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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2009

or

o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File Number: 000-52609

LPL Investment Holdings Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**20-3717839** (I.R.S. Employer Identification No.)

One Beacon Street, Floor 22
Boston MA 02108
(617) 423-3644
(Address including zip code, and telephone number, including area code, of principal executive offices)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o	Accelerated filer o	Non-accelerated filer ☒ (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes ☒ No

The number of shares of Common Stock, par value $0.001 per share, outstanding as of June 30, 2009 was 94,107,181.90.

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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, as well as any predecessor entities, unless the context otherwise indicates.

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q in Item 2—"Management's Discussion and Analysis of Financial Condition and Results of Operations" and in other sections includes forward-looking statements. In some cases, you can identify these statements by forward-looking words such as "may", "might", "will", "should", "expect", "plan", "anticipate", "believe", "estimate", "predict", "potential", "intend" or "continue", the negative of these terms and other comparable terminology. These forward-looking statements, which are subject to risks, uncertainties and assumptions about us, may include expectations as to our future financial performance, which in some cases may be based on our growth strategies and anticipated trends in our business. These statements are based on our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks outlined in Part I, Item 1A—"Risk Factors" in our 2008 Annual Report on Form 10-K filed with the SEC.

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

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(UNAUDITED)

(Dollars in thousands, except par value)

	June 30, 2009	December 31, 2008
ASSETS		
Cash and cash equivalents	$ 333,855	$ 219,239
Cash and securities segregated under federal and other regulations	218,116	341,575
Receivables from:		
Clients, net of allowance of $848 at June 30, 2009 and $972 at December 31, 2008	254,514	295,797
Product sponsors, broker-dealers and clearing organizations	147,868	231,400
Others, net of allowances of $5,529 at June 30, 2009 and $4,076 at December 31, 2008	112,883	93,771
Securities owned:		
Trading	15,643	10,811
Held-to-maturity	10,890	10,893
Securities borrowed	1,018	604
Fixed assets, net of accumulated depreciation and amortization of $217,200 at June 30, 2009 and $185,537 at December 31, 2008	130,690	161,760
Goodwill	1,293,366	1,293,366
Intangible assets, net of accumulated amortization of $126,503 at June 30, 2009 and $106,563 at December 31, 2008	634,763	654,703
Other assets	78,485	67,860
Total assets	$ 3,232,091	$ 3,381,779
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	97,483	154,431
Payables to clients	358,266	463,011
Payables to broker-dealers and clearing organizations	22,841	21,734
Accrued commissions and advisory fees payable	106,409	100,327
Accounts payable and accrued liabilities	144,656	157,540
Income taxes payable	17,992	12,281
Interest rate swaps	20,021	25,417
Securities sold but not yet purchased—at market value	2,702	3,910
Revolving line of credit	90,000	90,000
Senior credit facilities and subordinated notes	1,373,435	1,377,647
Deferred income taxes—net	170,804	185,169
Total liabilities	2,404,609	2,591,467
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 200,000,000 shares authorized; 94,107,182 shares issued and outstanding at June 30, 2009 of which 7,423,973 are restricted, and 93,967,967 shares issued and outstanding at December 31, 2008 of which 7,423,973 are restricted (See Note 11)	87	87
Additional paid-in capital	673,811	670,897
Stockholder loans	(486)	(936)
Accumulated other comprehensive loss	(12,070)	(15,498)
Retained earnings	166,140	135,762
Total stockholders' equity	827,482	790,312
Total liabilities and stockholders' equity	$ 3,232,091	$ 3,381,779

See notes to condensed consolidated financial statements.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

(Dollars in thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
REVENUES:				
Commissions	$ 367,431	$ 441,165	$ 714,651	$ 861,810
Advisory fees	161,463	209,451	325,368	425,728
Asset-based fees	67,739	94,177	130,393	182,784
Transaction and other fees	61,609	54,466	122,947	112,943
Interest income	5,042	9,605	10,498	18,665
Other	6,082	6,083	8,549	11,664
Total revenues	669,366	814,947	1,312,406	1,613,594
EXPENSES:				
Commissions and advisory fees	455,921	562,499	890,623	1,109,968
Compensation and benefits	64,841	89,155	131,819	181,864
Depreciation and amortization	27,277	23,771	54,672	47,393
Promotional	12,974	19,359	25,616	46,541
Occupancy and equipment	11,817	15,094	24,262	29,894
Communications and data processing	8,357	9,623	17,543	19,792
Professional services	8,571	10,943	16,937	22,040
Brokerage, clearing and exchange	8,067	7,670	15,896	13,532
Regulatory fees and expenses	5,442	5,742	10,916	11,694
Other	7,786	9,937	12,937	18,494
Total noninterest expenses	611,053	753,793	1,201,221	1,501,212
Interest expense from senior credit facilities, subordinated notes and revolving line of credit	26,032	28,538	51,973	59,021
Interest expense from brokerage operations	49	227	111	425
Loss on equity investment	84	1,985	168	2,233
Total expenses	637,218	784,543	1,253,473	1,562,891
INCOME BEFORE PROVISION FOR INCOME TAXES	32,148	30,404	58,933	50,703
PROVISION FOR INCOME TAXES	16,567	16,101	28,555	24,735
NET INCOME	$ 15,581	$ 14,303	$ 30,378	$ 25,968

See notes to 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, 2007	$ 86	$ 664,568	$ (1,242)	$ (6,512)	$ 90,266	$ 747,166
Comprehensive income:						
Net income					25,968	25,968
Unrealized gain on interest rate swaps, net of tax expense of $81				29		29
Total comprehensive income						25,997
Exercise of stock options		383				383
Tax benefit from stock options exercised		560				560
Repayment of stockholder loans, net of accrued interest			85			85
Share-based compensation		1,864				1,864
Issuance of 143,884 shares of common stock		4,000				4,000
Repurchase of 135,660 shares of common stock		(3,762)				(3,762)
BALANCE—June 30, 2008	$ 86	$ 667,613	$ (1,157)	$ (6,483)	$ 116,234	$ 776,293
BALANCE—December 31, 2008	$ 87	$ 670,897	$ (936)	$ (15,498)	$ 135,762	$ 790,312
Comprehensive income:						
Net income					30,378	30,378
Unrealized gain on interest rate swaps, net of tax expense of $1,968				3,428		3,428
Total comprehensive income						33,806
Exercise of stock options		165				165
Tax benefit from stock options exercised		147				147
Repayment of stockholder loans, net of accrued interest			450			450
Share-based compensation		2,783				2,783
Repurchase of 10,000 shares of common stock		(181)				(181)
BALANCE—June 30, 2009	$ 87	$ 673,811	$ (486)	$ (12,070)	$ 166,140	$ 827,482

See notes to condensed consolidated financial statements.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(Dollars in thousands)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 30,378	$ 25,968
Adjustments to reconcile net income to net cash provided by operating activities:		
Noncash items:		
Benefits received from retention plans	—	4,032
Depreciation and amortization	54,672	47,393
Amortization of debt issuance costs	1,871	1,871
Loss on disposal of fixed assets	49	—
Share-based compensation	2,783	1,864
Provision for bad debts	1,895	4,105
Deferred income tax provision	(16,333)	(9,981)
Loss on equity investment	168	2,233
Other	54	148
Changes in operating assets and liabilities:		
Cash and securities segregated under federal and other regulations	123,459	55,000
Receivables from clients	41,407	(15,661)
Receivables from product sponsors, broker-dealers and clearing organizations	83,532	11,579
Receivables from others	(21,131)	(7,813)
Securities owned	(4,853)	(3,766)
Securities borrowed	(414)	(29,076)
Other assets	(12,664)	(14,814)
Drafts payable	(56,948)	(10,133)
Payable to clients	(104,745)	44,593
Payables to broker-dealers and clearing organizations	1,107	22,337
Accrued commissions and advisory fees payable	6,082	406
Accounts payable and accrued liabilities	(13,094)	13,204
Income taxes payable/receivable	5,711	(6,260)
Securities sold but not yet purchased	(1,208)	78
Net cash provided by operating activities	121,778	137,307

See notes to condensed consolidated financial statements.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

(UNAUDITED)

(Dollars in thousands)

