
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.

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WHERE YOU CAN FIND MORE INFORMATION

We are required to file annual, quarterly and current reports and other information required by the Securities Exchange Act of 1934, as amended, with the Securities and Exchange Commission, or SEC. You may read and copy any document we file with the SEC at the SEC's public reference room located at 100 F Street, N.E., Washington, D.C. 20549, U.S.A. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public from the SEC's internet site at <http://www.sec.gov>.

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

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

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 September 30,		Nine Months Ended 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	<u>759,964</u>	<u>702,326</u>	<u>2,293,531</u>	<u>2,014,621</u>
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	<u>713,952</u>	<u>708,811</u>	<u>2,194,175</u>	<u>1,962,173</u>
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)	<u>\$ 26,144</u>	<u>\$ (1,456)</u>	<u>\$ 59,698</u>	<u>\$ 28,922</u>
EARNINGS (LOSS) PER SHARE (Note 12):				
Basic	<u>\$ 0.30</u>	<u>\$ (0.02)</u>	<u>\$ 0.68</u>	<u>\$ 0.33</u>
Diluted	<u>\$ 0.26</u>	<u>\$ (0.02)</u>	<u>\$ 0.59</u>	<u>\$ 0.29</u>

See notes to unaudited condensed consolidated financial statements.

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:		
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.

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

	Common Stock	Additional Paid-In Capital	Stockholder Loans	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
BALANCE — December 31, 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	<u>\$ 87</u>	<u>\$ 676,086</u>	<u>\$ (493)</u>	<u>\$ (12,335)</u>	<u>\$ 164,684</u>	<u>\$ 828,029</u>
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
Share-based compensation		10,121				10,121
Issuance of 20,000 shares of common stock		468				468
BALANCE — September 30, 2010	<u>\$ 87</u>	<u>\$ 690,194</u>	<u>\$ (52)</u>	<u>\$ (5,874)</u>	<u>\$ 242,980</u>	<u>\$ 927,335</u>

See notes to unaudited condensed consolidated financial statements.

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	<u>107,821</u>	<u>107,455</u>

See notes to unaudited condensed consolidated financial statements.

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	<u>(12,276)</u>	<u>(19,073)</u>
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	<u>(31,592)</u>	<u>(62,132)</u>
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	<u>\$ 442,547</u>	<u>\$ 245,489</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	<u>\$ 73,994</u>	<u>\$ 61,997</u>
Income taxes paid	<u>\$ 62,804</u>	<u>\$ 41,420</u>
NONCASH DISCLOSURES:		
Capital expenditures purchased through short-term credit	<u>\$ 2,436</u>	<u>\$ 105</u>
Increase in unrealized gain on interest rate swaps, net of tax expense	<u>\$ 5,398</u>	<u>\$ 3,163</u>
Discount on proceeds from senior credit facilities recorded as debt issuance costs	<u>\$ 13,300</u>	<u>\$ —</u>

See notes to unaudited condensed consolidated financial statements.

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.

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

(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.

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:

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.

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	<u>18,160</u>	<u>401</u>	<u>—</u>	<u>18,561</u>
Other assets	15,550	—	—	15,550
Total assets at fair value	<u>\$ 572,597</u>	<u>\$ 401</u>	<u>\$ —</u>	<u>\$ 572,998</u>
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	<u>2,438</u>	<u>242</u>	<u>—</u>	<u>2,680</u>
Interest rate swaps	—	9,665	—	9,665
Total liabilities at fair value	<u>\$ 2,438</u>	<u>\$ 9,907</u>	<u>\$ —</u>	<u>\$ 12,345</u>

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	<u>\$ 530,666</u>	<u>\$ 678</u>	<u>\$ —</u>	<u>\$ 531,344</u>
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	<u>\$ 3,785</u>	<u>\$ 17,510</u>	<u>\$ —</u>	<u>\$ 21,295</u>

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):

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Fair Value</u>
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	<u>\$ 10,454</u>	<u>\$ 49</u>	<u>\$ 10,503</u>

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

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

6. Intangible Assets

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

	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Value</u>
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	<u>\$692,984</u>	<u>\$ (163,500)</u>	<u>\$529,484</u>
Indefinite-lived intangible assets:			
Trademark and trade name			39,819
Total intangible assets			<u>\$569,303</u>
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	<u>\$693,441</u>	<u>\$ (136,177)</u>	<u>\$557,264</u>
Indefinite-lived intangible assets:			
Trademark and trade name			39,819
Total intangible assets			<u>\$597,083</u>

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	<u>\$529,484</u>

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 $\frac{1}{2}$ of 1.00% for the 2013 Term Loans and the greater of the prime rate, effective federal funds rate plus $\frac{1}{2}$ 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.

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.

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

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

	Maturity	September 30, 2010		December 31, 2009	
		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		<u>\$1,376,161</u>		<u>\$1,360,799</u>	

- (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		Nine Months Ended	
	September 30,		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%

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
Thereafter	1,028,700
Total	<u>\$1,390,132</u>

9. Interest Rate Swaps

An interest rate swap is a financial derivative instrument whereby two parties enter into a contractual agreement to exchange payments based on underlying interest rates. The Company uses interest rate swap agreements to hedge the variability on its floating rate senior secured term loan. The Company is required to pay the counterparty to the agreement fixed interest payments on a notional balance and in turn, receives variable interest payments on that notional balance. Payments are settled quarterly on a net basis.

The following table summarizes information related to the Company's interest rate swaps as of September 30, 2010 (in thousands):

Notional Balance	Fixed Pay Rate	Variable Receive Rate(1)	Fair Value	Maturity Date
\$ 145,000	4.83%	0.29%	\$ (4,833)	June 30, 2011
65,000	4.85%	0.29%	(4,832)	June 30, 2012
<u>\$ 210,000</u>			<u>\$ (9,665)</u>	

(1) The variable receive rate reset on the last day of the period, based on the applicable three-month LIBOR. The effective rate from June 30, 2010 through September 29, 2010 was 0.53%. As of September 30, 2010, the effective rate was 0.29%.

The interest rate swap agreements qualify for hedge accounting and have been designated as cash flow hedges against specific payments due on the Company's senior secured term loan. As of September 30, 2010, the Company assessed the interest rate swap agreements as being highly effective and expects them to continue to be highly effective. Accordingly, the changes in fair value of the interest rate swaps have been recorded as other comprehensive loss, with the fair value included as a liability on the Company's unaudited condensed consolidated statements of financial condition. The Company has reclassified \$2.3 million and \$10.9 million from other comprehensive loss as additional interest expense for the three and nine months ended September 30, 2010, respectively, and \$2.7 million and \$12.2 million for the three and nine months ended September 30, 2009, respectively. Based on current interest rate assumptions and assuming no additional interest rate swap agreements are entered into, the Company expects to reclassify \$9.5 million or \$5.7 million after tax, from other comprehensive loss as additional interest expense over the next 12 months.

10. Commitments and Contingencies

Leases — The Company leases certain office space and equipment at its headquarter locations under various operating leases. These leases are generally subject to scheduled base rent and maintenance cost increases, which are recognized on a straight-line basis over the period of the leases.

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

Service Contracts — The Company is party to certain long-term contracts for systems and services that enable back office trade processing and clearing for its product and service offerings. One agreement, for clearing services, contains no minimum annual purchase commitment, but the agreement provides for certain penalties should the Company fail to maintain a certain threshold of client accounts.

Future minimum payments under leases, lease commitments and other non-cancellable contractual obligations with remaining terms greater than one year as of September 30, 2010 are as follows (in thousands):

Years ending December 31	
2010 — remainder	\$ 7,847
2011	31,230
2012	24,635
2013	15,510
2014	8,765
Thereafter	15,065
Total(1)	<u>\$103,052</u>

(1) Minimum payments have not been reduced by minimum sublease rental income of \$0.7 million due in the future under noncancellable subleases.

Total rental expense for all operating leases was \$4.3 million and \$12.8 million for the three and nine months ended September 30, 2010, respectively, and \$5.0 million and \$15.3 million for the three and nine months ended September 30, 2009, respectively.

Guarantees — The Company occasionally enters into certain types of contracts that contingently require it to indemnify certain parties against third-party claims. The terms of these obligations vary and, because a maximum obligation is not explicitly stated, the Company has determined that it is not possible to make an estimate of the amount that it could be obligated to pay under such contracts.

The Company's subsidiaries provide guarantees to securities clearing houses and exchanges under their standard membership agreements, which require a member to guarantee the performance of other members. Under these agreements, if a member becomes unable to satisfy its obligations to the clearing houses and exchanges, all other members would be required to meet any shortfall. The Company's liability under these arrangements is not quantifiable and may exceed the cash and securities it has posted as collateral. However, the potential requirement for the Company to make payments under these agreements is remote. Accordingly, no liability has been recognized for these transactions.

Loan Commitments — From time to time, the Company makes loans to its advisors, primarily to newly recruited advisors to assist in the transition process. Due to timing differences, the Company may make commitments to issue such loans prior to actually funding them. These commitments are generally contingent upon certain events occurring, including but not limited to the advisor joining the Company, and may be forgivable. The Company had no significant unfunded commitments at September 30, 2010 and December 31, 2009.

Litigation — The Company has been named as a defendant in various legal actions, including arbitrations. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, the Company cannot predict with certainty what the eventual loss or range of loss related to such matters will be. The Company recognizes a legal liability when it believes it is probable a liability has occurred and the amount can be reasonably estimated. Defense costs are expensed as incurred and classified as professional services within the unaudited condensed consolidated statements of income. When there is indemnification or insurance, the Company may engage in defense of settlement and subsequently seek reimbursement for such matters.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

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

In connection with various acquisitions, and pursuant to the purchase and sale agreements, the Company has received third-party indemnification for certain legal proceedings and claims. These matters have been defended and paid directly by the indemnifying party.

On October 1, 2009, LPL Holdings, Inc., a subsidiary of the Company, received written notice from a third-party indemnitor under a certain purchase and sale agreement asserting that it is no longer obligated to indemnify the Company for certain claims under the provisions of the purchase and sale agreement. The Company believes that this assertion is without merit and has commenced litigation to enforce its indemnity rights. Such litigation remains pending in the court system.

During the third quarter of 2010, the Company settled two arbitrations that involve activities covered under the third-party indemnification agreement described above. In connection with these settlements, the Company has recorded legal expenses of \$8.9 million during the nine months ended September 30, 2010, of which \$5.6 million has been recorded in the third quarter of 2010. These legal expenses have been included in professional services within the unaudited condensed consolidated statements of income. The Company will seek to recover the costs associated with defending and settling these matters, plus other costs incurred on matters that the Company believes are subject to the indemnification. The remaining claims outstanding for which the indemnifying party is disputing its obligation involve alleged damages that are not material to the Company's unaudited condensed consolidated statements of financial condition, income or cash flows.

The Company believes, based on the information available at this time, after consultation with counsel, consideration of insurance, if any, and the indemnifications provided by the third-party indemnitors, notwithstanding the assertions by an indemnifying party noted in the preceding paragraph, that the outcome of such matters will not have a material adverse impact on unaudited condensed consolidated statements of financial condition, income or cash flows.

Other Commitments — As of September 30, 2010, the Company had received collateral primarily in connection with client margin loans with a market value of approximately \$327.9 million, which it can sell or repledge. Of this amount, approximately \$174.1 million has been pledged or sold as of September 30, 2010; \$151.4 million was pledged to banks in connection with unutilized secured margin lines of credit, \$12.3 million was pledged with client-owned securities to the Options Clearing Corporation, and \$10.4 million was loaned to the Depository Trust Company ("DTC") through participation in its Stock Borrow Program. As of December 31, 2009, the Company had received collateral primarily in connection with client margin loans with a market value of approximately \$227.9 million, which it can sell or repledge. Of this amount, approximately \$158.8 million has been pledged or sold as of December 31, 2009; \$141.6 million was pledged to banks in connection with unutilized secured margin lines of credit, \$10.0 million was pledged with client-owned securities to the Options Clearing Corporation, and \$7.2 million was loaned to the DTC through participation in its Stock Borrow Program.

In August of 2007, pursuant to agreements with a large global insurance company, LPL Financial began providing brokerage, clearing and custody services on a fully disclosed basis; offering its investment advisory programs and platforms; and providing technology and additional processing and related services to its advisors and their clients. The terms of the agreements are five years, subject to additional 24-month extensions. Termination fees may be payable by a terminating or breaching party depending on the specific cause of termination.

11. Share-Based Compensation

Certain employees, advisors, officers and directors who contribute to the success of the Company participate in various stock option plans. In addition, certain financial institutions participate in a warrant plan. Stock options and warrants generally vest in equal increments over a three- to five-year period and expire on the 10th anniversary following the date of grant.

