LPL Investment Holdings Inc.
Form 10-Q
November 02, 2011
UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q
(Mark One)

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

For the quarterly period ended September 30, 2011
or

o	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 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. x Yes o 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).
x Yes o 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 o	Accelerated filer o	Non-accelerated filer x (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No
The number of shares of Common Stock, par value $0.001 per share, outstanding as of October 26, 2011 was 110,378,484.

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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 (the "Exchange Act"), 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.

On our internet website, http://www.lpl.com, we post the following recent 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 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 One Beacon Street, 22nd Floor, Boston, MA 02108). 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 "LPLIH", "we", "us", "our", and the "Company" we mean LPL Investment Holdings Inc., a Delawa corporation, and its consolidated subsidiaries, taken as a whole, unless the context otherwise indicates.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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 contain forward-looking statements (regarding future financial position, budgets, business strategy, projected costs, plans, objectives of management for future operations, 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 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 assets under management, 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 Part I, Item IA— "Risk Factors" in our 2010 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. You should not rely upon forward-looking statements as predictions of future events. Unless required by law, 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.

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PART I — FINANCIAL INFORMATION

Item 1. Financial Statements

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations
(Unaudited)
(Dollars in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
REVENUES:				
Commissions	$438,294	$385,273	$1,350,053	$1,194,414
Advisory fees	267,878	212,344	776,254	633,820
Asset-based fees	89,691	81,599	270,018	230,485
Transaction and other fees	78,476	70,243	220,980	205,738
Interest income, net of operating interest expense	5,036	5,105	15,288	14,882
Other	3,482	5,400	18,129	14,192
Net revenues	882,857	759,964	2,650,722	2,293,531
EXPENSES:				
Commissions and advisory fees	614,068	517,266	1,833,433	1,569,424
Compensation and benefits	77,337	74,627	242,889	223,024
Promotional	28,660	23,497	62,985	49,141
Depreciation and amortization	19,222	19,772	55,794	67,472
Occupancy and equipment	13,637	12,979	41,556	36,742
Professional services	10,656	14,683	33,309	37,950
Brokerage, clearing and exchange	9,818	8,362	28,868	25,944
Communications and data processing	9,235	7,693	26,823	24,509
Regulatory fees and expenses	6,441	6,038	19,385	18,715
Restructuring charges	7,684	1,863	13,035	10,434
Other	7,434	7,661	20,617	21,311
Total operating expenses	804,192	694,441	2,378,694	2,084,666
Non-operating interest expense	16,603	19,511	52,929	71,530
Loss on extinguishment of debt	—	—	—	37,979
Total expenses	820,795	713,952	2,431,623	2,194,175
INCOME BEFORE PROVISION FOR INCOME TAXES	62,062	46,012	219,099	99,356
PROVISION FOR INCOME TAXES	25,634	19,868	88,165	39,658
NET INCOME	$36,428	$26,144	$130,934	$59,698
EARNINGS PER SHARE (Note 13):				
Basic	$0.33	$0.30	$1.19	$0.68
Diluted	$0.32	$0.26	$1.15	$0.59

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)

	September 30, 2011	December 31, 2010
ASSETS		
Cash and cash equivalents	$663,189	$419,208
Cash and securities segregated under federal and other regulations	267,845	373,634
Receivables from:		
Clients, net of allowance of $515 at September 30, 2011 and $655 at December 31, 2010	282,491	271,051
Product sponsors, broker-dealers and clearing organizations	165,460	203,332
Others, net of allowances of $7,207 at September 30, 2011 and $6,796 at December 31, 2010	188,676	169,391
Securities owned:		
Trading	7,557	9,259
Held-to-maturity	10,131	9,563
Securities borrowed	10,447	8,391
Income taxes receivable	8,088	144,041
Fixed assets, net of accumulated depreciation and amortization of $299,984 at September 30, 2011 and $276,501 at December 31, 2010	83,636	78,671
Goodwill	1,334,086	1,293,366
Intangible assets, net of accumulated amortization of $201,858 at September 30, 2011 and $172,726 at December 31, 2010	547,652	560,077
Debt issuance costs, net of accumulated amortization of $17,925 at September 30, 2011 and $14,106 at December 31, 2010	19,893	23,711
Other assets	61,726	82,472
Total assets	$3,650,877	$3,646,167
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	$137,294	$182,489
Payables to clients	378,742	383,289
Payables to broker-dealers and clearing organizations	50,024	39,070
Accrued commissions and advisory fees payable	109,316	130,408
Accounts payable and accrued liabilities	153,262	154,586
Unearned revenue	56,449	53,618
Interest rate swaps	2,068	7,281
Securities sold but not yet purchased — at fair value	156	4,821
Senior credit facilities	1,336,161	1,386,639
Deferred income taxes — net	129,990	130,211
Total liabilities	2,353,462	2,472,412
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 600,000,000 shares authorized; 110,366,555 shares issued at September 30, 2011 and 108,714,757 shares issued at December 31, 2010	110	109
Additional paid-in capital	1,130,275	1,051,722
	(89,037)	—