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions, net of existing cash balance	$ —	$ (5,566)
Capital expenditures	(3,636)	(38,660)
Proceeds from the disposal of fixed assets	135	—
Purchase of securities classified as held-to-maturity	(2,242)	(2,541)
Proceeds from maturity of securities classified as held-to-maturity	2,200	3,000
Net cash used in investing activities	(3,543)	(43,767)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net repayment of bank loans	—	(25,000)
Repayment of revolving line of credit	—	(10,000)
Repayment of senior credit facilities	(4,212)	(4,212)
Excess tax benefit associated with stock options exercised	147	560
Repayment of stockholder loans	462	114
Proceeds from stock options exercised	165	383
Issuance of common stock	—	4,000
Repurchase of common stock	(181)	(3,762)
Net cash used in financing activities	(3,619)	(37,917)
NET INCREASE IN CASH AND CASH EQUIVALENTS	114,616	55,623
CASH AND CASH EQUIVALENTS—Beginning of period	219,239	188,003
CASH AND CASH EQUIVALENTS—End of period	$ 333,855	$ 243,626
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Interest paid	$ 52,102	$ 59,625
Income taxes paid	$ 40,020	$ 44,159
NONCASH DISCLOSURES:		
Increase in unrealized gain on interest rate swaps, net of tax expense of $1,968 and $81 for the six months ended June 30, 2009 and 2008	$ 3,428	$ 29
Capital expenditures purchased through short-term credit	$ 210	$ 2,954
Accrued liability for additional consideration related to acquisition of IFMG Group		$ (7,691)

See notes to 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") is a provider of technology, brokerage and investment advisory services supporting a broad range of independent financial advisors, registered investment advisors and financial institutions (collectively "customers"), in the United States of America. Through its proprietary technology, custody and clearing platforms, the Company provides access to diversified financial products and services enabling its customers to offer independent financial advice and brokerage services to retail investors (their "clients").

2. BASIS OF PRESENTATION

Quarterly Reporting—The accompanying 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.

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 U.S. generally accepted accounting principles ("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, 2008, contained in the Company's Annual Report on Form 10-K as filed with the SEC. Subsequent events for these unaudited financial statements have been evaluated up to and including August 11, 2009, which is the date these 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, 2008, 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.

Reclassifications—Certain reclassifications were made to previously reported amounts in the condensed consolidated financial statements and notes thereto to make them consistent with the current period presentation.

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 and its held-to-maturity securities. The Company carries its indebtedness at amortized cost, in accordance with GAAP. As of June 30, 2009, these carrying amounts and fair values were approximately $1,463 million and $1,287 million, respectively. As of December 31, 2008, these carrying amounts and fair values were approximately $1,468 million and $1,057 million, respectively. See Note 4 for additional detail regarding the Company's fair value measurements and Note 5 regarding the Company's held-to-maturity securities.

Reportable Segment—The Company's internal reporting is organized into three service channels; Independent Advisor Services, Institution Services, and Custom Clearing Services, which are designed to enhance the services provided to the Company's customers and to support future growth. The service channels qualify as individual operating segments under Statement of Financial Accounting Standards ("SFAS") No. 131, *Disclosures about Segments of an Enterprise and Related Information*, but are aggregated and viewed as one single reportable segment due to quantitative thresholds and their similar economic characteristics, products and services, production and distribution process and regulatory environment.

Recently Issued Accounting Pronouncements—With the exception of the items discussed below, there have been no recent accounting pronouncements or changes in accounting pronouncements during the six months ended June 30, 2009, as compared to the recent accounting pronouncements described in the Company's 2008 Annual Report on Form 10-K, that are of significance, or potential significance, to the Company.

In April 2009, the Financial Accounting Standards Board ("FASB") issued three Staff Positions ("FSPs") intended to provide additional application guidance and enhance disclosures regarding fair value measurements and impairments of securities. FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* ("FSP FAS 157-4"), provides guidance on determining fair value when market activity has decreased. FSP FAS 107-1 and Accounting Principles Board No. 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, enhances consistency in financial reporting by increasing the frequency of fair value disclosures. FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments* ("FSP FAS 115-2"), provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on debt securities. Except for the addition of required disclosures, the adoption of these FSPs did not have a material effect on the Company's condensed consolidated financial statements.

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events* ("SFAS 165"). SFAS 165 establishes a general standard of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. The Company adopted SFAS 165 in the second quarter of 2009, which did not have a material impact on the Company's condensed consolidated financial statements.

In June 2009, the FASB issued SFAS No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles*. This standard replaces SFAS No. 162, *The Hierarchy of Generally Accepted Accounting Principles*, and establishes only two levels of GAAP, authoritative and nonauthoritative. The FASB Accounting Standards Codification (the "Codification") will become the source of authoritative, nongovernmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other nongrandfathered, non-SEC accounting literature not included in the Codification will become nonauthoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. The Company will begin to use the new guidelines and numbering system prescribed by the Codification when referring to GAAP in the third quarter of 2009. As the Codification was not intended to change or alter existing GAAP, it will not have a material effect on the Company's condensed consolidated financial statements.

3. RESTRUCTURING

On December 29, 2008, the Company committed to and implemented an organizational restructuring plan intended to reduce its cost structure and improve operating efficiencies, which resulted in a reduction in its overall workforce. In accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities* ("SFAS 146"), the Company has recorded restructuring charges consisting of employee severance and other personnel-related expenses, which have been accrued in accounts payable and accrued liabilities within the accompanying condensed consolidated statements of financial condition. The Company expects to complete all the activities associated with the restructuring by April 30, 2010. A substantial portion of the expenses related to the restructuring had been paid as of June 30, 2009. See Note 15 for additional disclosure regarding the Company's restructuring plan.

The following table summarizes the Company's restructuring accrual activity for the six months ending June 30, 2009 (in thousands):

	Severance and Benefits Accrued
Balance at December 31, 2008	$ 14,533
Adjustments(1)	(524)
Payments	(11,401)
Balance at June 30, 2009	$ 2,608

(1) Adjustments represent changes in the Company's estimates for the cost of providing post employment benefits to employees impacted by its restructuring activities.

4. FAIR VALUE MEASUREMENTS

SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), defines fair value 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. SFAS 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1—Quoted prices in active markets for identical assets or liabilities.
- 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 prescribed by SFAS 157, based on the nature of inputs used to determine the fair value at the measurement date. At June 30, 2009, 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.

Cash and 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 trading securities consist of house account model portfolios for the purpose of benchmarking the performance of its fee based advisory platforms and temporary positions resulting from the processing of client transactions. Examples of these securities include money market funds, U.S. treasuries, mutual funds, certificates of deposit, traded equity securities and debt securities.

The Company uses prices obtained from independent third-party pricing services to measure the fair value of its trading securities. Prices received from the pricing services are validated using various methods including comparison to prices received from additional pricing services, comparison to available quoted market prices and review of other relevant market data including implied yields of major categories of securities. In general, these quoted prices are derived from active markets for identical assets or liabilities. When quoted prices in active markets for identical assets and liabilities are not available, the quoted prices are based on similar assets and liabilities or inputs other than the quoted prices that are observable, either directly or indirectly. For certificates of deposit and treasury securities, the Company utilizes market-based inputs including observable market interest rates that correspond to the remaining maturities or next interest reset dates. At June 30, 2009, 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)

The Company has segregated all recurring fair value measurements into the most appropriate level within the fair value hierarchy in the tables below, based on an evaluation of inputs used to determine the fair value at June 30, 2009 and December 31, 2008 (in thousands):

	Level 1	Level 2	Level 3	Fair Value Measurements
At June 30, 2009:				
Assets				
Cash equivalents	$ 233,856	$ —	$ —	$ 233,856
Cash and securities segregated under federal and other regulations	215,360	—	—	215,360
Securities owned—trading:				
Money market funds	208	—	—	208
Mutual funds	5,872	—	—	5,872
Equity securities	774	—	—	774
Debt securities	—	970	—	970
U.S. treasury obligations	7,819	—	—	7,819
Total securities owned—trading	14,673	970	—	15,643
Other assets	10,351	—	—	10,351
Total assets at fair value	$ 474,240	$ 970	$ —	$ 475,210
Liabilities				
Securities sold but not yet purchased:				
Mutual funds	$ 2,120	$ —	$ —	$ 2,120
Equity securities	115	—	—	115
Certificates of deposit	—	171	—	171
Debt securities	—	296	—	296
Total securities sold but not yet purchased	2,235	467	—	2,702
Interest rate swaps	—	20,021	—	20,021
Total liabilities at fair value	$ 2,235	$ 20,488	$ —	$ 22,723

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	Level 1	Level 2	Level 3	Fair Value Measurements
At December 31, 2008:				
Assets				
Cash equivalents	$56,122	$ —	$ —	$ 56,122
Securities owned—trading:				
Money market funds	238	—	—	238
Mutual funds	6,659	—	—	6,659
Equity securities	585	—	—	585
Debt securities	—	510	—	510
U.S. treasury obligations	2,819	—	—	2,819
Total securities owned—trading	10,301	510	—	10,811
Other assets	6,965	—	—	6,965
Total assets at fair value	$73,388	$ 510	$ —	$ 73,898
Liabilities				
Securities sold but not yet purchased:				
Mutual funds	$ 3,585	$ —	$ —	$ 3,585
Equity securities	87	—	—	87
Debt securities	—	238	—	238
Total securities sold but not yet purchased	3,672	238	—	3,910
Interest rate swaps	—	25,417	—	25,417
Total liabilities at fair value	$ 3,672	$25,655	$ —	$ 29,327

5. HELD-TO-MATURITY SECURITIES

The Company holds certain investments in securities including U.S. government notes, stock in the Federal Reserve Bank and a certificate of deposit. The Company has both the intent and the ability to hold these investments to maturity and classifies as such, in accordance with SFAS No. 115, *Accounting for Certain Investments in Debt and Equity Securitie*s. At June 30, 2009, the carrying value of these securities approximates fair value. Interest income is accrued as earned and dividends are recorded on the ex-dividend date. Premiums and discounts are amortized using a method that approximates the effective yield method over the term of the security and recorded as an adjustment to the investment yield.