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

The Company recognizes share-based compensation expense related to employee stock option awards based on the grant date fair value over the requisite service period of the award, which generally equals the vesting period. The Company recognized \$7.6 million and \$4.0 million of share-based compensation related to the vesting of employee stock option awards during the nine months ended September 30, 2010 and 2009, respectively, which is included in compensation and benefits on the unaudited condensed consolidated statements of income. As of September 30, 2010, total unrecognized compensation cost related to non-vested share-based compensation arrangements granted was \$28.2 million, which is expected to be recognized over a weighted-average period of 3.44 years.

The Company recognizes share-based compensation expense for stock options and warrants awarded to its advisors and financial institutions based on the fair value of awards at each interim reporting period. The Company recognized \$2.5 million and \$1.0 million of share-based compensation during the nine months ended September 30, 2010 and 2009, respectively, related to the vesting of stock options and warrants awarded to its advisors and financial institutions, which is classified within commission and advisory expenses on the unaudited condensed consolidated statements of income. As of September 30, 2010, total unrecognized compensation cost related to non-vested share-based compensation arrangements granted was \$10.1 million for advisors and financial institutions, which is expected to be recognized over a weighted-average period of 3.61 years.

The following table presents the weighted-average assumptions used by the Company in calculating the fair value of its stock options and warrants with the Black-Scholes valuation model that have been granted during the nine months ended September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Expected life (in years)	6.51	6.84
Expected stock price volatility	50.30%	50.98%
Expected dividend yield	—	—
Annualized forfeiture rate	5.00%	4.64%
Fair value of options	\$12.33	\$11.79
Risk-free interest rate	2.79%	2.77%

The risk-free interest rates are based on the implied yield available on U.S. Treasury constant maturities in effect at the time of the grant with remaining terms equivalent to the respective expected terms of the options. The dividend yield of zero is based on the fact that the Company has no present intention to pay cash dividends. The Company estimates the expected term for its employee option awards using the simplified method in accordance with Staff Accounting Bulletin 110, *Certain Assumptions Used in Valuation Methods*, because the Company does not have sufficient relevant historical information to develop reasonable expectations about future exercise patterns. The Company estimates the expected term for stock options and warrants awarded to advisors and financial institutions using the contractual term. Expected volatility is calculated based on companies of similar growth and maturity and the Company's peer group in the industry in which the Company does business because the Company does not have sufficient historical volatility data. The Company will continue to use peer group volatility information until historical volatility of the Company is available to measure expected volatility for future grants. In the future, as the Company gains historical data for volatility of its own stock and the actual term over which stock options and warrants are held, expected volatility and the expected term may change, which could substantially change the grant-date fair value of future awards of stock options and warrants and, ultimately, compensation recorded on future grants.

The Company has assumed an annualized forfeiture rate for its stock options and warrants based on a combined review of industry, employee and advisor turnover data, as well as an analytical review performed of historical pre-vesting forfeitures occurring over the previous year. The Company records additional expense if the actual forfeiture rate is lower than estimated and records a recovery of prior expense if the actual forfeiture is higher than estimated.

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

The following table summarizes the Company's activity in its stock option and warrant plans for the nine months ended September 30, 2010:

	Number of Shares	Weighted- Average Exercise Price	Weighted- Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (In thousands)
Outstanding — December 31, 2009	22,702,469	\$ 6.99		
Granted	68,776	23.41		
Exercised	(29,814)	1.86		
Forfeited	(187,505)	21.96		
Outstanding — September 30, 2010	<u>22,553,926</u>	<u>\$ 6.92</u>	4.25	\$ 486,672
Exercisable — September 30, 2010	<u>18,704,480</u>	<u>\$ 3.61</u>	3.40	\$ 465,586

The following table summarizes information about outstanding stock option and warrant awards:

Range of Exercise Prices	Outstanding			Exercisable	
	Total Number of Shares	Weighted- Average Remaining Life (Years)	Weighted- Average Exercise Price	Number of Shares	Weighted- Average Exercise Price
At September 30, 2010:					
\$1.07 — \$2.38	17,142,240	3.01	\$ 1.74	17,142,240	\$ 1.74
\$10.30 — \$19.74	941,164	8.15	18.30	208,217	16.74
\$21.60 — \$22.08	2,149,650	8.67	22.02	539,190	21.94
\$23.02 — \$27.80	<u>2,320,872</u>	7.76	26.57	<u>814,833</u>	27.37
	<u>22,553,926</u>	4.25	\$ 6.92	<u>18,704,480</u>	\$ 3.61

2008 Nonqualified Deferred Compensation Plan

On November 19, 2008, the Company established an unfunded, unsecured deferred compensation plan to permit employees and former employees that held non-qualified stock options issued under the 2005 Stock Option Plan for Incentive Stock Options and 2005 Stock Option Plan for Non-qualified Stock Options that were to expire in 2009 and 2010, to receive stock units under the 2008 Nonqualified Deferred Compensation Plan. Stock units represent the right to receive one share of common stock. Distribution will occur at the earliest of (a) a date in 2012 to be determined by the Board of Directors; (b) a change in control of the Company; or (c) death or disability of the participant. Issuance of stock options for stock units, which occurred in December 2008, is not taxable for federal and state income tax purposes until the participant receives a distribution under the deferred compensation plan. At September 30, 2010, the Company had 2,823,452 stock units outstanding under the 2008 Nonqualified Deferred Compensation Plan.

2000 Stock Bonus Plan

The Company's advisors participate in the fifth amended and restated 2000 Stock Bonus Plan (the "Stock Bonus Plan"), which provided for the grant and allocation of bonus credits. Each bonus credit represented the right to receive shares of common stock. Participation in the Stock Bonus Plan was dependent upon meeting certain eligibility criteria, and bonus credits were allocated to eligible participants based on certain performance metrics, including amount and type of commissions, as well as tenure. Bonus credits vested annually in equal increments over a three-year period and expired on the tenth anniversary following the date of grant. Unvested bonus credits held by advisors who terminated prior to vesting were forfeited and reallocated to other advisors eligible under the plan. In 2008, the Company amended and restated its Stock Bonus Plan to provide its advisors with physical ownership of common stock of the Company. These restricted shares are entitled to vote but may not be sold, assigned or transferred and are not entitled to receive dividends or non-cash distributions, until either a sale of the

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

Company that constitutes a change in control or an initial public offering. There are 7,399,403 restricted shares issued and outstanding as of September 30, 2010.

The Company accounts for restricted shares granted to its advisors by measuring such grants at their then-current lowest aggregate value. Since the value is contingent upon the Company's decision to sell itself or issue its common stock to the public through a registered initial public offering, the current aggregate value will be zero until such event occurs. Upon the occurrence of such an event, the Company will record the par value, additional paid in capital and expense based on the number of restricted shares under the stock bonus plan multiplied by the fair market value determined at the event date.

Director Restricted Stock Plan

In March 2010, the Company established a Director Restricted Stock Plan (the "Director Plan"). Eligible participants include non-employee directors who are in a position to make a significant contribution to the success of the Company. Restricted stock awards vest on the second anniversary of the date of grant and upon termination of service, unvested awards shall immediately be forfeited. On March 15, 2010, the Company issued 6,408 restricted stock awards to certain of its directors at a fair value of \$23.41 per share. A summary of the status of the Company's restricted stock awards under the Director Plan as of and for the nine months ending September 30, 2010 is as follows:

	Number of Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2010	—	\$ —
Granted	6,408	23.41
Vested	—	—
Forfeited	—	—
Nonvested at September 30, 2010	<u>6,408</u>	<u>\$ 23.41</u>

The Company accounts for restricted stock awards granted to its non-employee directors by measuring such awards at their grant date fair value. Share-based compensation expense is recognized ratably over the requisite service period, which generally equals the vesting period. As of September 30, 2010, total unrecognized compensation cost was \$0.1 million, which is expected to be recognized over a weighted-average remaining period of 1.45 years.

12. Earnings per Share

In calculating earnings per share using the two-class method, the Company is required to allocate a portion of its earnings to employees that hold stock units that contain non-forfeitable rights to dividends or dividend equivalents under its 2008 Nonqualified Deferred Compensation Plan. Basic earnings per share is computed by dividing income less earnings attributable to employees that hold stock units under the 2008 Nonqualified Deferred Compensation Plan by the basic weighted average number of shares outstanding. Diluted earnings per share is computed in a manner similar to basic earnings per share, except the weighted average number of shares outstanding is increased to include the dilutive effect of outstanding stock options, warrants and other stock-based awards.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

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

A reconciliation of the income used to compute basic and diluted earnings per share for the periods noted was as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Basic earnings per share:				
Net income (loss), as reported	\$26,144	\$(1,456)	\$59,698	\$28,922
Less: allocation of undistributed earnings to stock units	(424)	—	(968)	(585)
Net income (loss), for computing basic earnings per share	<u>\$25,720</u>	<u>\$(1,456)</u>	<u>\$58,730</u>	<u>\$28,337</u>
Diluted earnings per share:				
Net income (loss), as reported	\$26,144	\$(1,456)	\$59,698	\$28,922
Less: allocation of undistributed earnings to stock units	(370)	—	(848)	(515)
Net income (loss), for computing diluted earnings per share	<u>\$25,774</u>	<u>\$(1,456)</u>	<u>\$58,850</u>	<u>\$28,407</u>

A reconciliation of the weighted average number of shares outstanding used to compute basic and diluted earnings per share for the periods noted was as follows (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Basic weighted average number of shares outstanding	86,838	86,697	86,817	86,608
Dilutive common share equivalents	12,774	—	12,486	11,919
Diluted weighted average number of shares outstanding	<u>99,612</u>	<u>86,697</u>	<u>99,303</u>	<u>98,527</u>

Basic and diluted earnings per share for the periods noted were as follows:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
Basic earnings (loss) per share	\$0.30	\$(0.02)	\$0.68	\$0.33
Diluted earnings (loss) per share	\$0.26	\$(0.02)	\$0.59	\$0.29

Basic weighted average shares outstanding and diluted weighted average shares outstanding were the same for the three months September 30, 2009, because the effect of potential shares of common stock was anti-dilutive since the Company generated a net loss.

The computation of diluted earnings per share excluded stock options and warrants to purchase 2,832,223 shares and 3,165,183 shares for the three months ended September 30, 2010 and 2009, respectively, and 3,226,653 shares and 3,041,438 shares for the nine months ended September 30, 2010 and 2009, respectively, because the effect would have been anti-dilutive.

Restricted shares issued under the Company's 2000 Stock Bonus Plan have been excluded from the calculation of basic and diluted earnings per share for all periods presented because the shares are contingent on a change in control or an initial public offering. There are 7,399,403 restricted shares issued and outstanding as of September 30, 2010.

13. Related Party Transactions

AlixPartners, LLP ("AlixPartners"), a company majority-owned by one of the Company's majority stockholders, provides services pursuant to an agreement for interim management and consulting. The Company paid \$0.6 million to AlixPartners during the nine months ended September 30, 2009.

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

One of the Company's majority stockholders owns a minority interest in Artisan Partners Limited Partnership ("Artisan"), which pays fees in exchange for product distribution and record-keeping services. During the nine months ended September 30, 2010 and 2009, the Company earned \$1.7 million and \$1.0 million, respectively, in fees from Artisan. Additionally, as of September 30, 2010 and December 31, 2009, Artisan owed the Company \$0.5 million, which is included in receivables from product sponsors, broker-dealers and clearing organizations on the unaudited condensed consolidated statements of financial condition.

American Beacon Advisor, Inc. ("American Beacon"), a company majority-owned by one of the Company's majority stockholders, pays fees in exchange for product distribution and record-keeping services. During the nine months ended September 30, 2010 and 2009, the Company earned \$0.1 million and \$0.3 million, respectively, in fees from American Beacon. Additionally, as of December 31, 2009, American Beacon owed the Company \$0.1 million, which is included in receivables from product sponsors, broker-dealers and clearing organizations on the unaudited condensed consolidated statements of financial condition.

One of the Company's majority stockholders owns a minority interest in XOJET, Inc. ("XOJET"), which provides chartered aircraft services. The Company paid \$0.9 million to XOJET during the nine months ended September 30, 2010.

Certain entities affiliated with SunGard Data Systems Inc. ("SunGard"), a company majority-owned by one of the Company's majority stockholders, provide data center recovery services. The Company paid \$0.2 million to SunGard during both of the nine month periods ended September 30, 2010 and 2009.

Blue Frog Solutions, Inc. ("Blue Frog"), a privately held technology company in which the Company holds an equity interest, provides software licensing for annuity order entry and compliance. The Company paid \$0.9 million and \$0.7 million to Blue Frog for such services during the nine months ended September 30, 2010 and 2009, respectively. As of September 30, 2010, the Company had a payable to Blue Frog of \$0.2 million, which is included in accounts payable and accrued liabilities on the unaudited condensed consolidated statement of financial condition.