Treasury stock, at cost — 2,617,629 shares at September 30, 2011 and 0 shares at December 31, 2010		
Accumulated other comprehensive loss	(1,287)	(4,496)
Retained earnings	257,354	126,420
Total stockholders' equity	1,297,415	1,173,755
Total liabilities and stockholders' equity	$3,650,877	$3,646,167

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)
(Amounts in thousands)

	Common Stock		Additional Paid-In Capital	Treasury Stock		Stockholder Loans	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity
	Shares	Amount		Shares	Amount				
BALANCE - December 31, 2009	94,215	$ 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
Revocation of restricted stock awards	(25)								—
Exercise of stock options	30		56						56
Excess tax benefits from share-based compensation			272						272
Stockholder loans						447			447
Share-based compensation			10,121						10,121
Issuance of common stock	20		468						468
BALANCE - September 30, 2010	94,240	$ 87	$ 690,194	—	$—	$ (52)	$ (5,874)	$ 242,980	$ 927,335
BALANCE - December 31, 2010	108,715	$ 109	$ 1,051,722	—	$—	$—	$ (4,496)	$ 126,420	$ 1,173,755
Comprehensive income:									
Net income								130,934	130,934
Unrealized gain on interest rate swaps, net of tax expense of $2,004							3,209		3,209
									134,143

Total comprehensive income									
Treasury stock purchases				(2,618)	(89,037)				(89,037)
Exercise of stock options	1,652	1	8,746						8,747
Excess tax benefits from share-based compensation			57,277						57,277
Share-based compensation			12,530						12,530
BALANCE - September 30, 2011	110,367	$110	$1,130,275	(2,618)	$(89,037)	$—	$(1,287)	$257,354	$1,297,415

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)

	Nine Months Ended September 30, 2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$130,934	$59,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Depreciation and amortization	55,794	67,472
Amortization of debt issuance costs	3,818	3,623
Excess tax benefits from share-based compensation	(57,277)	(272)
Share-based compensation	12,530	10,121
Loss on disposal of fixed assets	102	—
Impairment of fixed assets	—	840
Loss on extinguishment of debt	—	37,979
Provision for bad debts	1,111	3,682
Deferred income tax provision	(5,953)	(22,711)
Impairment of intangible assets	2,643	—
Lease abandonment	414	—
Loan forgiveness	1,146	3,932
Other	1,751	193
Changes in operating assets and liabilities:		
Cash and securities segregated under federal and other regulations	105,789	44,659
Receivables from clients	(11,301)	(17,804)
Receivables from product sponsors, broker-dealers and clearing organizations	37,872	(12,452)
Receivables from others	(20,908)	(26,234)
Securities owned	1,234	(3,284)
Securities borrowed	(2,056)	(782)
Other assets	(1,150)	2,548
Drafts payable	(45,195)	18,902
Payables to clients	(4,547)	(85,698)
Payables to broker-dealers and clearing organizations	10,954	8,203
Accrued commissions and advisory fees payable	(21,092)	10,968
Accounts payable and accrued liabilities	(24,263)	5,298
Unearned revenue	2,831	200
Income taxes receivable/payable	193,230	63
Securities sold but not yet purchased	(4,665)	(1,323)
Net cash provided by operating activities	363,746	107,821

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)