The components of held-to-maturity securities were as follows (in thousands):

	June 30, 2009	December 31, 2008
U.S. government notes—at amortized cost	$ 10,395	$ 10,404
Federal Reserve stock—at cost	395	389
Certificate of deposit—at amortized cost	100	100
Total held-to-maturity securities	$ 10,890	$ 10,893

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

As of June 30, 2009, the components of U.S. government notes classified as held-to-maturity were as follows (in thousands):

	Carrying value	Interest rate	Year of maturity
U.S. Treasury notes	$ 1,500	3.50%	2009
U.S. Treasury notes	5,155	2.63% - 4.13%	2010
U.S. Treasury notes	3,740	0.88% - 4.63%	2011
Total U.S. Treasury notes	$ 10,395		

6. INTANGIBLE ASSETS

The components of intangible assets as of June 30, 2009 and December 31, 2008 are as follows (in thousands):

	Gross carrying value	Accumulated amortization	Net carrying value
At June 30, 2009:			
Definite-lived intangible assets:			
Advisor relationships	$482,397	$ (85,036)	$397,361
Product sponsor relationships	233,663	(39,328)	194,335
Trust client relationships	2,630	(587)	2,043
Trademarks and trade names	2,757	(1,552)	1,205
Total definite-lived intangible assets	$721,447	$ (126,503)	$594,944
Indefinite-lived intangible assets:			
Trademark and trade name			39,819
Total intangible assets			$634,763
At December 31, 2008:			
Definite-lived intangible assets:			
Advisor relationships	$482,397	$ (71,318)	$411,079
Product sponsor relationships	233,663	(33,442)	200,221
Trust client relationships	2,630	(521)	2,109
Trademarks and trade names	2,757	(1,282)	1,475
Total definite-lived intangible assets	$721,447	$ (106,563)	$614,884
Indefinite-lived intangible assets:			
Trademark and trade name			39,819
Total intangible assets			$654,703

Total amortization expense of intangible assets was $10.0 million and $19.9 million for the three and six months ended June 30, 2009, respectively, and $9.6 million and $19.1 million for the three and six months ended June 30, 2008, respectively. Amortization expense for each of the fiscal years ended December 2009 through 2013 and thereafter is estimated as follows (in thousands):

2009—remainder	$ 19,472
2010	38,454
2011	38,194
2012	37,723
2013	36,941
Thereafter	424,160
Total	$594,944

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 nondeductible expenses for tax purposes. 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. These items resulted in effective tax rates of 51.5% and 48.5% for the three and six months ended June 30, 2009, respectively, and 53.0% and 48.8% for the three and six months ended June 30, 2008, respectively.

8. INDEBTEDNESS

Senior Secured Credit Facilities—Borrowings under the Company's senior secured credit 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 federal funds effective rate plus $^{1}/_{2}$ of 1.00%. The applicable margin on the senior secured term credit facilities could change depending on the Company's credit rating. The senior secured credit facilities are subject to certain financial and nonfinancial covenants. As of June 30, 2009, the Company was in compliance with all such covenants.

Senior Unsecured Subordinated Notes—The Company has $550.0 million of senior unsecured subordinated notes due December 15, 2015. The notes bear interest at 10.75% per annum and interest payments are payable semiannually in arrears. The Company is not required to make mandatory redemption or sinking-fund payments with respect to the notes. The indenture underlying the senior unsecured subordinated notes contains various restrictions with respect to the issuer, including one or more restrictions relating to limitations on liens, sale and leaseback arrangements and funded debt of subsidiaries.

Revolving Line of Credit—The Company maintains a $100.0 million revolving line of credit facility, $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"), and $90.0 million of which was drawn for a combination of acquisition integration costs and credit preservation measures. The revolving credit facility carries a borrowing rate of one-month LIBOR plus an interest rate margin of an additional 2.00%. On both June 30, 2009 and December 31, 2008, there was a $90.0 million outstanding borrowing balance against the revolving line of credit.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Bank Loans Payable—In April 2008, the Company entered into an uncommitted line of credit that has a $100.0 million limit and is primarily dependent on its ability to provide sufficient collateral. The Company also maintains an additional uncommitted line of credit, which has an unspecified limit and is also dependent on its ability to provide sufficient collateral. At June 30, 2009 and December 31, 2008, there were no outstanding balances on the Company's uncommitted lines of credit.

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

		June 30, 2009		December 31, 2008	
	Maturity	Balance	Interest Rate	Balance	Interest Rate
Revolving line of credit	12/28/2011	$ 90,000	2.31%(1)	$ 90,000	2.46%(4)
Senior secured term loan:					
Unhedged	6/28/2013	423,435	2.06%(2)	332,647	2.23%(5)
Hedged with interest rate swaps	6/28/2013	400,000	2.35%(3)	495,000	3.21%(6)
Senior unsecured subordinated notes	12/15/2015	550,000	10.75%	550,000	10.75%
Total borrowings		1,463,435		1,467,647	
Less current borrowings (maturities within 12 months)		8,424		8,424	
Long-term borrowings—net of current portion		$ 1,455,011		$ 1,459,223	

(1) As of June 30, 2009, the variable interest rate for the revolving line of credit is based on the one-month LIBOR of 0.31% plus the applicable interest rate margin of 2.00%.

(2) As of June 30, 2009, the variable interest rate for the unhedged portion of the senior secured term loan is based on the one-month LIBOR of 0.31% plus the applicable interest rate margin of 1.75%.

(3) As of June 30, 2009, the variable interest rate for the hedged portion of the senior secured term loan is based on the three-month LIBOR of 0.60%, plus the applicable interest rate margin of 1.75%.

(4) As of December 31, 2008, the variable interest rate for the revolving line of credit is based on the one-month LIBOR of 0.46% plus the applicable interest rate margin of 2.00%.

(5) As of December 31, 2008, the variable interest rate for the unhedged portion of the senior secured term loan is based on a weighted average of the one- and three-month LIBOR of 0.46% and 1.46%, respectively, plus the applicable interest rate margin of 1.75%.

(6) As of December 31, 2008, the variable interest rate for the hedged portion of the senior secured term loan is based on the three-month LIBOR of 1.46%, plus the applicable interest rate margin of 1.75%.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following summarizes borrowing activity in the revolving and margin credit facilities (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2009	2008	2009	2008
Average balance outstanding	$91,268	$28,278	$90,634	$31,153
Weighted-average interest rate	2.41%	4.60%	2.43%	5.04%

The minimum calendar year principal payments and maturities of borrowings as of June 30, 2009 are as follows (in thousands):

	Senior Secured	Revolving Line of Credit	Senior Unsecured	Total Amount
2009—remainder	$ 4,212	$ —	$ —	$ 4,212
2010	8,424	—	—	8,424
2011	8,424	90,000	—	98,424
2012	8,424	—	—	8,424
2013	793,951	—	—	793,951
Thereafter	—	—	550,000	550,000
Total	$823,435	$90,000	$550,000	$1,463,435

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 June 30, 2009 (in thousands):

Notional Balance	Fixed Pay Rate	Variable Receive Rate(1)	Fair Value	Maturity Date
$ 70,000	3.43%	0.60%	$ (1,710)	June 30, 2010
120,000	4.79%	0.60%	(4,525)	June 30, 2010
145,000	4.83%	0.60%	(8,950)	June 30, 2011
65,000	4.85%	0.60%	(4,836)	June 30, 2012
$ 400,000			$ (20,021)	

(1) The variable receive rate reset on the last day of the period, based on the applicable three-month LIBOR. The effective rate from March 31, 2009 through June 29, 2009 was 1.22%. As of June 30, 2009, the effective rate was 0.60%.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Each of the interest rate swap agreements listed above have been designated as cash flow hedges against specific payments due on the Company's senior secured term loan. The interest rate swap agreements qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* ("SFAS 133"). As of June 30, 2009, 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 condensed consolidated statements of financial condition. Based on current interest rate assumptions and assuming no additional interest rate swap agreements are entered into, the Company expects to reclassify $15.9 million or $8.2 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.