In conjunction with the acquisition of UVEST Financial Services Group, Inc. ("UVEST"), the Company made full-recourse loans to certain members UVEST of management (also selling stockholders), most of whom are now stockholders of the Company. In February 2010, the Company forgave approximately \$0.4 million to a stockholder. As of September 30, 2010 and December 31, 2009, outstanding stockholder loans, which are reported as a deduction from stockholders' equity, were approximately \$0.1 million and \$0.5 million, respectively.

14. Net Capital/Regulatory Requirements

The Company's registered broker-dealers are subject to the SEC's Uniform Net Capital Rule (Rule 15c3-1 under the Securities Exchange Act of 1934), which requires the maintenance of minimum net capital, as defined. Net capital is calculated for each broker-dealer subsidiary individually. Excess net capital of one broker-dealer subsidiary may not be used to offset a net capital deficiency of another broker-dealer subsidiary. Net capital and the related net capital requirement may fluctuate on a daily basis.

Net capital and net capital requirements for the Company's broker-dealer subsidiaries as of September 30, 2010 are presented in the following table (in thousands):

	Net Capital	Minimum Net Capital Required	Excess Net Capital
LPL Financial Corporation	\$109,904	\$ 6,360	\$ 103,544
UVEST Financial Services Group, Inc.	10,232	1,564	8,668
Total	\$120,136	\$ 7,924	\$ 112,212

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

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

In connection with the consolidation of the Affiliated Entities; Associated, MSC and WFG have ceased operations but continue to be required to meet certain regulatory requirements until such time that their broker-dealer license withdrawals are complete. At September 30, 2010, Associated, MSC and WFG had aggregate net capital of \$12.7 million, which was \$12.1 million in excess of the minimum net capital requirements.

LPL Financial is a clearing broker-dealer and UVEST is an introducing broker-dealer. Prior to the cessation of operations, Associated, MSC and WFG were introducing broker-dealers.

PTC is also subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's unaudited condensed consolidated financial statements. As of September 30, 2010 and December 31, 2009, the Company's registered broker-dealers and PTC have met all capital adequacy requirements to which it is subject.

The Company operates in a highly regulated industry. Applicable laws and regulations restrict permissible activities and investments. These policies require compliance with various financial and customer-related regulations. The consequences of noncompliance can include substantial monetary and nonmonetary sanctions. In addition, the Company is also subject to comprehensive examinations and supervision by various governmental and self-regulatory agencies. These regulatory agencies generally have broad discretion to prescribe greater limitations on the operations of a regulated entity for the protection of investors or public interest. Furthermore, where the agencies determine that such operations are unsafe or unsound, fail to comply with applicable law, or are otherwise inconsistent with the laws and regulations or with the supervisory policies, greater restrictions may be imposed.

15. Financial Instruments with Off-Balance-Sheet Credit Risk and Concentrations of Credit Risk

LPL Financial's client securities activities are transacted on either a cash or margin basis. In margin transactions, LPL Financial extends credit to the client, subject to various regulatory and internal margin requirements, collateralized by cash and securities in the client's account. As clients write options contracts or sell securities short, LPL Financial may incur losses if the clients do not fulfill their obligations and the collateral in the clients' accounts is not sufficient to fully cover losses that clients may incur from these strategies. To control this risk, LPL Financial monitors margin levels daily and clients are required to deposit additional collateral, or reduce positions, when necessary.

LPL Financial is obligated to settle transactions with brokers and other financial institutions even if its clients fail to meet their obligation to LPL Financial. Clients are required to complete their transactions on the settlement date, generally three business days after the trade date. If clients do not fulfill their contractual obligations, LPL Financial may incur losses. LPL Financial has established procedures to reduce this risk by generally requiring that clients deposit cash and/or securities into their account prior to placing an order.

LPL Financial may at times maintain inventories in equity securities on both a long and short basis that are recorded on the unaudited condensed consolidated statements of financial condition at market value. While long inventory positions represent LPL Financial's ownership of securities, short inventory positions represent obligations of LPL Financial to deliver specified securities at a contracted price, which may differ from market prices prevailing at the time of completion of the transaction. Accordingly, both long and short inventory positions may result in losses or gains to LPL Financial as market values of securities fluctuate. To mitigate the risk of losses, long and short positions are marked-to-market daily and are continuously monitored by LPL Financial.

UVEST is engaged in buying and selling securities and other financial instruments for clients of advisors. Such transactions are introduced and cleared through a third-party clearing firm on a fully

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

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

disclosed basis. While introducing broker-dealers generally have less risk than clearing firms, their clearing agreements expose them to credit risk in the event that their clients don't fulfill contractual obligations with the clearing broker-dealer.

The Affiliated Entities were engaged in buying and selling securities and other financial instruments for clients of advisors. Such transactions were introduced and cleared through a third-party clearing firm on a fully disclosed basis. These firms no longer conduct such activities. The registered representatives and their client accounts have either transitioned or are in the process of transitioning to LPL Financial or to new firms.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We provide an integrated platform of proprietary technology, brokerage and investment advisory services to over 12,000 independent financial advisors and financial advisors at financial institutions across the country (our "advisors"), enabling them to successfully service their retail investors with unbiased, conflict-free financial advice. In addition, we support approximately 4,000 financial advisors with customized clearing, advisory platforms and technology solutions. Our singular focus is to support our advisors with the front, middle and back-office support they need to serve the large and growing market for independent investment advice, particularly in the mass affluent market. We believe we are the only company that offers advisors the unique combination of an integrated technology platform, comprehensive self-clearing services and full open architecture access to leading financial products, all delivered in an environment unencumbered by conflicts from product manufacturing, underwriting or market making.

For over 20 years we have served the independent advisor market. We currently support the largest independent advisor base and the fifth largest overall advisor base in the United States. Through our advisors, we are also one of the largest distributors of financial products in the United States. Our scale is a substantial competitive advantage and enables us to more effectively attract and retain advisors. Our unique model allows us to invest more resources in our advisors, increasing their revenues and creating a "virtuous cycle" of growth. We are headquartered in Boston and currently have over 2,500 employees in our Boston, Charlotte and San Diego locations.

Our Sources of Revenue

Our revenues are derived primarily from fees and commissions from products and advisory services offered by our advisors to their clients, a substantial portion of which we pay out to our advisors, as well as fees we receive from our advisors for use of our technology, custody and clearing platforms. We also generate asset-based fees through the distribution of financial products for a broad range of product manufacturers. Under our self-clearing platform, we custody the majority of client assets invested in these financial products, which includes providing statements, transaction processing and ongoing account management. In return for these services, mutual funds, insurance companies, banks and other financial product manufacturers pay us fees based on asset levels or number of accounts managed. We also earn fees for margin lending to our advisors' clients.

We track recurring revenue, which we define to include our revenues from asset-based fees, advisory fees, our trailing commissions, cash sweep programs and certain transaction and other fees that are based upon accounts and advisors. Because recurring revenue is associated with asset balances, it will fluctuate depending on the market value of the asset balances and current interest rates. Accordingly, recurring revenue can be negatively impacted by adverse external market conditions. However, recurring revenue is meaningful to us despite these fluctuations because it is not based on transaction volumes or other activity-based fees, which are more difficult to predict, particularly in declining or volatile markets.

The table below summarizes the sources of our revenue and the underlying drivers:

		Sources of revenue	Primary Drivers	For the Nine Months Ended September 30, 2010		
				Total (In millions)	% of Total Net Revenue	% Recurring
Advisor-driven revenue with ~85%–90% payout ratio		Commissions	<ul style="list-style-type: none"> ▪ Transactions ▪ Brokerage asset levels 	\$1,194	52%	33%
		Advisory Fees	<ul style="list-style-type: none"> ▪ Advisory asset levels 	\$634	28%	99%
Attachment revenue retained by us		Asset-Based Fees	<ul style="list-style-type: none"> ▪ Cash balances ▪ Interest rates ▪ Number of accounts ▪ Client asset levels 	\$231	10%	100%
		<ul style="list-style-type: none"> ▪ Cash Sweep Fees ▪ Sponsorship Fees ▪ Record Keeping 				
		Transaction and Other Fees	<ul style="list-style-type: none"> ▪ Client activity ▪ Number of clients ▪ Number of advisors ▪ Number of accounts ▪ Premium technology subscribers 	\$206	9%	55%
		<ul style="list-style-type: none"> ▪ Transactions ▪ Client (Investor) Accounts ▪ Advisor Seat and Technology 				
		Interest and Other Revenue	<ul style="list-style-type: none"> ▪ Margin accounts ▪ Marketing re-allowances fees 	\$29	1%	52%
		Total Net Revenue		\$2,294	100%	60%
		Total Recurring Revenue		\$1,380	60%	

- **Commissions and Advisory Fees.** Transaction-based commissions and advisory fees both represent advisor-generated revenue, generally 85-90% of which is paid to advisors.

Commissions. Transaction-based commission revenues represent gross commissions generated by our advisors, primarily from commissions earned on the sale of various financial products such as fixed and variable annuities, mutual funds, general securities, alternative investments and insurance and can vary from period to period based on the overall economic environment, number of trading days in the reporting period and investment activity of our clients. We also earn trailing commission type revenues (a commission that is paid over time, such as 12(b)-1 fees) on mutual funds and variable annuities held by clients of our advisors. Trail commissions are recurring in nature and are earned based on the current market value of investment holdings.

Advisory Fees. Advisory fee revenues represent fees charged by us and our advisors to their clients based on the value of advisory assets.

- **Asset-Based Fees.** Asset-based fees are comprised of fees from cash sweep programs, our financial product manufacturer sponsorship programs, and omnibus processing and networking services. Pursuant to contractual arrangements, uninvested cash balances in our advisors' client accounts are swept into either insured deposit accounts at various banks or third-party money market funds, for which we receive fees, including administrative and record-keeping fees based on account type and the invested balances. In addition, we receive fees from certain financial product manufacturers in connection with sponsorship programs that support our marketing and sales-force education and training efforts. We also earn fees on mutual fund assets for which we provide administrative and record-keeping services. Our networking fees represent fees paid to us by mutual fund and annuity product manufacturers in exchange for administrative

and record-keeping services that we provide to clients of our advisors. Networking fees are correlated to the number of positions we administer, not the value of assets under administration.

- **Transaction and Other Fees.** Revenues earned from transaction and other fees primarily consist of transaction fees and ticket charges, subscription fees, IRA custodian fees, contract and license fees, conference fees and small/inactive account fees. We charge fees to our advisors and their clients for executing transactions in brokerage and fee-based advisory accounts. We earn subscription fees for the software and technology services provided to our advisors and on IRA custodial services that we provide for their client accounts. We charge monthly administrative fees to our advisors. We charge fees to financial product manufacturers for participating in our training and marketing conferences and fees to our advisors and their clients for accounts that do not meet certain specified thresholds of size or activity. In addition, we host certain advisor conferences that serve as training, sales and marketing events in our first and third fiscal quarters and as a result, we anticipate higher transaction and other fees resulting from the collection of revenues from sponsors and advisors, in comparison to other periods.
- **Interest and Other Revenue.** Other revenue includes marketing re-allowances from certain financial product manufacturers as well as interest income from client margin accounts and cash equivalents, net of operating interest expense.

Our Operating Expenses

- **Production Expenses.** Production expenses consist of commissions and advisory fees as well as brokerage, clearing and exchange fees. We pay out the majority of commissions and advisory fees received from sales or services provided by our advisors. Substantially all of these payouts are variable and correlated to the revenues generated by each advisor.
- **Compensation and Benefits Expense.** Compensation and benefits expense includes salaries and wages and related employee benefits and taxes for our employees (including share-based compensation), as well as compensation for temporary employees and consultants.
- **General and Administrative Expenses.** General and administrative expenses include promotional fees, occupancy and equipment, communications and data processing, regulatory fees, travel and entertainment and professional services. We host certain advisor conferences that serve as training, sales and marketing events in our first and third quarters and as a result, we anticipate higher general and administrative expenses in comparison to other periods.
- **Depreciation and Amortization Expense.** Depreciation and amortization expense represents the benefits received for using long-lived assets. Those assets represent significant intangible assets established through our acquisitions, as well as fixed assets which include internally developed software, hardware, leasehold improvements and other equipment.
- **Restructuring Charges.** Restructuring charges represent expenses incurred as a result of our 2009 consolidation of the Affiliated Entities and our strategic business review committed to and implemented in 2008 to reduce our cost structure and improve operating efficiencies.
- **Other Expenses.** Other expenses include bank fees, other taxes, bad debt expense and other miscellaneous expenses.