	Nine Months Ended September 30, 2011	2010
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	$(24,339)	$(10,934)
Purchase of securities classified as held-to-maturity	(4,634)	(5,392)
Proceeds from maturity of securities classified as held-to-maturity	4,000	5,200
Acquisitions (Note 3)	(37,184)	—
Deposits of restricted cash	(3,040)	(4,121)
Release of restricted cash	18,923	2,971
Net cash used in investing activities	(46,274)	(12,276)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of senior credit facilities	(50,478)	(9,091)
Proceeds from senior credit facilities	—	566,700
Redemption of subordinated notes	—	(579,563)
Payment of debt issuance costs	—	(7,181)
Payment of deferred transaction costs	—	(3,253)
Purchase of treasury stock	(89,037)	—
Proceeds from stock options exercised	8,747	56
Excess tax benefits from share-based compensation	57,277	272
Issuance of common stock	—	468
Net cash used in financing activities	(73,491)	(31,592)
NET INCREASE IN CASH AND CASH EQUIVALENTS	243,981	63,953
CASH AND CASH EQUIVALENTS — Beginning of period	419,208	378,594
CASH AND CASH EQUIVALENTS — End of period	$663,189	$442,547
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$52,981	$73,994
Income taxes paid	$44,379	$62,804
NONCASH DISCLOSURES:		
Capital expenditures purchased through short-term credit	$3,444	$2,436
Increase in unrealized gain on interest rate swaps, net of tax expense	$3,209	$5,398
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, 2010, 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, valuation of financial derivatives, contingencies and litigation, valuation and recognition of share-based payments and income taxes. These accounting policies are stated in the notes to the audited consolidated financial statements for the year ended December 31, 2010, 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 service channels; Independent Advisor Services, Institution Services and Custom Clearing Services, which are designed to enhance the services provided to its advisors and financial institutions. These service 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.

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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 its indebtedness at amortized cost and measures the implied fair value of its debt instruments using trading levels obtained from a third-party service provider. As of September 30, 2011, the carrying amount and fair value of the Company's indebtedness was approximately $1,336 million and $1,323 million, respectively. As of December 31, 2010, the carrying amount and fair value were approximately $1,387 million and $1,390 million, respectively. See Note 5 for additional detail regarding the Company's fair value measurements.

Acquisitions — The Company accounts for acquisitions as business combinations, and recognizes, separately from goodwill, assets acquired and liabilities assumed at their respective fair values as of the acquisition date. Goodwill as of the acquisition date is measured as the excess of consideration transferred and the net of the acquisition date fair values of the assets acquired and the liabilities assumed.

Recently Issued Accounting Pronouncements — Recent accounting pronouncements or changes in accounting pronouncements during the nine months ended September 30, 2011, as compared to the recent accounting pronouncements described in the Company's 2010 Annual Report on Form 10-K, that are of significance, or potential significance, to the Company are discussed below.

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, Fair Value Measurement (Topic 820)—Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs ("ASU 2011-04"), which clarifies the wording and disclosures required in Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurement ("ASC 820"), to converge with those used in International Financial Reporting Standards. The update explains how to measure and disclose fair value under ASC 820. However, the FASB does not expect the changes in this standard's update to alter the current application of the requirements in ASC 820. The provisions of ASU 2011-04 are effective for public entities prospectively for interim and annual periods beginning after December 15, 2011, and early adoption is prohibited. Therefore, ASU 2011-04 is effective for the Company during the first quarter of fiscal 2012. The Company does not expect ASU 2011-04 to have a material impact on its results of operations, financial condition, or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (ASC Topic 220)—Presentation of Comprehensive Income ("ASU 2011-05"), which amends current comprehensive income guidance by eliminating the option to present the components of other comprehensive income as part of the statement of stockholders' equity. Instead, the Company must report comprehensive income in either a single continuous statement of comprehensive income which contains two sections, net income and other comprehensive income, or in two separate but consecutive statements. ASU 2011-05 will be effective for public companies during the interim and annual periods beginning after December 15, 2011, with early adoption permitted. The Company does not anticipate the adoption of ASU 2011-05 to have a material impact on its results of operations, financial condition, or cash flows as the only requirement is a change in the format of the current presentation.