Service Contracts—The Company is party to certain long-term contracts for systems and services that enable its back office trade processing and clearance.

Future minimum payments under leases, lease commitments and other noncancellable contractual obligations with remaining terms greater than one year as of June 30, 2009 are as follows (in thousands):

Years ending December 31	
2009—remainder	$ 13,734
2010	27,072
2011	23,418
2012	18,642
2013	13,741
Thereafter	22,532
Total	$119,139

Total rental expense for all operating leases was approximately $5.0 million and $10.3 million for the three and six months ended June 30, 2009, respectively, and $6.0 million and $11.1 million for the three and six months ended June 30, 2008, 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 subsidiary, LPL Financial Corporation ("LPL Financial"), provides 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 financial advisors, primarily to new recruits 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 financial advisor joining the Company, and may be forgivable. As of June 30, 2009, the Company estimates that it had made commitments for $1.6 million in transition loans that have not yet been funded.

At June 30, 2009, the Company had made payments of $4.0 million in transition loans, which bear interest at the minimum federal rate per annum as published by the IRS and are forgivable on a prorated basis over five years, based upon the financial advisor's achievement of certain commission targets. Outstanding loan balances plus interest are payable in full if the financial advisor has not achieved 100-percent of the cumulative commission targets.

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 believes, based on current knowledge, after consultation with counsel, and consideration of insurance, if any, that the outcome of such matters will not have a material adverse effect on its accompanying condensed consolidated statements of financial condition, income, or cash flows.

The Company recognizes a liability for legal and defense costs when it believes it is probable a liability has occurred and the amount can be reasonably estimated. Legal and defense costs are expensed as incurred and classified as professional services within the accompanying condensed consolidated statements of income. In 2008, and in accordance with the related purchase and sale agreements, the Company received $3.4 million from the sellers for the reimbursement of legal and defense costs for which it was indemnified at or prior to the date of acquisition. The Company has recorded the indemnifications as a reduction in professional services at the time such amounts were acknowledged by the sellers. The Company has not recorded any additional reserve for legal expenses as all known cases are covered by the indemnification.

The Company's subsidiary, Associated Securities Corporation ("ASC"), is a respondent or defendant in several arbitration and court proceedings involving the activities of a former agent. In January 2009, a federal court issued a summary judgment order dismissing ASC from one such case. Plaintiffs in that case appealed the dismissal to the U.S. Court of Appeals for the Ninth Circuit. In an arbitration matter decided in March 2009, an arbitration panel found ASC and the former agent jointly and severally liable for damages totaling $8.9 million. On July 30, 2009, ASC settled the arbitration and court proceedings. The Company is indemnified for these matters and has received full payment from ASC's previous owners for the settlement amount.

Other Commitments—As of June 30, 2009, the Company had received collateral primarily in connection with client margin loans with a market value of approximately $298.8 million, which it can sell or repledge. Of this amount, approximately $156.9 million has been pledged or sold as of June 30, 2009; $142.3 million was pledged to banks in connection with unutilized secured margin lines of credit, $7.4 million was pledged to client-owned securities with the Options Clearing Corporation, and $7.2 million was loaned to the Depository Trust Company ("DTC") through participation in its Stock

Borrow Program. As of December 31, 2008, the Company had received collateral primarily in connection with client margin loans with a market value of approximately $335.9 million, which it can sell or repledge. Of this amount, approximately $152.3 million has been pledged or sold as of December 31, 2008: $143.8 million was pledged to banks in connection with unutilized secured margin lines of credit, $3.2 million was pledged to client-owned securities with the Options Clearing Corporation, and $5.3 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 financial advisors and 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 leading to termination.

11. SHARE-BASED COMPENSATION

Certain employees, former employees, officers, directors, financial advisors and financial institutions participate in stock option plans of the Company. The Company's financial advisors participate in a stock bonus plan and certain employees and former employees participate in a nonqualified deferred compensation plan. The terms of these plans are set forth in the 2008 Annual Report on Form 10-K.

Share-Based Compensation

The Company recognized $2.3 million and $1.8 million of share-based compensation under SFAS No. 123R (Revised), *Share-Based Payment* ("SFAS 123R") related to employee stock option awards during the six months ended June 30, 2009 and 2008, respectively. As of June 30, 2009, total unrecognized compensation cost related to nonvested share-based compensation arrangements granted was $15.7 million, which is expected to be recognized over a weighted-average period of 3.47 years. Under SFAS 123R, the Company calculates the compensation cost for stock options based on its estimated fair value.

The Company recognized $0.5 million and $0.1 million of share based compensation during the six months ended June 30, 2009 and 2008, respectively, related to the vesting of stock options awarded to non-employees. As of June 30, 2009, total unrecognized compensation cost related to nonvested share-based compensation arrangements granted was $5.4 million for non-employees, which is expected to be recognized over a weighted-average period of 4.43 years.

The following table presents the weighted-average assumptions used by the Company in calculating the fair value of its stock options with the Black-Scholes valuation model for the six months ended June 30, 2009 and 2008:

	2009	2008
Expected life (in years)	7.75	6.53
Expected stock price volatility	47.09%	31.28%
Expected dividend yield	—	—
Annualized forfeiture rate	3.77%	1.34%
Fair value of options	$10.73	$10.17
Risk-free interest rate	3.04%	2.58%

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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. In the future, as the Company gains historical data for volatility in its own stock and the actual term over which employees hold its options, expected volatility, and the expected term may change, which could substantially change the grant-date fair value of future awards of stock options and, ultimately, compensation recorded on future grants. The Company estimates the expected term for its employee option awards using the simplified method in accordance with SAB No. 107, *Shared-Based Payment*, which was subsequently amended and replaced by SAB 110, *Certain Assumptions Used in Valuation Methods*. The simplified method is used 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 its non-employee option awards using the contractual term in accordance with Emerging Issues Task Force Issue No. 96-18 ("EITF 96-18"). 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 relevant to measure expected volatility for future option grants.

The Company has assumed an annualized forfeiture rate for its options based on a combined review of industry and employee turnover data, as well as an analytical review performed of historical prevesting forfeitures occurring over the previous year. Under the true-up provisions of SFAS 123R, the Company will record additional expense if the actual forfeiture rate is lower than estimated and will record a recovery of prior expense if the actual forfeiture is higher than estimated.

The following table summarizes the Company's activity in its stock option plans for the six months ended June 30, 2009:

	Number of Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value (in thousands)
Options outstanding—December 31, 2008	20,078,283	$ 4.87		
Granted	827,606	18.70		
Exercised	(149,215)	1.11		
Forfeited	(189,574)	26.85		
Options outstanding—June 30, 2009	20,567,100	$ 5.25	4.94	$ 313,751
Options exercisable—June 30, 2009	17,955,532	$ 2.51	4.36	$ 312,758

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

The following table summarizes information about outstanding stock option awards:

	Outstanding			Exercisable	
Range of Exercise Prices	Total Number of Shares	Weighted-Average Remaining Life (Years)	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
At June 30, 2009:					
$1.07-$2.38	17,349,480	4.22	$ 1.74	17,349,480	$ 1.74
$10.30-$19.74	968,263	9.40	18.30	84,210	14.93
$21.60-$27.80	2,249,357	8.57	26.71	521,842	26.10
	20,567,100	4.94	$ 5.25	17,955,532	$ 2.51

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 hold 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, a one-time opportunity to exchange stock options expiring in 2009 and 2010, for stock units of 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) December 31, 2012; (b) a change in control of the Company; or (c) death or disability of the participant. The exchange 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 June 30, 2009, the Company had 2,823,452 stock units outstanding under the 2008 Nonqualified Deferred Compensation Plan.

Stock Bonus Plan

The Company's financial 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 with the firm. 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 financial advisors who terminated prior to vesting were forfeited and reallocated to other financial advisors eligible under the plan. In 2008, the Company amended and restated its Stock Bonus Plan by eliminating the vesting provisions and granting the financial advisors with physical ownership of common stock of the Company. Consequently, on December 28, 2008, the Company issued 7,423,973 restricted shares in exchange for bonus credits. These restricted shares may not be sold, assigned or transferred and are not entitled to receive dividends or non-cash distributions, until either a sale of the Company that constitutes a change in control or an initial public offering.