How We Evaluate Growth

We focus on several business and key financial metrics in evaluating the success of our business relationships and our resulting financial position and operating performance. Our key metrics as of and for the three and nine months ended September 30, 2010 and 2009 are as follows:

	September 30,		% Change
	2010	2009	
	(unaudited)		
Business Metrics			
Advisors(1)	12,017	12,027	(0.1)%
Advisory and brokerage assets(2) (in billions)	\$ 293.3	\$ 268.9	9.1%
Advisory assets under management(3) (in billions)	\$ 86.2	\$ 72.6	18.7%
Net new advisory assets(4) (in billions)	\$ 5.8	\$ 4.5	28.9%
Insured cash account balances(3) (in billions)	\$ 11.7	\$ 11.4	2.6%
Money market account balances(3) (in billions)	\$ 6.9	\$ 7.5	(8.0)%

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)			
Financial Metrics				
Revenue growth (decline) from prior period	8.2%	(12.1)%	13.8%	(16.5)%
Recurring revenue as a % of net revenue(5)	61.2%	58.0%	60.2%	56.2%
Gross margin(6) (in millions)	\$ 234.3	\$ 221.1	\$ 698.2	\$ 626.9
Gross margin as a % of net revenue(6)	30.8%	31.5%	30.4%	31.1%
Net income (loss) (in millions)	\$ 26.1	\$ (1.5)	\$ 59.7	\$ 28.9
Adjusted EBITDA (in millions)	\$ 98.6	\$ 89.6	\$ 314.0	\$ 261.2
Adjusted Net Income (in millions)	\$ 40.5	\$ 34.7	\$ 128.0	\$ 87.5

(1) Advisors are defined as those investment professionals who are licensed to do business with our broker-dealer subsidiaries. We consolidated the operations of the Affiliated Entities with LPL Financial in the third quarter of 2009, which resulted in attrition of 138 advisors in the fourth quarter of 2009. Excluding this attrition, we have added 128 new advisors during the twelve months ended September 30, 2010.

(2) Advisory and brokerage assets are comprised of assets that are custodied, networked and non-networked and reflect market movement in addition to new assets, inclusive of new business development and net of attrition.

(3) Advisory assets under management, insured cash account balances and money market account balances are components of advisory and brokerage assets.

(4) Represents client asset inflows, less total client asset outflows, from client accounts within our advisory platforms.

(5) Recurring revenue is derived from sources such as advisory fees, asset-based fees, trailing commission fees, fees related to our cash sweep programs, interest earned on margin accounts and technology and service fees.

(6) Gross margin is calculated as net revenues less production expenses. Production expenses consist of the following expense categories from our consolidated statements of income: (i) commissions and advisory fees and (ii) brokerage, clearing and exchange. All other expense categories, including depreciation and amortization, are considered general and administrative in nature. Because our gross margin amounts do not include any depreciation and amortization expense, our gross margin amounts may not be comparable to those of others in our industry.

Adjusted EBITDA

Adjusted EBITDA is defined as EBITDA (net income plus interest expense, income tax expense, depreciation and amortization), further adjusted to exclude certain non-cash charges and other adjustments set forth below. We present Adjusted EBITDA because we consider it an important measure of our performance. Adjusted EBITDA is a useful financial metric in assessing our operating performance from period to period by excluding certain items that we believe are not representative of our core business, such as certain material non-cash items and other adjustments.

We believe that Adjusted EBITDA, viewed in addition to, and not in lieu of, our reported GAAP results, provides useful information to investors regarding our performance and overall results of operations for the following reasons:

- because non-cash equity grants made to employees at a certain price and point in time do not necessarily reflect how our business is performing at any particular time, stock-based compensation expense is not a key measure of our operating performance and
- because costs associated with acquisitions and the resulting integrations, debt refinancing, restructuring and conversions can vary from period to period and transaction to transaction, expenses associated with these activities are not considered a key measure of our operating performance.

We use Adjusted EBITDA:

- as a measure of operating performance;
- for planning purposes, including the preparation of budgets and forecasts;
- to allocate resources to enhance the financial performance of our business;
- to evaluate the effectiveness of our business strategies;
- in communications with our board of directors concerning our financial performance and
- as a bonus target for our employees.

Adjusted EBITDA is a non-GAAP measure as defined by Regulation G under the Securities Act of 1933, as amended (“the Securities Act”) and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. The term Adjusted EBITDA is not defined under GAAP, and Adjusted EBITDA is not a measure of net income, operating income or any other performance measure derived in accordance with GAAP, and is subject to important limitations.

Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect all cash expenditures, future requirements for capital expenditures or contractual commitments;
- Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs and
- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt.

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In addition, Adjusted EBITDA can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments. Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in our business. We compensate for these limitations by relying primarily on the GAAP results and using Adjusted EBITDA as supplemental information.

Set forth below is a reconciliation from our net income to Adjusted EBITDA for the three and nine months ended September 30, 2010 and 2009 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)			
Net income (loss)	\$26,144	\$ (1,456)	\$ 59,698	\$ 28,922
Interest expense	19,511	24,626	71,530	76,599
Income tax expense (benefit)	19,868	(5,029)	39,658	23,526
Amortization of purchased intangible assets and software(1)	9,352	14,915	34,401	45,161
Depreciation and amortization of all other fixed assets	10,420	12,009	33,071	36,435
EBITDA	85,295	45,065	238,358	210,643
EBITDA Adjustments:				
Share-based compensation expense(2)	2,853	1,640	7,628	3,912
Acquisition and integration related expenses(3)	6,268	728	9,785	2,389
Restructuring and conversion costs(4)	4,153	42,135	19,438	44,161
Debt amendment and extinguishment costs(5)	28	—	38,633	—
Other(6)	36	38	112	114
Total EBITDA Adjustments	13,338	44,541	75,596	50,576
Adjusted EBITDA	<u>\$98,633</u>	<u>\$89,606</u>	<u>\$313,954</u>	<u>\$261,219</u>

(1) Represents amortization of intangible assets and software as a result of our purchase accounting adjustments from our merger transaction in 2005 and our 2007 acquisitions of UVEST, the Affiliated Entities and IFMG Securities, Inc., Independent Financial Marketing Group, Inc. and LSC Insurance Agency of Arizona, Inc. (together, "IFMG").

(2) Represents share-based compensation expense related to vested stock options awarded to employees and non-executive directors based on the grant date fair value under the Black-Scholes valuation model.

(3) Represents acquisition and integration costs resulting from our 2007 acquisitions of the Affiliated Entities and IFMG. Included in the three and nine months ended September 30, 2010, are expenditures for certain legal settlements that have not been resolved with the indemnifying party. See Litigation in Note 10 of our unaudited condensed consolidated financial statements for further discussion on legal settlements.

(4) Represents organizational restructuring charges incurred in 2010 and 2009 for severance and one-time termination benefits, asset impairments, lease and contract termination fees and other transfer costs.

(5) Represents debt amendment costs incurred in 2010 for amending and restating our credit agreement to establish a new term loan tranche and to extend the maturity of an existing tranche on our senior credit facilities, and debt extinguishment costs to redeem our subordinated notes, as well as certain professional fees incurred.

(6) Represents excise and other taxes.

Adjusted Net Income and Adjusted Net Income per share

Adjusted Net Income represents net income before: (a) share-based compensation expense, (b) amortization of purchased intangible assets and software resulting from our 2005 merger transaction and our 2007 acquisitions of UVEST, the Affiliated Entities and IFMG, (c) acquisition and integration related expenses, (d) restructuring and conversion costs, (e) debt amendment and extinguishment costs and (f) other. Reconciling items are tax effected using the income tax rates in effect for the applicable period, adjusted for any potentially non-deductible amounts.

Adjusted Net Income per share represents Adjusted Net Income divided by weighted average outstanding shares on a fully diluted basis.

We prepared Adjusted Net Income and Adjusted Net Income per share to eliminate the effects of items that we do not consider indicative of our core operating performance.

We believe that Adjusted Net Income and Adjusted Net Income per share, viewed in addition to, and not in lieu of, our reported GAAP results provide useful information to investors regarding our performance and overall results of operations for the following reasons:

- because non-cash equity grants made to employees at a certain price and point in time do not necessarily reflect how our business is performing at any particular time, stock-based compensation expense is not a key measure of our operating performance;
- because costs associated with acquisitions and related integrations, debt refinancing, restructuring and conversions can vary from period to period and transaction to transaction, expenses associated with these activities are not considered a key measure of our operating performance and
- because amortization expenses can vary substantially from company to company and from period to period depending upon each company's financing and accounting methods, the fair value and average expected life of acquired intangible assets and the method by which assets were acquired, the amortization of intangible assets obtained in acquisitions are not considered a key measure in comparing our operating performance.

We believe Adjusted Net Income and Adjusted Net Income per share are useful to investors in evaluating our operating performance because securities analysts use them as supplemental measures to evaluate the overall performance of companies, and we anticipate that our investor and analyst presentations, in the event we become publically traded, will include Adjusted Net Income and Adjusted Net Income per share.

Adjusted Net Income and Adjusted Net Income per share are not measures of our financial performance under GAAP and should not be considered as an alternative to net income or earnings per share or any other performance measure derived in accordance with GAAP, or as an alternative to cash flows from operating activities as a measure of our profitability or liquidity.

We understand that, although Adjusted Net Income and Adjusted Net Income per share are frequently used by securities analysts and others in their evaluation of companies, they have limitations as analytical tools, and you should not consider Adjusted Net Income and Adjusted Net Income per share in isolation, or as substitutes for an analysis of our results as reported under GAAP. In particular you should consider:

- Adjusted Net Income and Adjusted Net Income per share do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;
- Adjusted Net Income and Adjusted Net Income per share do not reflect changes in, or cash requirements for, our working capital needs and
- Other companies in our industry may calculate Adjusted Net Income and Adjusted Net Income per share differently than we do, limiting their usefulness as comparative measures.

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Management compensates for the inherent limitations associated with using Adjusted Net Income and Adjusted Net Income per share through disclosure of such limitations, presentation of our financial statements in accordance with GAAP and reconciliation of Adjusted Net Income to the most directly comparable GAAP measure, net income.

The following table sets forth a reconciliation of net income to Adjusted Net Income and Adjusted Net Income per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(In thousands, except per share data) (unaudited)			
Net income (loss)	\$ 26,144	\$ (1,456)	\$ 59,698	\$ 28,922
After-Tax:				
EBITDA Adjustments(1)				
Share-based compensation expense(2)	2,257	1,308	6,137	3,206
Acquisition and integration related expenses	3,809	439	5,946	1,441
Restructuring and conversion costs	2,549	25,407	11,812	26,629
Debt amendment and extinguishment costs	17	—	23,477	—
Other	22	23	68	68
Total EBITDA Adjustments	8,654	27,177	47,440	31,344
Amortization of purchased intangible assets and software(1)	5,728	8,994	20,905	27,233
Adjusted Net Income	<u>\$ 40,526</u>	<u>\$ 34,715</u>	<u>\$ 128,043</u>	<u>\$ 87,499</u>
Adjusted Net Income per share(3)	\$ 0.41	\$ 0.35	\$ 1.29	\$ 0.89
Weighted average shares outstanding — diluted	99,612	98,703	99,303	98,527

- (1) EBITDA Adjustments and amortization of purchased intangible assets and software have been tax effected using a federal rate of 35.0% and the applicable effective state rate which ranged from 4.23% to 4.71%, net of the federal tax benefit.
- (2) Represents the after-tax expense of non-qualified stock options in which we receive a tax deduction upon exercise, and the full expense impact of incentive stock options granted to employees that have vested and qualify for preferential tax treatment and conversely, we do not receive a tax deduction. Share-based compensation for vesting of incentive stock options was \$1.3 million and \$0.8 million, respectively, for the three months ended September 30, 2010 and 2009, and \$3.8 million and \$2.1 million, respectively, for the nine months ended September 30, 2010 and 2009.
- (3) Represents Adjusted Net Income divided by weighted average number of shares outstanding on a fully diluted basis. Set forth is a reconciliation of earnings per share on a fully diluted basis as calculated in accordance with GAAP to Adjusted Net Income per share:

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2010	2009	2010	2009
	(unaudited)			
Earnings (loss) per share — diluted	\$ 0.26	\$ (0.02)	\$ 0.59	\$ 0.29
Adjustment for allocation of undistributed earnings to stock units	—	—	0.01	0.01
After-Tax:				
EBITDA Adjustments per share	0.09	0.28	0.48	0.32
Amortization of purchased intangible assets and software per share	<u>0.06</u>	<u>0.09</u>	<u>0.21</u>	<u>0.27</u>
Adjusted Net Income per share	<u>\$ 0.41</u>	<u>\$ 0.35</u>	<u>\$ 1.29</u>	<u>\$ 0.89</u>

Economic Overview and Impact of Financial Market Events

During the first nine months of 2010, the equity markets continued to have a positive performance relative to the comparable prior year period. This improvement from the market lows that occurred in March of 2009 is reflected in the daily S&P 500, which averaged 1,096 during the third quarter of 2010, 10.0% above the comparable prior year period. For the nine months ended September 30, 2010, the S&P 500 daily average was 1,118, an increase of 24.2% over the average for the nine months ended September 30, 2009. This rebound has positively influenced our advisory and brokerage assets and improved those revenue sources which are directly driven by asset-based pricing. Despite the recovery from the market lows in the first quarter of 2009, the market and economic environment continue to be uncertain due to continued economic concerns and weak consumer confidence. During the third quarter of 2010, concerns about the sustainability of economic growth, particularly in the United States, led to a decline in the overall market levels, as the S&P 500 daily average for the third quarter was 3.4% lower than the average for the second quarter of 2010. The concerns about economic prospects, and the declining markets, led to lower investor activities.