In September 2011, the FASB issued ASU No. 2011-08, Goodwill and Other (ASC Topic 350)—Testing Goodwill for Impairment ("ASU 2011-08"), which updated guidance on the periodic testing of goodwill for impairment. This guidance will allow companies to assess qualitative factors to determine if it is more-likely-than-not that goodwill might be impaired and whether it is necessary to perform the two-step goodwill impairment test required under current accounting standards. ASU 2011-08 will be effective for public companies during annual periods beginning after December 15, 2011, with early adoption permitted. The Company has elected to adopt ASU 2011-08 on the first day of its fourth fiscal quarter (October 1), coinciding with its 2011 annual goodwill impairment test. The Company does not anticipate the adoption of ASU 2011-08 to have a material impact on its results of operations, financial condition, or cash flows.

3. Acquisitions

National Retirement Partners, Inc.

On July 14, 2010, the Company announced a definitive agreement pursuant to which it would acquire certain assets of National Retirement Partners, Inc. ("NRP"). NRP's advisors offer retirement products, consulting, and investment services to retirement plan sponsors and plan participants as well as comprehensive financial services to plan participants. This strategic acquisition further enhances the capabilities and presence of the Company in the group retirement space.

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On February 9, 2011, the transaction closed. The Company paid $17.2 million at the closing of the transaction and placed $3.7 million of cash into escrow subject to adjustment pursuant to the terms of the purchase agreement. In the third quarter of 2011, the Company accrued additional consideration of $1.1 million pursuant to the terms of the asset purchase agreement, which has been included in accounts payable and accrued liabilities on the unaudited condensed consolidated statements of financial condition. In October 2011, the Company paid $4.8 million of cash consideration, consisting of $3.7 million from escrow and $1.1 million in additional consideration that was previously accrued.

The Company may be required to pay future consideration to former shareholders of NRP that is contingent upon the achievement of certain revenue-based milestones in the third year following the acquisition. There is no maximum amount of contingent consideration; however, the Company has estimated the amount of future payment of contingent consideration to be $7.9 million. Immediately following the close of the transaction, the Company paid $2.0 million of the contingent consideration in advance to former shareholders of NRP, which reduced the remaining amount of future contingent consideration to be paid to $5.9 million.

The Company estimated the fair value of the remaining contingent consideration to be $3.3 million at the close of the transaction, which was determined using a discounted cash flow methodology based on financial forecasts determined by management that includes assumptions about revenue growth, operating margins and discount rates. The Company has recorded the $3.3 million of contingent consideration within accounts payable and accrued liabilities, and re-measures contingent consideration at fair value at each interim reporting period with changes recognized in earnings (see Note 5).

Including the contingent consideration of $5.3 million, total consideration for the NRP acquisition was $25.3 million. Transaction costs associated with the Company’s acquisition of NRP totaling $4.8 million were expensed as incurred through other expense in the unaudited condensed consolidated statements of operations. Of these transaction costs, $2.5 million were incurred during the nine months ending September 30, 2011.

Concord Capital Partners, Inc.

On April 20, 2011, the Company announced its intent to acquire all of the outstanding common stock of Concord Capital Partners, Inc. (“Concord Wealth Management” or “CCP”). Concord Wealth Management is an industry leader in providing technology and open architecture investment management solutions for trust departments of financial institutions. Through this acquisition, the Company will have the ability to support both the brokerage and trust business lines of current and prospective financial institutions. The acquisition will also create new expansion opportunities such as giving the Company the ability to custody personal trust assets within banks across the country.

On June 22, 2011, the transaction closed. The Company paid $20.0 million, net of cash acquired, at the closing of the transaction to the former shareholders of Concord Wealth Management and placed $2.3 million of cash into escrow subject to adjustment pursuant to the terms of the stock purchase agreement. As of September 30, 2011, $2.3 million remains in an escrow account to be paid to former shareholders of Concord Wealth Management in accordance with the terms of the stock purchase agreement. The Company has classified the escrow account as restricted cash, which is included in other assets on the unaudited condensed consolidated statements of financial condition.

The Company may be required to pay future consideration that is contingent upon the achievement of certain gross margin-based milestones for the year ended December 31, 2013. The maximum amount of contingent consideration is $15.0 million, which also represents the Company's estimated amount of future payment.

The Company estimated the fair value of the contingent consideration to be $11.5 million at the close of the transaction, which was determined using a discounted cash flow methodology based on financial forecasts determined by management that includes assumptions about growth in gross margin, and discount rates. The Company has recorded the contingent consideration of $11.5 million within accounts payable and accrued liabilities, and re-measures contingent consideration at fair value at each interim reporting period with changes recognized in earnings (see Note 5).