The Company accounts for restricted shares granted to its financial advisors under the Stock Bonus Plan in accordance with EITF 96-18 and measures 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 times the fair market value determined at the event date.

12. RELATED PARTY TRANSACTIONS

AlixPartners, LLP ("AlixPartners"), a company majority-owned by one of the Company's majority shareholders, provides LPL Financial with consulting services pursuant to an agreement for interim management and consulting services dated August 21, 2007. LPL Financial paid $0.6 million and $3.1 million to AlixPartners during the six months ended June 30, 2009 and 2008, respectively.

Artisan Partners Limited Partnership ("Artisan"), a company majority-owned by one of the Company's majority shareholders, pays fees to LPL Financial in exchange for product distribution and record-keeping services. During the six months ended June 30, 2009 and 2008, LPL Financial earned $0.6 million and $0.8 million, respectively, in fees from Artisan. Additionally, as of June 30, 2009 and December 31, 2008, Artisan owed LPL Financial $0.3 million and $0.3 million, respectively, which is included in receivables from product sponsors, broker-dealers and clearing organizations on the accompanying condensed consolidated statements of financial condition.

Certain entities affiliated with SunGard Data Systems Inc. ("SunGard"), a company majority-owned by one of the Company's majority shareholders, provide LPL Financial with data center recovery services. LPL Financial paid $0.2 million to SunGard during the six months ended June 30, 2009.

Blue Frog Solutions, Inc. ("Blue Frog"), a privately held technology company in which the Company holds an approximate 13.9% ownership interest, provides LPL Financial with software licensing for annuity order entry and compliance. LPL Financial paid $0.7 million to Blue Frog for such services during the six months ended June 30, 2009.

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

13. 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.

LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Net capital and net capital requirements for the Company's broker-dealer subsidiaries as of June 30, 2009 are presented in the following table (in thousands):

	Net Capital	Minimum Net Capital Required	Excess Net Capital
LPL Financial Corporation	$ 93,209	$ 6,388	$ 86,821
UVEST Financial Services Group, Inc.	12,715	1,659	11,056
Mutual Service Corporation	14,750	923	13,827
Associated Securities Corp.	1,846	250	1,596
Waterstone Financial Group, Inc.	5,037	227	4,810
Total	$ 127,557	$ 9,447	$ 118,110

LPL Financial is a clearing broker-dealer and the remaining broker-dealer subsidiaries are 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 condensed consolidated financial statements. As of June 30, 2009, the Company has met all capital adequacy requirements to which it is subject.

The Company operates in a highly regulated industry. Applicable laws and regulation 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 supervisions 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.

14. 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 customers 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 accompanying 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, ASC, Mutual Service Corporation ("MSC") and Waterstone Financial Group, Inc. ("WFG") are engaged in buying and selling securities and other financial instruments for clients of financial advisors. Such transactions are introduced and cleared through a third-party clearing firm on a fully 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.

15. SUBSEQUENT EVENT

As part of its ongoing strategic business review, on July 10, 2009, the Company committed to a corporate restructuring plan to enhance its service offering while generating efficiencies. The restructuring plan consolidates the operations of ASC, MSC and WFG (together, the "Affiliated Broker-Dealers") with those of LPL Financial. In connection with the consolidation, the registered representatives currently associated with the Affiliated Broker-Dealers will move to LPL Financial through a mass transfer of their licenses. Following the transfer of registered representatives and client accounts to LPL Financial, all registered representatives and client accounts shall then be associated with LPL Financial.

The Company anticipates recording pre-tax charges of $67.0 million over the course of this restructuring plan and related organizational realignments in 2009 and 2010, including a non-cash impairment charge of $16.6 million. These charges are comprised of $9.2 million of severance, retention and related benefits, $7.5 million of contract termination fees, $8.4 million in costs relating to the termination of certain real property leases and $25.3 in other expenditures principally relating to the conversion and transfer of registered representatives and client accounts from the Affiliated Broker-Dealers to LPL Financial. An estimated 215 positions are expected to be eliminated as part of the plan. The Company estimates that all of the severance and employee-related costs, and a significant majority of the other costs, will result in future cash outlays. A substantial portion of the restructuring activities are expected to be completed by the end of 2009, with the remainder expected to be completed by the first half of 2010.

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

Forward Looking Statements

This section and other parts of this Form 10-Q contain forward-looking statements that involve risks and uncertainties. Forward-looking statements can also be identified by words such as "anticipates," "expects," "believes," "plans," "predicts" and similar terms. Forward-looking statements are not guarantees of future performance and the Company's actual results may differ significantly from the results discussed in the forward-looking statements. Factors that might cause such differences include, but are not limited to, those discussed in the subsection entitled "Risk Factors" in Part I1, Item 1A of this report. The following discussion should be read in conjunction with our 2008 Annual Report on Form 10-K filed with the U.S. Securities and Exchange Commission, and the Unaudited Condensed Consolidated Financial Statements and notes thereto included elsewhere in this Form 10-Q.

Overview

We are a leading provider of technology, brokerage and investment advisory services through business relationships with independent financial advisors, registered investment advisors and financial institutions (collectively, our "customers"). Through our proprietary technology, custody and clearing platforms, we provide our customers with access to a broad array of financial products and services, which enable them to more effectively provide independent financial advice and brokerage services to retail investors (their "clients").

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

How We Evaluate Growth

We focus on several key financial and non-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 six months ended June 30, 2009 and 2008 are as follows:

	June 30,		
	2009	2008	% Change
Non-Financial Metrics			
Financial advisors(1)	12,489	11,483	8.8%
Total client accounts(2)	3,463,113	3,084,892	12.3%
AUM(3)(4)(in billions)	$ 259.0	$ 291.3	(11.1)%

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Financial Metrics				
Revenue growth from prior year	(17.9)%	25.8%	(18.7)%	33.3%
Recurring revenue as a % of total revenue(5)	55.3%	59.0%	55.2%	59.8%
Gross margin as a % of revenue	30.7%	30.0%	30.9%	30.4%
Adjusted EBITDA (in millions)	$ 89.7	$96.3	$171.6	$185.8

(1) Financial advisors are defined as those investment professionals who are licensed to do business with our broker-dealer subsidiaries.

(2) Represents custodied, networked and non-networked client accounts that have been funded.

(3) Assets under management ("AUM") are comprised of brokerage and advisory assets that are custodied, networked and non-networked and reflect market movement in addition to new assets, inclusive of recruiting and net of attrition.

(4) In our Quarterly Report on Form 10-Q filed on May 14, 2009, we disclosed our AUM as of March 31, 2009 as $246.6 billion. Due to an administrative error, this number was misreported. The correct number for our AUM as of March 31, 2009 is $231.7 billion.

(5) Revenue is derived from recurring 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.

EBITDA and Adjusted EBITDA

EBITDA is defined as net income plus interest expense, income tax expense, depreciation and amortization. Adjusted EBITDA, as we use it, is EBITDA adjusted to exclude certain non-cash charges, unusual or non-recurring items and other adjustments set forth below. We believe that the presentation of EBITDA and Adjusted EBITDA is appropriate to provide additional information to investors about the calculation of, and compliance with, certain financial covenants in our senior credit facilities. Adjusted EBITDA is a material component of these covenants. EBITDA and Adjusted EBITDA are useful financial metrics 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 unusual or non-recurring items that we do not expect to continue in the future and are outside the control of operating management.

EBITDA and Adjusted EBITDA are non-GAAP measures as defined by Regulation G under the Securities Act and do 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 terms EBITDA and Adjusted EBITDA are not defined under GAAP, and EBITDA and Adjusted EBITDA are not measures of net income, operating income or any other performance measure derived in accordance with GAAP, and are subject to important limitations. Adjusted EBITDA is defined herein in accordance with the definition found in the indenture governing the senior unsecured subordinated notes and the credit facility further described in the section "Covenant Compliance" in "Management's Discussion and Analysis of Financial Condition and Results of Operations".

EBITDA and Adjusted EBITDA can differ significantly 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, EBITDA and Adjusted EBITDA should not be considered as measures 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 EBITDA and Adjusted EBITDA as supplemental information.

Set forth below is a reconciliation from our net income to EBITDA and Adjusted EBITDA for the three and six months ended June 30, 2009 and 2008:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
	(in thousands)			
Net income	$15,581	$14,303	$ 30,378	$ 25,968
Interest expense(a)	26,032	28,538	51,973	59,021
Income tax expense	16,567	16,101	28,555	24,735
Depreciation and amortization	27,277	23,771	54,672	47,393
EBITDA(d)	85,457	82,713	165,578	157,117
Non-cash items(b)	1,047	5,214	2,272	8,621
Other adjustment items(c)	3,162	8,352	3,762	20,082
Adjusted EBITDA(d)	$89,666	$96,279	$171,612	$185,820

(a) Represents non-operating interest from borrowings under our senior credit facilities, senior unsecured subordinated notes and revolving line of credit, as defined under the terms of our credit agreement.