In response to the market turbulence and overall economic environment, the central banks, including the Federal Reserve, have maintained historically low interest rates. The average effective rate for federal funds was 0.19% in the third quarter of 2010, compared to 0.15% for the third quarter of 2009. For both the nine months ended September 30, 2010 and 2009, the average effective rates for federal funds were 0.17%. The low interest rate environment negatively impacts our revenues from client assets in our cash sweep programs.

While our business has improved as a result of the more favorable environment, our outlook remains cautiously optimistic and we continue to attempt to mitigate the impact of financial market events on our earnings with a strategic focus on attractive growth opportunities such as business development from attracting new advisors and through expense management activities.

Results of Operations

The following discussion presents an analysis of our results of operations for the three and nine months ended September 30, 2010 and 2009. Where appropriate, we have identified specific events and changes that affect comparability or trends, and where possible and practical, have quantified the impact of such items.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2010	2009	% Change	2010	2009	% Change
	(In thousands)			(In thousands)		
Revenues						
Commissions	\$ 385,273	\$ 370,249	4.1%	\$1,194,414	\$1,084,900	10.1%
Advisory fees	212,344	182,141	16.6%	633,820	507,509	24.9%
Asset-based fees	81,599	70,894	15.1%	230,485	201,287	14.5%
Transaction and other fees	70,243	68,764	2.2%	205,738	191,711	7.3%
Other	10,505	10,278	2.2%	29,074	29,214	(0.5)%
Net revenues	<u>759,964</u>	<u>702,326</u>	8.2%	<u>2,293,531</u>	<u>2,014,621</u>	13.8%
Expenses						
Production	525,628	481,182	9.2%	1,595,368	1,387,701	15.0%
Compensation and benefits	74,627	66,337	12.5%	223,024	198,156	12.5%
General and administrative	68,798	65,787	4.6%	176,585	165,159	6.9%
Depreciation and amortization	19,772	26,924	(26.6)%	67,472	81,596	(17.3)%
Restructuring charges	1,863	42,219	*	10,434	41,695	*
Other	3,750	1,640	128.7%	11,801	11,003	7.3%
Total operating expenses	<u>694,438</u>	<u>684,089</u>	1.5%	<u>2,084,684</u>	<u>1,885,310</u>	10.6%
Non-operating interest expense	19,511	24,626	(20.8)%	71,530	76,599	(6.6)%
Loss on extinguishment of debt	—	—	*	37,979	—	*
Loss (gain) on equity method investment	3	96	*	(18)	264	*
Total expenses	<u>713,952</u>	<u>708,811</u>	0.7%	<u>2,194,175</u>	<u>1,962,173</u>	11.8%
Income (loss) before provision for (benefit from) income taxes	46,012	(6,485)	*	99,356	52,448	89.4%
Provision for (benefit from) income taxes	<u>19,868</u>	<u>(5,029)</u>	*	<u>39,658</u>	<u>23,526</u>	68.6%
Net income (loss)	<u>\$ 26,144</u>	<u>\$ (1,456)</u>	*	<u>\$ 59,698</u>	<u>\$ 28,922</u>	106.4%

* Not Meaningful.

Revenues

Commissions

The following table sets forth our commission revenue by product category included in our unaudited condensed consolidated statements of income for the three months ended September 30, 2010 and 2009 (in thousands):

	2010	% Total	2009	% Total	Change	% Change
Variable annuities	\$161,729	42.0%	\$139,880	37.8%	\$ 21,849	15.6%
Mutual funds	105,302	27.3%	99,644	26.9%	5,658	5.7%
Fixed annuities	33,103	8.6%	53,525	14.4%	(20,422)	(38.2)%
Alternative investments	25,876	6.7%	18,178	4.9%	7,698	42.3%
Equities	19,644	5.1%	22,116	6.0%	(2,472)	(11.2)%
Fixed income	21,060	5.5%	20,524	5.5%	536	2.6%
Insurance	18,044	4.7%	15,772	4.3%	2,272	14.4%
Other	515	0.1%	610	0.2%	(95)	(15.6)%
Total commission revenue	\$385,273	100.0%	\$370,249	100.0%	\$ 15,024	4.1%

Commission revenue increased by \$15.0 million, or 4.1%, for the three months ended September 30, 2010 compared with 2009. The increase is due to an increase in trail-based commissions resulting from the improved market conditions as well as growth in assets eligible for trail payment. Declines in sales-based commissions in fixed annuities and equities were substantially offset by increased sales-based commissions in variable annuities and alternative investments. The decline in sales-based commissions on fixed annuities reflects lower investor demand for longer-term interest-rate sensitive products, while the decline in commissions on equity trades resulted from a reduction in investor equity trading during the third quarter of 2010 in response to lower levels of equity trading due to continued uncertainty and market volatility and consistent with overall industry trends.

The following table sets forth our commission revenue by product category included in our unaudited condensed consolidated statements of income for the nine months ended September 30, 2010 and 2009 (in thousands):

	2010	% Total	2009	% Total	Change	% Change
Variable annuities	\$ 490,176	41.0%	\$ 396,925	36.6%	\$ 93,251	23.5%
Mutual funds	337,557	28.3%	276,159	25.5%	61,398	22.2%
Fixed annuities	106,193	8.9%	183,029	16.9%	(76,836)	(42.0)%
Alternative investments	72,073	6.0%	54,506	5.0%	17,567	32.2%
Equities	68,784	5.8%	66,159	6.0%	2,625	4.0%
Fixed income	63,015	5.3%	55,692	5.1%	7,323	13.1%
Insurance	54,938	4.6%	50,534	4.7%	4,404	8.7%
Other	1,678	0.1%	1,896	0.2%	(218)	(11.5)%
Total commission revenue	\$1,194,414	100.0%	\$1,084,900	100.0%	\$109,514	10.1%

For the nine months September 30, 2010, commission revenue increased by \$109.5 million, or 10.1%, compared with 2009. The increase is primarily due to an increase in trail-based commissions related to improved market conditions as well as growth in assets eligible for trail payment. Sales-based commissions also increased as a result of greater commission-based products activity. Sales-based commissions from more market sensitive products such as variable annuities and mutual funds experienced an increase over the prior year period due to increasing investor confidence. Sales of certain financial products with more predictable cash flows such as fixed annuities, which typically increase during periods of financial uncertainty, decreased during this period, consistent with the market's recovery.

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Advisory Fees

Advisory fees increased by \$30.2 million, or 16.6%, for the three months ended September 30, 2010 compared with 2009. For the nine months ended September 30, 2010, advisory fees increased \$126.3 million, or 24.9%, compared to the prior year period. The increase was primarily due to the effect of the rebounding market, which resulted in a significant increase in the value of client assets in advisory programs. Our advisory assets under management increased 18.7% from \$72.6 billion at September 30, 2009 to \$86.2 billion at September 30, 2010.

The following table summarizes the activity within our advisory assets under management for the nine months ended September 30, 2010 and 2009 (in billions):

	<u>2010</u>	<u>2009</u>
Beginning balance at January 1	\$ 77.2	\$ 59.6
Net new advisory assets	5.8	4.5
Market impacts	3.2	8.5
Ending balance at September 30	<u>\$ 86.2</u>	<u>\$ 72.6</u>

Asset-Based Fees

Asset-based fees increased by \$10.7 million, or 15.1%, for the three months ended September 30, 2010 compared with 2009. Revenues from product sponsors and for record-keeping services, which are largely based on the underlying asset values, increased due to the impact of the market's recovery on the value of those underlying assets. In addition, revenues from our cash sweep programs increased by \$2.4 million, or 8.1%, to \$31.9 million for the three months ended September 30, 2010 from \$29.5 million for the three months ended September 30, 2009. This was primarily driven by an increase in the interest rate as reflected by the average effective federal funds rate and its influence on fees associated with assets in our cash sweep programs. For the three months ended September 30, 2010, the effective federal funds rate averaged 0.19% compared to 0.15% for the three months ended September 30, 2009. Assets in our cash sweep programs averaged \$18.7 billion and \$19.5 billion for the three months ended September 30, 2010 and 2009, respectively.

Asset-based fees increased by \$29.2 million, or 14.5%, for the nine months ended September 30, 2010 compared with 2009. Revenues from product sponsors and for record-keeping services, which are largely based on the underlying asset values, increased due to the impact of the market's recovery on the value of those underlying assets. This increase was offset by lower revenues from our cash sweep programs, which declined by \$6.4 million, or 6.8%, to \$87.5 million for the nine months ended September 30, 2010 from \$93.9 million for the nine months ended September 30, 2009, as a result of lower assets in our cash sweep programs. Assets in our cash sweep programs averaged \$18.6 billion and \$21.1 billion for the nine months ended September 30, 2010 and 2009, respectively.

Transaction and Other Fees

Transaction and other fees, which include fees from advisors and their client accounts for various processing, technology and account services increased by \$1.5 million, or 2.2%, for the three months ended September 30, 2010 compared with 2009. This increase is due to increased revenues earned from advisor conferences of \$0.7 million and increased prices and corresponding fees to advisors for licensing and IRA custodial services of \$0.7 million and \$1.0 million, respectively. These increases are partially offset by a reduction in transactional revenue of \$1.1 million.

Transaction and other fees increased by \$14.0 million, or 7.3%, for the nine months ended September 30, 2010 compared with 2009. This increase is due, in part, to increased revenues earned from advisor conferences of \$2.7 million and increases in charges to advisors for licensing of \$3.4 million and professional liability insurance services of \$1.6 million, in 2010 as compared to 2009 due to increases in pricing for such services.

Other Revenue

Other revenue increased by \$0.2 million, or 2.2%, for the three months ended September 30, 2010 compared with 2009. The increase was primarily attributed to higher direct investment marketing allowances received from product sponsors, largely based on sales volumes, which was offset by lower unrealized mark-to-market gains in securities owned and certain other assets.

For the nine months ended September 30, 2010, other revenue decreased \$0.1 million, or 0.5%, compared with the same period in the prior year. The decrease was due primarily to lower interest revenue from client margin lending activities and interest earned on our cash equivalents, as well as lower unrealized mark-to-market gains in securities owned and certain other assets. These decreases were partially offset by higher direct investment marketing allowances received from product sponsor programs, largely based on sales volumes.

Expenses

Production Expenses

Production expenses increased by \$44.4 million, or 9.2%, for the three months ended September 30, 2010 compared with 2009. This increase was correlated with our commission and advisory revenues, which increased by 8.2% during the same period. Our production payout averaged 86.6% for the three months ended September 30, 2010 and 85.6% for the three months ended September 30, 2009.

Production expenses increased by \$207.7 million, or 15.0%, for the nine months ended September 30, 2010 compared with 2009. This increase was a result of an 14.8% increase in our commission and advisory revenues during the same period. Our production payout averaged 85.8% for the nine months ended September 30, 2010 and 85.6% for the nine months ended September 30, 2009.

Compensation and Benefits

Compensation and benefits increased by \$8.3 million, or 12.5%, for the three months ended September 30, 2010 compared with 2009. The increase was primarily attributed to the restoration of certain employee-related items, including increases in bonus levels and contributions to employee retirement plans in the current year period that were suspended in 2009 as a result of our cost management initiatives. Our average number of full-time employees was 2,540 and 2,416 for the three months ended September 30, 2010 and 2009, respectively.

For the nine months ended September 30, 2010, compensation and benefits increased \$24.9 million, or 12.5%, compared to the prior year period. The increase was primarily attributed to the restoration of certain employee-related items, including increases in bonus levels and contributions to employee retirement plans in the current year period that were suspended in 2009 as a result of our cost management initiatives. Our average number of full-time employees was 2,502 and 2,438 for the nine months ended September 30, 2010 and 2009, respectively.

General and Administrative Expenses

General and administrative expenses increased by \$3.0 million, or 4.6%, for the three months ended September 30, 2010 compared with 2009. The increase compared to the prior year was due to aggressive cost reduction measures that took place in the first quarter of 2009 due to our strategic business review. As market conditions improved, we cautiously reinstated certain levels of general and administrative expenses that are necessary to support growth and service to our advisors. For the three months ended September 30, 2010, increases in certain advisor conference services contributed to \$1.6 million in additional general and administrative expenses.

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For the nine months ended September 30, 2010, general and administrative expenses increased \$11.4 million, or 6.9%, compared to the prior year period. The increase compared to the prior year was due to the reinstatement of certain levels of general and administrative expenses necessary to support growth and service to our advisors. During the first nine months of 2010, increases in certain advisor conference services contributed to additional general and administrative expenses of \$8.4 million.