Including the contingent consideration of $11.5 million, the total consideration for the acquisition was approximately $33.8 million. During the nine months ending September 30, 2011, the Company incurred transaction costs associated with its acquisition of Concord Wealth Management totaling $1.0 million which were recorded as other expense in the unaudited condensed consolidated statements of operations.

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The Company is in the process of finalizing the purchase allocations and the value of contingent considerations for NRP and CCP; therefore, the provisional measures of goodwill, intangibles, fixed assets, and contingent consideration are subject to change.
Set forth below is a reconciliation of assets acquired and liabilities assumed during the nine months ended September 30, 2011 (in thousands):

	NRP	CCP	Total
Goodwill	$13,698	$27,022	$40,720
Accounts receivable	—	770	770
Other assets	—	190	190
Intangibles	11,800	7,550	19,350
Fixed assets(1)	—	3,950	3,950
Accounts payable and accrued liabilities	(190)	(5,721)	(5,911)
Net assets acquired	$25,308	$33,761	$59,069

(1) Fixed assets acquired from CCP relate primarily to internally developed software, which amortizes over 5 years.

Set forth below is supplemental cash flow information for the nine months ended September 30, 2011 (in thousands):

	NRP	CCP	Total
Cash payments, net of cash acquired	$17,215	$19,969	$37,184
Cash held in escrow(1)	3,670	2,250	5,920
Cash consideration paid in October 2011(1)	1,123	—	1,123
Contingent consideration	3,300	11,542	14,842
Total purchase price	$25,308	$33,761	$59,069

(1) In October 2011, the Company paid $4.8 million pursuant to the terms of the NRP asset purchase agreement, consisting of $3.7 million from escrow and $1.1 million in additional consideration.

The Company preliminarily allocated the estimated purchase price to specific amortizable intangible asset categories as follows (dollars in thousands):

	Amortization Period	Amount Assigned
NRP		
Client relationships	11.0 years	$4,730
Advisor relationships	9.0 years	4,080
Product sponsor relationships	4.0 years	2,990
Total intangible assets acquired from NRP		$11,800
CCP		
Client relationships	15.0 years	$7,550

Pro-forma information related to the acquisitions was not included because the impact on the Company’s unaudited condensed consolidated statements of operations, financial condition and cash flows was not considered to be material.

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4. Restructuring

Consolidation of UVEST Financial Services Group, Inc.

On March 14, 2011, the Company committed to a corporate restructuring plan to consolidate the operations of UVEST Financial Services Group, Inc. (“UVEST”) with LPL Financial LLC (“LPL Financial”). The restructuring plan was effected to enhance the Company’s service offering, while also generating efficiencies. In connection with the consolidation, certain registered representatives currently associated with UVEST will move to LPL Financial through a transfer of their licenses. The first wave of transfers was completed in July 2011. The second wave is scheduled to occur in October 2011 and the final transfers are expected to be completed in December 2011. Following the transfer of registered representatives and client accounts to LPL Financial, all registered representatives and client accounts that transferred shall be associated with LPL Financial and all of the Company’s securities business will be done through a single broker-dealer. In addition, UVEST will terminate its clearing relationship with a third-party clearing firm and file a broker-dealer withdrawal request with the Financial Industry Regulatory Authority ("FINRA").

The Company estimates total expenditures associated with the initiative to be approximately $47.6 million over the course of the restructuring plan. These expenditures are comprised of advisor retention and related benefits, contract termination fees, technology costs, non-cash charges for the impairment of intangible assets resulting from advisor attrition and other expenses principally relating to the conversion and transfer of registered representatives and client accounts from UVEST to LPL Financial.

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, 2011 (in thousands):

	Accrued Balance at December 31, 2010	Costs Incurred(1)	Payments	Non-cash	Accrued Balance at September 30, 2011	Total Expected Restructuring Costs
Conversion and transfer costs(2)	$—	$6,168	$(4,745)	$—	$1,423	$30,575
Contract termination fees	—	3,022	—	—	3,022	8,963
Advisor retention and related benefits	—	421	(364)	(57)	—	5,025
Asset impairments	—	2,643	—	(2,643)	—	3,000
Total	$—	$12,254	$(5,109)	$(2,700)	$4,445	$47,563

(1) At September 30, 2011, costs incurred represent the total cumulative costs incurred.

