:		
Cash and securities segregated under federal and other regulations	27,420	20,885
Receivable from customers	(16,675 )	(48,130 )
Receivable from product sponsors, broker-dealers, and clearing organizations	(15,435 )	15,490
Receivable from others	(10,966 )	(4,827 )
Securities owned	(3,569 )	(1,010 )
Securities borrowed	(3,476 )	2,772
Prepaid expenses	602	353
Other assets	3,700	4,848
Drafts payable	2,732	4,638
Payable to customers	(60,944 )	(23,662 )
Payable to broker-dealers and clearing organizations	4,103	11,247
Accrued commissions and advisory fees payable	21,213	8,286
Accounts payable and accrued liabilities	9,718	(15,674 )
Income taxes payable/receivable	4,788	43,699
Unearned revenue	6,272	6,002