Depreciation and Amortization

Depreciation and amortization expense decreased by \$7.2 million, or 26.6%, for the three months ended September 30, 2010 compared with 2009. For the nine months ended September 30, 2010, depreciation and amortization decreased by \$14.1 million, or 17.3%, compared to the same period in the prior year. The decrease in both the three and nine month periods is primarily attributed to a step up in basis of \$89.1 million in our internally developed software that was established at the time of our 2005 merger transaction and became fully amortized in April 2010. We recorded \$6.3 million in amortization expense for these assets for the nine months ended September 30, 2010. We recorded \$4.8 million and \$14.4 million in amortization expense for these assets for the three and nine months ended September 30, 2009, respectively. In addition, we recorded asset impairments of \$19.9 million in the third and fourth quarter of 2009 in the consolidation of our Affiliated Entities, which resulted in lower balances in those intangible assets that are amortized.

Restructuring Charges

Restructuring charges represent expenses incurred as a result of our 2009 consolidation of the Affiliated Entities and our strategic business review committed to in 2008 to reduce our cost structure and improve operating efficiencies.

Restructuring charges were \$1.9 million for the three months ended September 30, 2010. For the nine months ended September 30, 2010, restructuring charges were \$10.4 million, which includes charges incurred for severance and termination benefits of \$2.1 million, contract termination costs of \$2.4 million, asset impairment charges of \$0.8 million and \$5.1 million in other expenditures principally relating to the conversion and transfer of advisors and their client accounts from the Affiliated Entities to LPL Financial.

Restructuring charges were \$42.2 and \$41.7 million for the three and nine months ended September 30, 2009, respectively. In the third quarter of 2009, restructuring charges were incurred for severance and termination benefits of \$6.3 million, contract termination costs of \$8.5 million, asset impairment write-offs of \$17.9 million and \$9.5 million in other expenditures principally relating to the conversion and transfer of registered representatives and client accounts from the Affiliated Broker-Dealers to LPL Financial. These costs were offset by \$0.5 million in adjustments that were recorded in the first half of 2009 for changes in cost estimates associated with post employment benefits provided to employees impacted by our restructuring activities.

Other Expenses

Other expenses increased by \$2.1 million, or 128.7%, for the three months ended September 30, 2010 compared with 2009. For the nine months ended September 30, 2010, other expenses increased \$0.1 million, or 7.3%, compared to the prior year period. The increase in both the three and nine month periods ended September 30, 2010 is primarily due to an increase in reserves for unsecured client accounts.

Interest Expense

Interest expense includes non-operating interest expense for our senior secured credit facilities and our senior unsecured subordinated notes.

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Interest expense decreased by \$5.1 million, or 20.8%, for the three months ended September 30, 2010 compared with 2009. For the nine months ended September 30, 2010, interest expense decreased approximately \$5.1 million, or 6.6%, compared to the same period in the prior year. The reduction in interest expense for the three and nine months ended September 30, 2010 is mainly attributed to our debt refinancing in the second quarter of 2010, which included the redemption of our senior unsecured subordinated notes, resulting in a lower cost of borrowing.

Loss on Extinguishment of Debt

Loss on extinguishment of debt was \$38.0 million for the nine month periods ended September 30, 2010. In May 2010, we amended and restated our credit agreement to establish a new term loan tranche and to extend the maturity of an existing tranche on our senior credit facilities. In June 2010, we redeemed our senior unsecured subordinated notes with the proceeds from our new term loan tranche, and recorded a \$29.6 million charge. In addition, we wrote off \$6.9 million of unamortized debt issuance costs and incurred \$1.5 million in professional fees associated with the subordinated notes.

Loss or gain on Equity Method Investment

The loss or gain on equity method investment represents our share of gains or losses related to our investment in a privately held technology company.

The loss or gain on equity method investment for the three and nine month periods ended September 30, 2010 did not exceed \$0.1 million. Loss on equity method investment was \$0.1 million and \$0.3 million for the three and nine months ended September 30, 2009, respectively.

Provision for Income Taxes

We estimate our full-year effective income tax rate at the end of each interim reporting period. This estimate is used in providing for income taxes on a year-to-date basis and may change in subsequent interim periods. The tax rate in any quarter can be affected positively and negatively by adjustments that are required to be reported in the specific quarter of resolution. The effective income tax rates reflect the impact of state taxes, settlement contingencies and expenses that are not deductible for tax purposes.

During the three months ended September 30, 2010, we recorded income tax expense of \$19.9 million compared with an income tax benefit of \$5.0 million for the three months ended September 30, 2009. Our effective income tax rate was 43.2% and 77.5% for the three months ended September 30, 2010 and 2009, respectively.

Restructuring charges associated with the consolidation of our Affiliated Entities significantly reduced net income for the three months ended September 30, 2009. As a result, the resolution of adjustments required to be recorded in the quarter, had a greater impact on our effective tax rate, which led to a relatively high effective tax rate for that three month period.

During the nine months ended September 30, 2010, we recorded income tax expense of \$39.7 million compared with an income tax expense of \$23.5 million for the nine months ended September 30, 2009. Our effective income tax rate was 39.9% and 44.9% for the nine months ended September 30, 2010 and 2009, respectively.

Liquidity and Capital Resources

Senior management establishes our liquidity and capital policies. These policies include senior management's review of short- and long-term cash flow forecasts, review of monthly capital expenditures and daily monitoring of liquidity for our subsidiaries. Decisions on the allocation of capital include projected profitability and cash flow, risks of the business, regulatory capital requirements and future liquidity needs for strategic activities. Our Treasury Department assists in evaluating, monitoring and controlling the business activities that impact our financial condition, liquidity and capital structure and

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maintains relationships with various lenders. The objectives of these policies are to support the executive business strategies while ensuring ongoing and sufficient liquidity.

A summary of changes in cash flow data is provided as follows:

	Nine Months Ended September 30,	
	2010	2009
	(In thousands)	
Net cash flows (used in) provided by:		
Operating activities	\$ 107,821	\$ 107,455
Investing activities	(12,276)	(19,073)
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	<u>\$ 442,547</u>	<u>\$ 245,489</u>

Cash requirements and liquidity needs are primarily funded through our cash flow from operations and our capacity for additional borrowing.

Net cash provided by operating activities includes net income adjusted for non-cash expenses such as depreciation and amortization, restructuring charges, share-based compensation, deferred income tax provision and changes in operating assets and liabilities. Operating assets and liabilities include balances related to settlement and funding of client transactions, receivables from product sponsors and accrued commissions and advisory fees due to our advisors. Operating assets and liabilities that arise from the settlement and funding of transactions by our advisors' clients are the principal cause of changes to our net cash from operating activities and can fluctuate significantly from day to day and period to period depending on overall trends and client behaviors. Net cash provided by operating activities for the nine months ended September 30, 2010 was \$107.8 million, compared to net cash provided by operating activities of \$107.5 million for the nine months ended September 30, 2009.

Net cash used in investing activities for the nine months ended September 30, 2010 and September 30, 2009 totaled \$12.3 million and \$19.1 million, respectively. The decrease for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009 was principally due to a decline in deposits of restricted cash. During the nine months ended September 30, 2009, \$12.8 million of restricted cash was deposited into escrow accounts pending certain matters as a condition of regulatory approval for the transfer of advisors and client accounts to LPL Financial from the Affiliated Entities, compared to net deposits of \$1.2 million of restricted cash during the nine months ended September 30, 2010.

Net cash used in financing activities for the nine months ended September 30, 2010 and September 30, 2009, was \$31.6 million and \$62.1 million, respectively. The revolving line of credit facility was paid down during the nine months ended September 30, 2009, and there were no additional borrowings on the facility in the current year period. This activity was offset in part by the net impact of the redemption of \$579.6 million of senior unsecured subordinated notes, and proceeds of \$566.7 million received from the 2017 Term Loans during the nine months ended September 30, 2010. In addition, \$7.2 million of debt issuance costs have been paid during the nine months ended September 30, 2010.

We believe that based on current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, will be adequate to satisfy our working capital needs, the payment of all of our obligations and the funding of anticipated capital expenditures for the foreseeable future.

Operating Capital Requirements

Our primary requirement for working capital relates to funds we loan to our advisors' clients for trading done on margin and funds we are required to maintain at clearing organizations to support clients' trading activities. We require that our advisors' clients deposit funds with us in support of their trading activities and we hypothecate securities held as margin collateral, which we in turn use to lend to clients for margin transactions and deposit with our clearing organizations. These activities account for the majority of our working capital requirements, which are primarily funded directly or indirectly by our advisors' clients. Our other working capital needs are primarily limited to regulatory capital requirements and software development, which we have satisfied in the past from internally generated cash flows.

Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from the delayed receipt of client funds associated with the settlement of client transactions in securities markets. Historically, these timing differences were funded either with internally generated cash flow or, if needed, with funds drawn under short-term borrowing facilities, including both committed unsecured lines of credit and uncommitted lines of credit secured by client securities. LPL Financial, one of our broker-dealer subsidiaries, utilizes uncommitted lines secured by client securities to fund margin loans and other client transaction-related timing differences.

Our registered broker-dealers are subject to the SEC's Uniform Net Capital Rule, which requires the maintenance of minimum net capital. LPL Financial and Associated compute net capital requirements under the alternative method, which requires firms to maintain minimum net capital, as defined, equal to the greater of \$250,000 or 2% of aggregate debit balances arising from client transactions plus 1% of net commission payable, as defined. LPL Financial is also subject to the Commodity Futures Trading Commission's minimum financial requirements, which require that it maintain net capital, as defined, equal to 4% of customer funds required to be segregated pursuant to the Commodity Exchange Act, less the market value of certain commodity options, all as defined. UVEST, MSC and WFG all compute net capital requirements under the aggregate indebtedness method, which requires firms to maintain minimum net capital, as defined, of not less than 6.67% of aggregate indebtedness plus 1% of net commission payable, also as defined.

Our subsidiary, PTC, is subject to various regulatory capital requirements. Failure to meet minimum capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that, if undertaken, could have a direct material effect on our unaudited condensed consolidated financial statements.

Liquidity Assessment

Our ability to meet our debt service obligations and reduce our total debt will depend upon our future performance which, in turn, will be subject to general economic, financial, business, competitive, legislative, regulatory and other conditions, many of which are beyond our control. In addition, our operating results, cash flow and capital resources may not be sufficient for repayment of our indebtedness in the future. Some risks that could materially adversely affect our ability to meet our debt service obligations include, but are not limited to, general economic conditions and economic activity in the financial markets. The performance of our business is correlated with the economy and financial markets, and a continuing slowdown in the economy or financial markets could adversely affect our business, results of operations, cash flows or financial condition.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments, seek additional capital or restructure or refinance our indebtedness. These measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of sufficient cash flows and capital resources, we could face substantial liquidity constraints and might be required to dispose of material assets or operations to meet our debt service and other obligations. However, our senior secured credit agreement will restrict our ability to dispose of assets and the use of proceeds from any such dispositions. We may not be able to consummate those dispositions, and even if we could consummate such dispositions, or to obtain the proceeds that we could realize from them and, in any event, the proceeds may not be adequate to meet any debt service obligations then due.

Indebtedness

On May 24, 2010, we amended and restated our senior secured credit agreement to add a new term loan tranche of \$580.0 million maturing at June 28, 2017, which we used, together with cash on hand, to redeem our \$550.0 million of senior unsecured subordinated notes, as described below. We also extended the maturity of a \$500.0 million tranche of our term loan facility to June 25, 2015, with the remaining \$317.1 million tranche maturing at the original maturity date of June 28, 2013.

On May 24, 2010, we gave notice of redemption of all of our outstanding senior unsecured subordinated notes. The redemption price of the senior unsecured subordinated notes was 105.375% of the outstanding aggregate principal amount, plus accrued and unpaid interest thereon up to but not including June 22, 2010 (the "Redemption Date"). The senior unsecured subordinated notes were redeemed on the Redemption Date.

We maintain a revolving credit facility which is provided through the senior secured credit facilities. On January 25, 2010, we amended our senior secured credit agreement to increase the revolving credit facility from \$100 million to \$218.2 million. In connection with this amendment, we extended the maturity of a \$163.5 million tranche of the revolving credit facility to June 28, 2013. The remaining \$54.7 million tranche retains its original maturity date of December 28, 2011.

We maintain two uncommitted lines of credit. One of the lines has an unspecified limit, and is primarily dependent on our ability to provide sufficient collateral. The other line had a limit of \$100 million, which was increased to \$150 million on May 27, 2010, and allows for both collateralized and uncollateralized (unsecured) borrowings.

We also are a party to interest rate swap agreements, in a notional amount of \$210 million, to mitigate interest rate risk by hedging the variability of a portion of our floating-rate senior secured term loan.