(2) At September 30, 2011, total expected restructuring costs include approximately $15.6 million in cash expenditures for application development. Of these costs approximately $11.5 million are expected to be capitalized as internally-developed software that have a useful life ranging from three to five years, with expense being recorded as depreciation and amortization within the unaudited condensed consolidated statements of operations. As of September 30, 2011, approximately $8.7 million has been spent on development activities of which approximately $6.3 million has been capitalized, with the remainder included in costs incurred. The Company anticipates capitalizing an additional $5.0 million to $6.0 million of internally-developed software over the next six months.

5. 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:

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

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- 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, 2011, 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 Owned and Securities Sold But Not Yet Purchased — The Company's trading securities 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 trading securities. 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, 2011, 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.

Accounts Payable and Accrued Liabilities — The Company's accounts payable and accrued liabilities include contingent consideration from its acquisitions. Contingent consideration is measured by discounting, to present value, the contingent payments expected to be made based on the Company's estimates of certain financial targets expected to result from the acquisitions. See Note 3 for more information regarding the acquisitions and related contingent consideration.

Interest Rate Swaps — The Company's interest rate swaps are not traded on a market exchange; therefore, the fair values are determined using 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.

There have been no transfers of assets or liabilities between fair value measurement classifications during the nine months ended September 30, 2011.

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The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at September 30, 2011 (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, 2011:				
Assets				
Cash equivalents	$516,254	$—	$—	$516,254
Securities owned — trading:				
Money market funds	4	—	—	4
Mutual funds	6,461	—	—	6,461
Equity securities	48	—	—	48
Debt securities	—	121	—	121
Certificates of deposit	—	23	—	23
U.S. treasury obligations	900	—	—	900
Total securities owned — trading	7,413	144	—	7,557
Other assets	21,155	—	—	21,155
Total assets at fair value	$544,822	$144	$—	$544,966
Liabilities				
Securities sold but not yet purchased:				
Mutual funds	$122	$—	$—	$122
Equity securities	3	—	—	3
Debt securities	—	5	—	5
Certificates of deposit	—	26	—	26
Total securities sold but not yet purchased	125	31	—	156
Interest rate swaps	—	2,068	—	2,068
Accounts payable and accrued liabilities	—	—	15,775	15,775
Total liabilities at fair value	$125	$2,099	$15,775	$17,999

Certain assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value measurement in certain circumstances, for example, when evidence of impairment exists. During the nine months ended September 30, 2011, the Company recorded an asset impairment charge of $2.6 million for certain intangible assets that were determined to have no estimated fair value (See Note 7). The fair value was determined based on the loss of future expected cash flows for institutional relationships that were not retained as a result of the Company's ongoing consolidation of UVEST with LPL Financial. The Company has determined that the impairment qualifies as a Level 3 measurement under the fair value hierarchy.

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Changes in Level 3 Recurring Fair Value Measurements

Set forth below is a reconciliation of contingent consideration classified as accounts payable and accrued liabilities on the unaudited condensed consolidated statements of financial condition and measured at fair value on a recurring basis using significant unobservable inputs (Level 3). Contingent consideration is measured by discounting, to present value, the contingent payments expected to be made based on the Company's estimates of certain financial targets expected to result from the acquisitions.

Nine Months Ended September 30, 2011 (in thousands):	
Fair value at December 31, 2010	$—
Issuances of contingent consideration	16,842
Total unrealized losses included in earnings (1)	933
Payments	(2,000)
Fair value at September 30, 2011	$15,775

(1) Represents the accretion of interest as the contingent consideration approaches the future expected payment.

The following table summarizes the Company's financial assets and financial liabilities measured at fair value on a recurring basis at December 31, 2010 (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 December 31, 2010:				
Assets				
Cash equivalents	$279,048	$—	$—	$279,048
Securities owned — trading:				
Money market funds	316	—	—	316
Mutual funds	7,300	—	—	7,300
Equity securities	17	—	—	17
Debt securities	—	516	—	516
U.S. treasury obligations	1,010	—	—	1,010
Certificates of deposit	—	100	—	100
Total securities owned — trading	8,643	616	—	9,259
Other assets	17,175	—	—	17,175
Total assets at fair value	$304,866	$616	$—	$305,482
Liabilities				
Securities sold but not yet purchased:				
Mutual funds	$4,563	$—	$—	$