(b) Represents share based compensation expense for our employees under the provisions of SFAS 123R and non-cash compensation benefits incurred pursuant to the purchase and sale agreements of certain acquisitions.

(c) Represents acquisition and integration related expenses including legal and other professional service fees and retention payments. Also includes pro forma adjustments for general and administrative expenditures from our acquisition and resulting shutdown of Independent Financial Marketing Group, Inc. and IFMG Securities, Inc. (collectively "IFMG"), as permitted under the terms of our credit agreement.

(d) EBITDA and Adjusted EBITDA have limitations as an analytical tool, and they should not be considered in isolation, or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

- EBITDA and Adjusted EBITDA do not reflect all cash expenditures, future requirements for capital expenditures or contractual commitments;
- EBITDA and Adjusted EBITDA do not reflect changes in, or cash requirements for, working capital needs;
- EBITDA and Adjusted EBITDA do not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt;
- Adjusted EBITDA reflects additional adjustments as provided in the agreement governing our senior credit facilities; and
- Other companies in our industry may calculate EBITDA and Adjusted EBITDA differently, limiting its usefulness as a comparative measure.

Economic Overview and Impact of Financial Market Events

Although we are encouraged by signs of progress, the global financial outlook remains challenging as we enter the second half of 2009. The S&P 500 experienced a modest recovery during the three months ended June 30, 2009 to reach levels comparable with those seen toward the end of 2008. Such gains provided retail investors with the first market-driven improvement in their asset and account balances since the second quarter of 2008. At the same time, the S&P 500 still ended the quarter 28% below the prior year level, which has a significant influence on the market value of our AUM from which we recognize commission and advisory revenues and asset-based fees. Market volatility and weak investor confidence regarding the capital markets drove retail investors to seek stable investments, such as fixed annuities and fixed income securities, as well as money market funds and federally insured deposits. Concurrently, the government monetary policy has continued to keep short-term interest rates at historical low levels. In the case of money market and cash sweep products, client assets have increased 20.2% to $20.8 billion as of June 30, 2009 compared to $17.3 billion at June 30, 2008, however our asset-based fees have decreased due to changes in short-term interest rates and the Federal Reserve's effective federal funds rate, which is currently set at a target of 0% to 0.25%. Our financial advisors remain deeply involved with their clients throughout this time, and client transaction activity has been strong.

In response to the lower levels of revenues that result from these conditions, we remain focused on our efforts to reduce costs and control our expenditures. In the fourth quarter of 2008, we initiated a series of cost reduction measures through a strategic business review. Those efforts included the December 31, 2008 decision to reduce our workforce by approximately 275 employees, or approximately 10.0%, which resulted in additional expenditures during the fourth quarter of 2008, but have reduced compensation and benefits expense by approximately $13.0 million during the first six months of 2009 in comparison to the same period in the prior year. In the third quarter of 2009, we announced a plan to consolidate the operations of the Affiliated Broker-Dealers with those of LPL Financial (See Note 15).

We continue to manage the impact of financial market events on our earnings with a strategic focus on attractive growth opportunities such as recruiting business relationships and through productivity and simplicity initiatives, in addition to our expense management activities described earlier. We plan to continue these efforts into future periods as they may help mitigate some of the negative financial risks associated with current market conditions and bolster our growth capabilities. We remain focused on retaining our customers and enabling them to provide their clients with independent and unbiased financial advice. This strategy is our key advantage and we believe it provides sustainable success for our advisors and our firm.

Results of Operations

The following discussion presents an analysis of our results of operations for the three and six months ended June 30, 2009 and 2008. 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 June 30, 2009	Three Months Ended June 30, 2008	% Change	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008	% Change
	(in thousands)			(in thousands)		
Revenues						
Commissions	$ 367,431	$ 441,165	(16.7)%	$ 714,651	$ 861,810	(17.1)%
Advisory fees	161,463	209,451	(22.9)%	325,368	425,728	(23.6)%
Asset-based fees	67,739	94,177	(28.1)%	130,393	182,784	(28.7)%
Transaction and other fees	61,609	54,466	13.1%	122,947	112,943	8.9%
Other	11,124	15,688	(29.1)%	19,047	30,329	(37.2)%
Total revenues	**669,366**	**814,947**	**(17.9)**%	**1,312,406**	**1,613,594**	**(18.7)**%
Expenses						
Production	463,988	570,169	(18.6)%	906,519	1,123,500	(19.3)%
Compensation and benefits	64,841	89,155	(27.3)%	131,819	181,864	(27.5)%
General and administrative	47,161	60,761	(22.4)%	95,274	129,961	(26.7)%
Depreciation and amortization	27,277	23,771	14.7%	54,672	47,393	15.4%
Other	7,786	9,937	(21.6)%	12,937	18,494	(30.0)%
Total non-interest expenses	**611,053**	**753,793**	**(18.9)**%	**1,201,221**	**1,501,212**	**(20.0)**%
Interest expense	26,081	28,765	(9.3)%	52,084	59,446	(12.4)%
Loss on equity investment	84	1,985	(95.8)%	168	2,233	(92.5)%
Total expenses	**637,218**	**784,543**	**(18.8)**%	**1,253,473**	**1,562,891**	**(19.8)**%
Income before provision for income taxes	**32,148**	**30,404**	5.7%	**58,933**	**50,703**	16.2%
Provision for income taxes	**16,567**	**16,101**	**2.9%**	**28,555**	**24,735**	**15.4%**
Net income	**$ 15,581**	**$ 14,303**	**8.9%**	**$ 30,378**	**$ 25,968**	**17.0%**

Revenues

Commissions

Commission based revenues represent gross commissions generated by our customers, primarily from commissions earned on the sale of various products such as fixed and variable annuities, mutual funds, general securities, alternative investments and insurance. We also earn trailing commission type revenues (such as 12(b)-1 fees) on mutual funds and variable annuities held by clients of our financial advisors. Trail commissions (a commission that is paid over time) are recurring in nature and are earned based on the current market value of previously purchased investments.

The following table sets forth our commission revenue by product category included in our condensed consolidated statements of income for the periods indicated (in thousands):

	Three Months Ended June 30,				Six Months Ended June 30,			
	2009	% Total	2008	% Total	2009	% Total	2008	% Total
Annuities	$196,953	53.6%	$214,768	48.7%	$386,549	54.1%	$419,510	48.7%
Mutual funds	93,693	25.5%	133,230	30.2%	176,515	24.7%	268,262	31.1%
Equities	22,942	6.2%	19,160	4.3%	44,043	6.1%	39,482	4.6%
Alternative investments	19,007	5.2%	31,488	7.1%	36,328	5.1%	53,375	6.2%
Fixed income	19,531	5.3%	16,750	3.8%	35,168	4.9%	31,532	3.6%
Insurance	14,676	4.0%	24,968	5.7%	34,762	4.9%	48,204	5.6%
Other	629	0.2%	801	0.2%	1,286	0.2%	1,445	0.2%
Total commission revenue	**$367,431**	**100.0%**	**$441,165**	**100.0%**	**$714,651**	**100.0%**	**$861,810**	**100.0%**

Commission revenue decreased by $73.7 million, or 16.7%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008, as the declining market conditions resulted in a reduction in our transaction and trailing commissions. In addition, there has been a shift in product mix from mutual funds and variable annuities to fixed annuities and fixed income securities due to a shift in investor demand.

For the six months ended June 30, 2009, commission revenue decreased by $147.2 million, or 17.1%, compared to the same period in the prior year. The decrease is primarily due to a reduction in our trailing commissions which are based upon the market value of assets. The shift in product mix from mutual funds and variable annuities to fixed annuities and fixed income securities is evidenced in our product revenue trend during the six month periods then ended.

Advisory fees

Advisory fee revenues represent fees charged by us and our customers to retail investors based on the value of AUM in advisory programs. These fees are based upon the value of client assets at the time those assets are billed. The fair values of client assets are based on quoted market prices and other observable market data, and may vary with changes in the balances of client assets due to market fluctuations and client asset levels.

Advisory fees decreased by $48.0 million, or 22.9%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008, primarily due to market conditions and a resulting decrease in advisory AUM. Advisory AUM was $65.3 billion at June 30, 2009, compared to $73.7 billion at June 30, 2008, a decrease of 11.4%.