Interest Rate and Fees

Borrowings under our senior secured credit facilities bear interest at a base rate equal to the one, two, three, six, nine or twelve-month LIBOR plus our applicable margin, or an alternative base rate ("ABR") plus our applicable margin. The ABR is equal to the greatest of (a) the prime rate in effect on such day, (b) the effective federal funds rate in effect on such day plus 0.5% and (c) solely in the case of the 2015 Term Loans and the 2017 Term Loans, 2.50%.

The applicable margin for borrowings (a) with respect to the 2013 Term Loans is currently 0.75% for base rate borrowings and 1.75% for LIBOR borrowings, (b) with respect to the 2015 Term Loans is currently 1.75% for base rate borrowings and 2.75% for LIBOR borrowings, (c) with respect to the 2017 Term Loans is currently 2.75% for base rate borrowings and 3.75% for LIBOR borrowings, (d) with respect to revolver tranche maturing in 2011 is currently 1.00% for base rate borrowings and 2.00% for LIBOR borrowings and (e) with respect to revolver tranche maturing in 2013 is currently 2.50% for base rate borrowings and 3.50% for LIBOR borrowings. The applicable margin on our 2013 Term Loans could change depending on our credit rating. The LIBOR Rate with respect to the 2015 Term Loans and the 2017 Term Loans shall in no event be less than 1.50%.

In addition to paying interest on outstanding principal under the senior secured credit facilities, we are required to pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder. The commitment fee rates at September 30, 2010 were 0.375% for our revolver tranche maturing in 2011 and 0.75% for our revolver tranche maturing in 2013, but are subject to change depending on our leverage ratio. We must also pay customary letter of credit fees.

Prepayments

The senior secured credit facilities (other than the revolving credit facility) require us to prepay outstanding amounts under our senior secured term loan facility subject to certain exceptions, with:

- 50% (percentage will be reduced to 25% if our total leverage ratio is 5.00 or less and to 0% if our total leverage ratio is 4.00 or less) of our annual excess cash flow (as defined under our credit agreement) adjusted for, among other things, changes in our net working capital;
- 100% of the net cash proceeds of all nonordinary course asset sales or other dispositions of property, if we do not reinvest or commit to reinvest those proceeds in assets to be used in our business or to make certain other permitted investments within 15 months as long as such reinvestment is completed within 180 days; and
- 100% of the net cash proceeds of any incurrence of debt, other than proceeds from debt permitted under the senior secured credit agreement.

The foregoing mandatory prepayments will be applied to scheduled installments of principal of the senior secured term loan facility in direct order.

We may voluntarily repay outstanding loans under the senior secured credit agreement at any time without premium or penalty, other than customary "breakage" costs with respect to LIBOR loans.

Amortization

We are required to repay the loans under the senior secured term loan facility in equal quarterly installments in aggregate annual amounts equal to 1% of the original funded principal amount of such facility, with the balance being payable on the final maturity date of the facility.

Principal amounts outstanding under the revolving credit facilities are due and payable in full at maturity.

Guarantee and Security

The senior secured credit facilities are secured primarily through pledges of the capital stock in our subsidiaries.

Certain Covenants and Events of Default

The senior secured credit agreement contains a number of covenants that, among other things, restrict, subject to certain exceptions, our ability to:

- incur additional indebtedness;
- create liens;
- enter into sale and leaseback transactions;
- engage in mergers or consolidations;
- sell or transfer assets;
- pay dividends and distributions or repurchase our capital stock;
- make investments, loans or advances;

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- prepay certain subordinated indebtedness;
- engage in certain transactions with affiliates;
- amend material agreements governing certain subordinated indebtedness; and
- change our lines of business.

Our senior secured credit facilities prohibit us from paying dividends and distributions or repurchasing our capital stock except for limited purposes, including, but not limited to payments in connection with: (i) redemption, repurchase, retirement or other acquisition of our equity interests from present or former officers, managers, consultants, employees and directors upon the death, disability, retirement, or termination of employment of any such person or otherwise in accordance with any stock option or stock appreciate rights plan, any management or employee stock ownership plan, stock subscription plan, employment termination agreement or any employment agreements or stockholders' agreement, in an aggregate amount not to exceed \$5.0 million in any fiscal year plus the amount of cash proceeds from certain equity issuances to such persons, the amount of equity interests subject to a certain deferred compensation plan and the amount of certain key-man life insurance proceeds, (ii) franchise taxes, general corporate and operating expenses not to exceed \$3.0 million in any fiscal year, and fees and expenses related to any unsuccessful equity or debt offering permitted by the senior secured credit facilities, (iii) tax liabilities to the extent attributable to our business and our subsidiaries and (iv) dividends and other distributions in an aggregate amount not to exceed 50% of our cumulative consolidated net income available to stockholders at such time so long as at the time of such payment of dividend or the making of such distribution, and after giving effect thereto, our leverage ratio is less than 3.50:1.00.

In addition, our financial covenant requirements include a leverage ratio test and an interest coverage ratio test. Under our leverage ratio test, we covenant not to allow the ratio of our consolidated total debt (as defined in our senior secured credit agreement) to an adjusted EBITDA reflecting financial covenants in our senior secured credit facilities ("Credit Agreement Adjusted EBITDA") to exceed certain prescribed levels set forth in the agreement. Under our interest coverage ratio test, we covenant not to allow the ratio of our Credit Agreement Adjusted EBITDA to our consolidated interest expense (as defined in our senior secured credit agreement) to be less than certain prescribed levels set forth in the agreement. Each of our financial ratios is measured at the end of each fiscal quarter.

Our senior secured credit agreement provides us with a right to cure in the event we fail to comply with our leverage ratio test or our interest coverage test. We must exercise this right to cure within ten days of the delivery of our quarterly certificate calculating the financial ratio for that quarter.

If we fail to comply with these covenants and are unable to cure, we could face substantial liquidity problems and could be forced to sell assets, seek additional capital or seek to restructure or refinance our indebtedness. These alternative measures may not be successful or feasible. Our senior secured credit agreement restricts our ability to sell assets. Even if we could consummate those sales, the proceeds that we realize from them may not be adequate to meet any debt service obligations then due. Furthermore, if an event of default were to occur with respect to our senior secured credit agreement, our creditors could, among other things, accelerate the maturity of our indebtedness.

As of September 30, 2010 and December 31, 2009, we were in compliance with all of our covenant requirements.

Our covenant requirements and pro forma ratios for the twelve month period ended September 30, 2010 and December 31, 2009 are as follows:

<u>Financial Ratio</u>	<u>September 30, 2010</u>		<u>December 31, 2009</u>	
	<u>Covenant Requirement</u>	<u>Actual Ratio</u>	<u>Covenant Requirement</u>	<u>Actual Ratio</u>
Leverage Test (Maximum)	3.90	2.81	4.60	3.42
Interest Coverage (Minimum)	2.50	4.46	2.15	3.81

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Set forth below is a reconciliation from EBITDA, Adjusted EBITDA and Credit Agreement Adjusted EBITDA to our net income for the trailing twelve months ending September 30, 2010 and December 31, 2009 (in thousands):

	September 30, 2010	December 31, 2009
	(unaudited)	
Net income	\$ 78,296	\$ 47,520
Interest expense	95,853	100,922
Income tax expense	41,179	25,047
Amortization of purchased intangible assets and software(1)	48,817	59,577
Depreciation and amortization of all other fixed assets	45,355	48,719
EBITDA	309,500	281,785
EBITDA Adjustments:		
Share-based compensation expense(2)	10,153	6,437
Acquisition and integration related expenses(3)	10,433	3,037
Restructuring and conversion costs(4)	39,935	64,658
Debt amendment and extinguishment costs(5)	38,633	—
Other(6)	149	151
Total EBITDA Adjustments	99,303	74,283
Adjusted EBITDA	408,803	356,068
Pro-forma adjustments(7)	—	—
Credit Agreement Adjusted EBITDA	\$ 408,803	\$ 356,068

- (1) Represents amortization of intangible assets and software as a result of our purchase accounting adjustments from our merger transaction in 2005 and our 2007 acquisitions of UVEST, the Affiliated Entities and IFMG.
- (2) Represents share-based compensation expense related to vested stock options awarded to employees and non-executive directors based on the grant date fair value under the Black-Scholes valuation model.
- (3) Represents acquisition and integration costs resulting from our 2007 acquisitions of the Affiliated Entities and IFMG. Included in the three and nine months ended September 30, 2010, are expenditures for certain legal settlements that have not been resolved with the indemnifying party. See Litigation in Note 10 of our unaudited condensed consolidated financial statements for further discussion on legal settlements.
- (4) Represents organizational restructuring charges incurred in 2009 and 2010 for severance and one-time termination benefits, assets impairments, lease and contract termination fees and other transfer costs.
- (5) Represents debt amendment costs incurred in 2010 for amending and restating our credit agreement to establish a new term loan tranche and to extend the maturity of an existing tranche on our senior credit facilities, and debt extinguishment costs to redeem our subordinated notes.
- (6) Represents excise and other taxes.
- (7) Credit Agreement Adjusted EBITDA excludes pro forma general and administrative expenditures from acquisitions, as defined under the terms our senior secured credit agreement. There were no such adjustments for the twelve month periods ended September 30, 2010 and December 31, 2009.

Interest Rate Swaps

An interest rate swap is a financial derivative instrument whereby two parties enter into a contractual agreement to exchange payments based on underlying interest rates. We use interest rate swap agreements to hedge the variability on our floating rate for \$210.0 million of our term loan under our senior secured credit facilities. We are required to pay the counterparty to the agreement fixed interest payments on a notional balance and in turn receive variable interest payments on that notional balance. Payments are settled quarterly on a net basis. As of September 30, 2010, we assessed our interest rate swaps as being highly effective and we expect them to continue to be highly effective. While approximately \$1.2 billion of our term loan remains unhedged as of September 30, 2010, the risk of variability on our floating interest rate is partially mitigated by the client margin loans on which we carry

floating interest rates. At September 30, 2010, our receivables from our advisors' clients for margin loan activity were approximately \$234.2 million.

Bank Loans Payable

We maintain 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.

Off-Balance Sheet Arrangements and Contractual Obligations

We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our advisors' clients. These arrangements include firm commitments to extend credit. For information on these arrangements, see Notes 10 and 15 to our unaudited condensed consolidated financial statements.

The following table provides information with respect to our commitments and obligations as of September 30, 2010:

	Payments Due by Period				
	Total	< 1 Year	1-3 Years	4-5 Years	> 5 Years
	(In thousands)				
Leases and other obligations(1)	\$ 103,052	\$ 31,270	\$ 44,075	\$ 18,006	\$ 9,701
Senior secured term loan facilities(2)	1,390,132	13,971	344,761	489,100	542,300
Commitment fee on revolving line of credit(3)	3,426	1,366	2,060	—	—
Variable interest payments:(4)					
2013 Term Loan (Hedged)	4,592	3,587	1,005	—	—
2013 Term Loan (Unhedged)	13,094	2,913	10,181	—	—
2015 Term Loan (Unhedged)	99,259	21,356	62,834	15,069	—
2017 Term Loan (Unhedged)	200,521	30,603	90,037	58,506	21,375
Interest rate swap agreements(5)	10,253	7,995	2,258	—	—
Total contractual cash obligations	<u>\$1,824,329</u>	<u>\$113,061</u>	<u>\$557,211</u>	<u>\$580,681</u>	<u>\$573,376</u>

- (1) Minimum payments have not been reduced by minimum sublease rental income of \$0.7 million due in the future under noncancelable subleases. Note 10 of our unaudited condensed consolidated financial statements provides further detail on operating lease obligations and obligations under non-cancelable service contracts.
- (2) Represents principal payments on our senior secured term loan facilities. See Note 8 of our unaudited condensed consolidated financial statements for further detail.
- (3) Represents commitment fees for unused borrowings on our senior secured revolving line of credit facility. See Note 8 of our unaudited condensed consolidated financial statements for further detail.
- (4) Our senior secured term loan facilities bear interest at floating rates. Variable interest payments are shown assuming the applicable LIBOR rates at September 30, 2010 remain unchanged. See Note 8 of our unaudited condensed consolidated financial statements for further detail.
- (5) Represents fixed interest payments net of variable interest received on our interest rate swap agreements. See Note 9 of our unaudited condensed consolidated financial statements for further detail.

As of September 30, 2010, we reflect a liability for unrecognized tax benefits of \$22.9 million, which we have included in income taxes payable on the unaudited condensed consolidated statements of financial condition. This amount has been excluded from the contractual obligations table because we are unable to reasonably predict the ultimate amount or timing of future tax payments.

Fair Value of Financial Instruments

We use fair value measurements to record certain financial assets and liabilities at fair value and to determine fair value disclosures.

We use prices obtained from an independent third-party pricing service to measure the fair value of our trading securities. We validate prices received from the pricing service using various methods including, comparison to prices received from additional pricing services, comparison to available market prices and review of other relevant market data including implied yields of major categories of securities. At September 30, 2010, we did not adjust prices received from the independent third-party pricing service. For certificates of deposit and treasury securities, we utilize market-based inputs including observable market interest rates that correspond to the remaining maturities or next interest reset dates.