For the six months ended June 30, 2009, advisory fees decreased by $100.4 million, or 23.6%, compared to the prior year period. The decrease is attributed to unfavorable market conditions and a resulting decrease in advisory AUM.

Asset-based fees

Asset-based fees are comprised of fees from cash sweep vehicles, our product manufacturer sponsorship programs, and sub-transfer agency and networking services. Pursuant to contractual arrangements, uninvested cash balances in client accounts are swept into either third-party money market funds or insured deposit accounts at various banks, 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 product manufacturers in connection with 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 recordkeeping services as a sub-transfer agent. Our networking fees represent fees paid to us by mutual fund and annuity product manufacturers in exchange for administrative and recordkeeping services that we provide to clients of our financial advisors. Networking fees are correlated to the number of positions we administer, not the value of assets under administration.

Asset-based fees decreased $26.4 million, or 28.1%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008. This decrease was primarily driven by the declining interest rate environment and its influence on fees associated with our cash sweep programs and resulting asset based revenues. Specifically, the average effective federal funds rate was 0.18% during the three months ended June 30, 2009 compared to 2.08% for the same period in the prior year.

For the six months ended June 30, 2009, asset-based fees decreased $52.4 million, or 28.7%, compared with the prior year period. This decrease was primarily driven by the interest rate environment and its influence on our asset-based revenues. Specifically, the average effective federal funds rate was 0.18% for the six months ended June 30, 2009 compared to 2.63% for the prior year period. The effect of declining interest rates has been partially offset by an increase in the average client assets custodied in these programs, which increased 20.2% from $17.3 billion at June 30, 2008 to $20.8 billion at June 30, 2009.

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 customers 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 customers and on IRA custodial services that we provide for their client accounts. We charge monthly administrative fees to our customers, as well as regulatory licensing fees. We charge fees to product manufacturers for participating in our training and marketing conferences and fees to our customers and clients for accounts that fail to meet certain specified thresholds of size or activity.

Transaction and other fees increased $7.1 million, or 13.1%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008. The increase is attributed primarily to fees associated with the increased number of financial advisors and client accounts and to a lesser extent, an increase in trade volume. Specifically, trade volume increased 13.0% from 3.2 million trades for the three months ended June 30, 2009 compared to 2.8 million trades for the same period in the prior year.

During the six months ended June 30, 2009, transaction and other fees increased $10.0 million, or 8.9%, compared to the prior year period. The increase is due to an increase in fees resulting from an increase in the number of financial advisors and client accounts, as well as an increase in trade volume. Specifically, our trade volume increased to 6.6 million trades during the six months ended June 30, 2009 compared to 5.8 million trades for the prior year period, or 13.9%. Partially offsetting these factors is a decrease in revenues related to conference events that were sponsored in 2008 but not held in 2009.

Other revenue

Other revenue includes marketing re-allowances from certain product manufacturers as well as interest income from client margin accounts and cash equivalents.

Other revenue decreased $4.6 million, or 29.1%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008. For the six months ended June 30, 2009, other revenue decreased $11.3 million, or 37.2%, compared with the same period in the prior year. The decrease in both the three and six month periods then ended is due primarily to lower interest revenue from client margin lending activities and to a lesser extent, interest income earned on our cash equivalents.

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 customers. Substantially all of these pay-outs are variable and correlated to the revenues generated by each customer.

Production expenses decreased $106.2 million, or 18.6%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008. Commission and advisory revenues declined $121.7 million, or 18.7% during the same period, resulting in a corresponding decrease in our production payout to our customers.

For the six months ended June 30, 2009, production expenses decreased $217.0 million, or 19.3%, compared to the same period in the prior year. Commission and advisory revenues decreased $247.5 million, or 19.2% during the same period, resulting in a corresponding decrease in our production payout to our customers.

Compensation and benefits

Compensation and benefits represent compensation-related expenses for our employees (including share-based compensation expense), as well as compensation for temporary employees and consultants.

Compensation and benefits decreased $24.3 million, or 27.3%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008. The decrease is primarily attributed to our ongoing strategic business review and resulting cost management initiatives. As a result of attrition, retirements and our reduction in workforce implemented in the fourth quarter of 2008, our average number of full-time employees has declined by 436, or 15.2%, to 2,433 for the three months ended June 30, 2009, compared to 2,869 for the three months ended June 30, 2008.

For the six months ended June 30, 2009, compensation and benefits decreased $50.0 million, or 27.5%, compared to the prior year period. The decrease is primarily attributed to our ongoing strategic business review and resulting cost management initiatives. Through year-to-date attrition, retirements and our reduction in workforce implemented in the fourth quarter of 2008, our average number of full-time employees has declined by 404, or 14.2%, to 2,448 for the six months ended June 30, 2009, compared to 2,852 for the six months ended June 30, 2008.

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.

General and administrative expenses decreased by $13.6 million, or 22.4%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008. The decrease is primarily attributable to a $6.4 million reduction in promotional fees and recruiting related to conference events, which we sponsored in 2008 but has not yet occurred in 2009. Additionally, our ongoing strategic business review and the resulting cost reduction measures led to decreases of $2.4 million in professional services and $3.3 million in occupancy and equipment.

For the six months ended June 30, 2009, general and administrative expenses decreased by $34.7 million, or 26.7%, compared to the prior year period. The decrease is primarily attributable to a $20.9 million decline in promotional fees and recruiting related to conference events, which we sponsored in 2008 but has not yet occurred in 2009. Additionally, our ongoing strategic business review and the resulting cost reduction measures led to decreases of $5.1 million in professional services and $5.6 million in occupancy and equipment.

Depreciation and amortization

Depreciation and amortization expense represents the benefits received for the use of long-lived assets. Those assets include significant intangible assets established through acquisitions, as well as fixed assets which include internally developed software, hardware, leasehold improvements and other equipment.

Depreciation and amortization expense increased by $3.5 million, or 14.7%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008. For the six months ended June 30, 2009, depreciation and amortization expense increased by $7.3 million, or 15.4%, compared to the same period in the prior year. The increase in both the three and six month periods then ended is attributed to capital expenditures made to support integration efforts and the general growth of our business.

Other expenses

Other expenses include bank fees, other taxes, bad debt expense and other miscellaneous expenses.

Other expenses decreased by $2.2 million, or 21.6%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008.

For the six months ended June 30, 2009, other expenses decreased by $5.6 million, or 30.0%, compared to the prior year period. The decrease for the three and six month periods then ended is primarily due to our cost reduction measures.

Interest expense

Interest expense includes operating interest expense related to brokerage operations and non-operating interest expense for our indebtedness.

Interest expense decreased by $2.7 million, or 9.3%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008. For the six months ended June 30, 2009, interest expense decreased by $7.4 million, or 12.4%, compared to the same period in the prior year. The decline for the three and six month period then ended reflects lower average interest rates on our borrowings due in part by a credit rating upgrade received in the third quarter of 2008. This trend is partially offset by an increase in the principal amount of debt outstanding due primarily to borrowings on our revolving credit facility. Specifically, our outstanding borrowings have increased $51 million from $1,412 million at June 30, 2008 compared to $1,463 million at June 30, 2009.

Loss on equity investment

Loss on equity investment represents our share of losses related to our investment in a privately held technology company.

Loss on equity investment decreased $1.9 million for the three months ended June 30, 2009 compared with the three months ended June 30, 2008. For the six month period ended June 30, 2009, loss on equity investment decreased $2.1 million compared with the prior year period. The decrease in both the three and six month periods is attributed to an other than temporary impairment of

$1.7 million that we incurred during the second quarter of 2008, in addition to our share of losses related to our equity investment.

Provision for Income Taxes

Our provision for income taxes increased by $0.5 million, or 2.9%, for the three months ended June 30, 2009 compared with the three months ended June 30, 2008. The increase in income tax expense is primarily related to a decrease in our estimated annual income over comparable periods. The effective income tax rate under GAAP was 51.5% and 53.0% for the three months ended June 30, 2009 and 2008, respectively. Changes in our effective tax rates reflect changes in our estimates for expenses that cannot be deducted for income tax purposes.

For the six month period ended June 30, 2009, our provision for income taxes increased by $3.8 million, or 15.4%, compared to the same period in the prior year. The increase in income tax expense is primarily related to a reduction in our estimated annual income over comparable periods. The effective income tax rate under GAAP was 48.5% and 48.8% for the six months ended June 30, 2009 and 2008, respectively. Changes in our effective tax rates reflect changes in our estimates for expenses that cannot be deducted for income tax purposes.