Critical Accounting Policies

We have disclosed in our consolidated financial statements and in "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our Registration Statement on Form S-1, filed on June 4, 2010, as amended, those accounting policies that we consider to be significant in determining our results of operations and financial condition. There have been no material changes to those policies that we consider to be significant since the filing of our Registration Statement on Form S-1, as amended. The accounting principles used in preparing our unaudited condensed consolidated financial statements conform in all material respects to GAAP.

Recent Accounting Pronouncements

Refer to Note 2 of our unaudited condensed consolidated financial statements for a discussion of recent accounting standards and pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

We maintain trading securities owned and securities sold but not yet purchased in order to facilitate client transactions, to meet a portion of our clearing deposit requirements at various clearing organizations, and to track the performance of our research models. These securities include mutual funds, debt securities issued by the U.S. government, money market funds, corporate debt securities, certificates of deposit and equity securities.

Changes in value of our trading inventory may result from fluctuations in interest rates, credit ratings of the issuer, equity prices and the correlation among these factors. We manage our trading inventory by product type. Our activities to facilitate client transactions generally involve mutual fund activities, including dividend reinvestments. The balances are based upon pending client activities which are monitored by our broker dealer support services department. Because these positions arise from pending client transactions, there are no specific trading or position limits. Positions held to meet clearing deposit requirements consist of US Government securities. The amount of securities deposited depends upon the requirements of the clearing organization. The level of securities deposited is monitored by the settlement area with broker dealer support services. Our research department develops model portfolios that are used by advisors in developing client portfolios. We currently maintain 171 accounts, based on model portfolios. At the time the portfolio is developed, we purchase the securities in that model portfolio in an amount equal to the account minimum for a client. Account minimums vary by product and can range from \$10,000 to \$50,000 per model. We utilize these positions to track the performance of the research department. The limits on this activity are based at the inception of each new model.

At September 30, 2010 and December 31, 2009, the fair value of our trading securities owned were \$18.6 million and \$15.4 million, respectively. Securities sold but not yet purchased were \$2.7 million and

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\$4.0 million respectively, at September 30, 2010 and December 31, 2009. See Note 4 of our unaudited condensed consolidated financial statements for information regarding the fair value of trading securities owned and securities sold but not yet purchased associated with our client facilitation activities. See Note 5 of our unaudited condensed consolidated financial statements for information regarding the fair value of securities held to maturity.

We do not enter into contracts involving derivatives or other similar financial instruments for trading or proprietary purposes.

We also have market risk on the fees we earn that are based on the market value of advisory and brokerage assets, assets on which trail commissions are paid and assets eligible for sponsor payments.

Interest Rate Risk

We are exposed to risk associated with changes in interest rates. As of September 30, 2010, all of the outstanding debt under our senior secured credit facilities, \$1.4 billion, was subject to floating interest rate risk. To provide some protection against potential rate increases associated with our floating senior secured credit facilities, we have entered into derivative instruments in the form of interest rate swap agreements with Morgan Stanley Capital Services, Inc. covering a portion (\$210.0 million) of our senior secured indebtedness. While the unhedged portion of our senior secured debt is subject to increases in interest rates, we do not believe that a short-term change in interest rates would have a material impact on our income before taxes.

The following table summarizes the impact of increasing interest rates on our interest expense from the variable portion of our debt outstanding at September 30, 2010:

Senior Secured Term Loans	Outstanding at Variable Interest Rates	Annual Impact of an Interest Rate Increase of			
		10 Basis Points	25 Basis Points	50 Basis Points	100 Basis Points
		(Dollars in thousands)			
2013 Term Loan (Hedged)(1)	\$ 210,000	\$ —	\$ —	\$ —	\$ —
2013 Term Loan (Unhedged)(2)	105,532	104	261	522	1,043
2015 Term Loan (Unhedged)(3)	497,500	—	—	—	—
2017 Term Loan (Unhedged)(3)	577,100	—	—	—	—
Variable Rate Debt Outstanding	\$ 1,390,132	\$ 104	\$ 261	\$ 522	\$ 1,043
3-month LIBOR(4)	0.29%	0.39%	0.54%	0.79%	1.29%

(1) Represents the portion of our 2013 Term Loan that is hedged by interest rate swap agreements, which have been designated as cash flow hedges against specific payments due on the 2013 Term Loan. Accordingly, any interest rate differential is reflected in an adjustment to interest expense over the term of the interest rate swap agreements.

(2) Represents the unhedged portion of our 2013 Term Loan outstanding at September 30, 2010.

(3) The variable interest rate for our 2015 Term Loan and our 2017 Term Loan is based on the greater of the three-month LIBOR of 0.29% or 1.50%, plus an applicable interest rate margin.

(4) Represents the three-month LIBOR rate at September 30, 2010.

We offer our advisors and their clients two primary cash sweep programs that are interest rate sensitive: our bank sweep programs and money market sweep vehicles involving multiple money market fund providers. Our bank sweep programs use multiple non-affiliated banks to provide up to \$1.5 million (\$3.0 million joint) of FDIC insurance for client deposits custodied at the banks. While clients earn interest for balances on deposit in the bank sweep programs, we earn a fee. Our fees from the bank sweep programs are based on prevailing interest rates in the current interest rate environment, but may be adjusted in an increasing or decreasing interest rate environment or for other reasons. Changes in interest rates and fees for the bank sweep programs are monitored by our Fee and Rate Setting Committee (the "FRS Committee"), which governs and approves any changes to our fees. By meeting promptly after interest rates change, or for other market or non-market reasons, the FRS Committee balances financial risk of the bank sweep programs with products that offer competitive client yields. However, as short-term interest rates hit lower levels, the FRS Committee may be compelled to lower

fees. The average Federal Reserve effective federal funds rate for September 2010 was 0.19%. A change in short-term interest rates of 10 basis points, if accompanied by a commensurate change in fees for our cash sweep programs, could result in an increase or decrease in income before income taxes of \$11.7 million on an annual basis (assuming that client balances at September 30, 2010 did not change). Actual impacts may vary depending on interest rate levels, the significance of change, and the FRS Committee's strategy in responding to that change.

Credit Risk

Credit risk is the risk of loss due to adverse changes in a borrower's, issuer's or counterparty's ability to meet its financial obligations under contractual or agreed upon terms. We bear credit risk on the activities of our advisors' clients, including the execution, settlement, and financing of various transactions on behalf of these clients.

These activities are transacted on either a cash or margin basis. Our credit exposure in these transactions consists primarily of margin accounts, through which we extend credit to clients collateralized by cash and securities in the client's account. Under many of these agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions.

As our advisors execute margin transactions on behalf of their clients, we may incur losses if clients do not fulfill their obligations, the collateral in the client's account is insufficient to fully cover losses from such investments, and our advisors fail to reimburse us for such losses. Our loss on margin accounts is immaterial and did not exceed \$0.1 million during the nine months ended September 30, 2010 or 2009. We monitor exposure to industry sectors and individual securities and perform analyses on a regular basis in connection with our margin lending activities.

We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions.

We are subject to concentration risk if we extend large loans to or have large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (e.g. in the same industry). Receivables from and payables to clients and stock borrowing and lending activities are conducted with a large number of clients and counterparties and potential concentration is carefully monitored. We seek to limit this risk through careful review of the underlying business and the use of limits established by senior management, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment and other positions or commitments outstanding.

Operational Risk

Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our technology or financial operating systems and inadequacies or breaches in our control processes. We operate in diverse markets and are reliant on the ability of our employees and systems to process a large number of transactions. These risks are less direct and quantifiable than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In the event of a breakdown or improper operation of systems or improper action by employees or advisors, we could suffer financial loss, regulatory sanctions and damage to our reputation. Business continuity plans exist for critical systems, and redundancies are built into the systems as deemed appropriate. In order to mitigate and control operational risk, we have developed and continue to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout our organization and within various departments. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our employees and advisors operate within established corporate policies and limits.

Risk Management

We have established various committees of the Board of Directors to manage the risks associated with our business. Our Audit Committee was established for the primary purpose of overseeing (i) the integrity of our consolidated financial statements, (ii) our compliance with legal and regulatory requirements that may impact our consolidated financial statements or financial operations, (iii) the independent auditor's qualifications and independence and (iv) the performance of our independent auditor and internal audit function. Our Compensation and Human Resources Committee was established for the primary purpose of (i) overseeing our efforts to attract, retain and motivate members of our senior management team in partnership with the Chief Executive Officer, (ii) to carry out the Board's overall responsibility relating to the determination of compensation for all executive officers, (iii) to oversee all other aspects of our compensation and human resource policies and (iv) to oversee our management resources, succession planning and management development activities. We also have established a Risk Oversight Committee comprised of a group of our senior-most executives to oversee the management of our business risks.

In addition to various committees, we have written policies and procedures that govern the conduct of business by our advisors, our employees, our relationship with clients and the terms and conditions of our relationships with product manufacturers. Our client and advisor policies address the extension of credit for client accounts, data and physical security, compliance with industry regulation and codes of ethics to govern employee and advisor conduct among other matters.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

Our Disclosure Committee, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report were effective.

Change in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the third quarter ended September 30, 2010, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. Legal Proceedings

During the third quarter of 2010, the Company settled two arbitrations that involve activities covered under the third-party indemnification agreement described in Note 10 to our Condensed Consolidated Financial Statements (Unaudited) included herein. In connection with these settlements, the Company has recorded legal expenses of \$8.9 million during the nine months ended September 30, 2010, of which \$5.6 million has been recorded in the third quarter of 2010. The Company will seek to recover the costs associated with defending and settling these matters, plus other costs incurred on matters that the Company believes are subject to the indemnification.

Item 1A. Risk Factors

Information regarding the Company's risks is set forth under "Risk Factors" in the Company's Registration Statement on Form S-1, as amended.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Reserved

Item 5. Other Information

None.

Item 6. Exhibits

- 3.1 Certificate of Incorporation of LPL Investment Holdings Inc. is incorporated by reference to Exhibit 3.1 to the Registration Statement on Form 10 filed on April 30, 2007.
- 3.2 Amendment to the Certificate of Incorporation of LPL Investment Holdings Inc. dated December 20, 2005 is incorporated by reference to Exhibit 3.2 to the Registration Statement on Form 10 filed on April 30, 2007.
- 3.3 Amendment to the Certificate of Incorporation of LPL Investment Holdings Inc. dated March 10, 2006 is incorporated by reference to Exhibit 3.3 to the Registration Statement on Form 10 filed on April 30, 2007.
- 3.4 Certificate of Amendment of Certificate of Incorporation of LPL Investment Holdings Inc. dated December 26, 2007 is incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on January 4, 2008.
- 3.5 Certificate of Correction of Certificate of Amendment of Certificate of Incorporation of LPL Investment Holdings Inc. dated March 31, 2008 is incorporated by reference to Exhibit 3.5 to the Annual Report on Form 10-K filed on March 31, 2008.
- 3.6 Amended and Restated Bylaws of LPL Investment Holdings Inc. is incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K filed on June 3, 2008.
- 31.1 Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).
- 31.2 Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).
- 32.1 Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).
- 32.2 Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LPL Investment Holdings Inc.

Date: October 29, 2010

By: /s/ Mark S. Casady
Mark S. Casady
Chairman and Chief Executive Officer

Date: October 29, 2010

By: /s/ Robert J. Moore
Robert J. Moore
Chief Financial Officer

CERTIFICATIONS

I, Mark S. Casady, certify that:

1. I have reviewed this Form 10-Q of LPL Investment Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Mark S. Casady

Mark S. Casady
Chief Executive Officer
(Principal Executive Officer)

Date: October 29, 2010

CERTIFICATIONS

I, Robert J. Moore, certify that:

1. I have reviewed this Form 10-Q of LPL Investment Holdings Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Robert J. Moore

Robert J. Moore
Chief Financial Officer
(Principal Financial Officer)

Date: October 29, 2010

Certification Pursuant to 18 U.S.C. Section 1350

In connection with the Quarterly Report of LPL Investment Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2010 as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Mark S. Casady, Chief Executive Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ Mark S. Casady

Mark S. Casady
Chief Executive Officer
(Principal Executive Officer)

Date: October 29, 2010

Certification Pursuant to 18 U.S.C. Section 1350

In connection with the Quarterly Report of LPL Investment Holdings Inc. (the "Company") on Form 10-Q for the quarterly period ended September 30, 2010 as filed with the Securities and Exchange Commission (the "SEC") on or about the date hereof (the "Report"), I, Robert J. Moore, Chief Financial Officer, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

A signed original of this written statement has been provided to the Company and will be retained by the Company and furnished to the SEC or its staff upon request.

/s/ Robert J. Moore

Robert J. Moore
Chief Financial Officer
(Principal Financial Officer)

Date: October 29, 2010