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 factor in 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 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 (in thousands):

	Six Months Ended June 30,	
	2009	2008
Net cash flows provided by (used in):		
Operating activities	$121,778	$137,307
Investing activities	(3,543)	(43,767)
Financing activities	(3,619)	(37,917)
Net increase in cash and cash equivalents	114,616	55,623
Cash and cash equivalents—beginning of period	219,239	188,003
Cash and cash equivalents—end of period	$333,855	$243,626

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 for the six months ended June 30, 2009 and 2008, was $121.8 million and $137.3 million, respectively. The decrease in the six months ended June 30, 2009 as compared to the same period in 2008 is primarily related to an increase in cash used for funding and settling of client transactions, as well as a decrease in accrued expenses associated with payments made to employees impacted by the Company's strategic business review and related restructuring.

Net cash used in investing activities for the six months ended June 30, 2009 and 2008, was $3.5 million and $43.8 million, respectively. The decrease in the six months ended June 30, 2009 as compared to the same period in 2008 is principally due to a reduction in the level of capital expenditures.

Net cash used in financing activities for the six months ended June 30, 2009 and 2008 was $3.6 million and $37.9 million, respectively. The decrease in the six months ended June 30, 2009 as compared to the same period in the prior year is primarily related to the repayment of our bank loans and revolving line of credit in 2008, which has not recurred in fiscal year 2009.

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 clients for trading done on margin and funds we are required to maintain at clearing organizations to support clients' trading activities. We require that 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 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 ASC 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 customers' transactions, 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, 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 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, including the senior unsecured subordinated notes as discussed below. 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 facilities and the indenture governing the senior unsecured subordinated notes 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 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

As of June 30, 2009, we had outstanding $823.4 million of borrowings under our senior secured credit facilities and $550.0 million of senior unsecured subordinated notes. The senior secured credit facilities also include a $100.0 million revolving credit facility, $10.0 million of which is currently being utilized to support the issuance of an irrevocable letter of credit issued for the benefit of PTC and $90.0 million of which was drawn for a combination of integration costs and credit preservation measures. This facility expires on December 28, 2011. We also maintain uncommitted lines of credit, which have an unspecified limit, primarily dependent on our ability to provide sufficient collateral. Additionally, in an effort to mitigate interest rate risk, we maintain interest rate swap agreements to hedge the variability on $400.0 million of our floating rate senior secured credit facilities.

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 ABR plus our applicable margin. The ABR is equal to the greater of the prime rate or the effective federal funds rate plus $^1/_2$ of 1.00%. The applicable margin for borrowings is currently 1.00% with respect to the base rate borrowings and 2.00% with respect to LIBOR borrowings under the revolving credit facility, and 0.75% with respect to base rate borrowings and 1.75% with respect to LIBOR borrowings under the senior secured term loan facility. The applicable margin on the senior secured term loan facility could change depending on our credit rating. In September 2008, our corporate credit rating was upgraded to Ba3 from B1, which has reduced the interest rate on the senior secured credit facilities from LIBOR plus 200 basis points to LIBOR plus 175 basis points.

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 rate is currently 0.375% per annum, but is subject to changes 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) will require us to prepay outstanding senior secured term loan subject to certain exceptions, with:

- 50% (percentage will be reduced to 25% if our total leverage ratio is 5.00x or less and to 0% if our total leverage ratio is 4.00x 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 facilities.

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 facilities 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 such facility.

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

Guarantee and Security

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

Certain Covenants and Events of Default

The senior secured credit facilities contain a number of covenants that, among other things, restrict or 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;
- prepay certain subordinated indebtedness;
- engage in certain transactions with affiliates;
- amend material agreements governing certain subordinated indebtedness; and
- change our lines of business.

In addition, the senior secured credit facilities will require us to maintain the following financial covenants:

- a minimum interest coverage ratio; and
- a maximum total leverage ratio.

At June 30, 2009, we were in compliance with all covenants under our senior secured credit facilities.

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 $400.0 million of our term loan under our senior secured credit facility. 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 June 30, 2009, we assessed our interest rate swaps as being highly effective and we expect them to continue to be highly effective. While approximately $423.4 million of our term loan remains unhedged as of June 30, 2009, the risk of variability on our floating interest rate is partially mitigated by our margin interest loans made to our clients. At June 30, 2009, our receivables from clients for margin loan activity were approximately $213.4 million.

Senior Unsecured Subordinated Notes

Our senior unsecured subordinated notes are due in 2015 and bear interest at 10.75% per annum. Interest payments are payable semi-annually in arrears. We are not required to make mandatory redemption or sinking fund payments with respect to the notes and at June 30, 2009, $550.0 million was still outstanding. We may voluntarily repay our senior unsecured subordinated notes at any time, pursuant to certain prepayment penalties. The senior unsecured subordinated notes are subject to certain financial and non-financial covenants. As of June 30, 2009, we were in compliance with all such covenants.

Covenant Compliance

Our senior secured credit facilities and the indenture governing the senior unsecured subordinated notes contain various covenants that limit our ability to engage in specified types of transactions. We are required to satisfy and maintain specified financial ratios tied to Adjusted EBITDA under our senior secured credit facilities. The achievement of certain financial ratio targets increases our ability to engage in certain activities such as incurring indebtedness, making investments and paying dividends.

We believe that the presentation of EBITDA and Adjusted EBITDA is appropriate to provide additional information to investors about the calculation of, and compliance with, certain financial covenants in our senior credit facilities. Adjusted EBITDA is a material component of these covenants. We also present EBITDA and Adjusted EBITDA because we consider them an important supplemental measure of our performance and believe they are frequently used by security analysts, investors and other interested parties in the evaluation of high-yield issuers, many of which present EBITDA and Adjusted EBITDA when reporting their results.

Adjusted EBITDA does not represent net income or cash flow from operations as those terms are defined by GAAP and does not necessarily indicate whether cash flows will be sufficient to fund cash needs. In particular, the definition of Adjusted EBITDA in our senior secured credit facilities allows us to add back certain non-cash, extraordinary, unusual or non-recurring charges that are deducted in calculating net loss. However, these are expenses that may recur, vary greatly and are difficult to predict. While Adjusted EBITDA and similar measures are frequently used as measures of operations and the ability to meet debt service requirements, the presentation of EBITDA and Adjusted EBITDA may not be comparable to other similarly titled measures of other companies. EBITDA and Adjusted EBITDA should be considered in addition to, rather than as a substitute for, pre-tax income, net income and cash flows from operating activities.

Set forth below is a reconciliation from our net income to EBITDA and Adjusted EBITDA for the trailing twelve months ending June 30, 2009 and 2008:

	2009	2008
	(in thousands)	
Net income	$ 49,906	$ 45,291
Interest expense(a)	108,510	120,355
Income tax expense	51,089	39,071
Depreciation and amortization	107,741	89,983
EBITDA(e)	317,246	294,700
Non-cash items(b)	5,402	22,661
Non-recurring items(c)	17,485	—
Other adjustment items(d)	5,659	27,616
Adjusted EBITDA(e)	$345,792	$344,977

(a) Represents non-operating interest from borrowings under our senior credit facilities, senior unsecured subordinated notes and revolving line of credit, as defined under the terms of our credit agreement.

(b) Represents share based compensation expense for our employees under the provisions of SFAS 123R, non-cash compensation benefits incurred pursuant to the purchase and sale agreements of certain acquisitions, and the recognition of non-cash impairment charge on our equity investment.

(c) Represents charges for our organizational restructuring in accordance with SFAS 146, our 2008 non-qualified deferred compensation plan and regulatory fines and related costs.

(d) Represents acquisition and integration related expenses including legal and other professional service fees and retention payments. Also includes pro forma adjustments for general and administrative expenditures from our acquisition and resulting shutdown of IFMG, as permitted under the terms of our credit agreement

(e) EBITDA is defined as net income plus interest expense (as defined above), income tax expense, depreciation and amortization. Adjusted EBITDA is EBITDA adjusted to exclude certain non-cash charges, unusual or non-recurring items and other adjustments set forth in our credit agreement.

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 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 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.

We have been and currently are in compliance with our financial covenant requirements.

Off-Balance Sheet Arrangements and Contractual Obligations

The SEC defines off-balance sheet arrangements in Item 303 of Regulation S-K of the Securities Act as:

- Any obligation under certain guarantee contracts;
- A retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to that entity for such assets;
- Any obligation under certain derivative instruments; and
- Any obligation arising out of a material variable interest held by the registrant in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to the registrant, or engages in leasing, hedging or research and development services with the registrant.

We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our financial advisors' clients. These arrangements include firm commitments to extend credit. For information on these arrangements, see Note 14 to our condensed consolidated financial statements.

The following table provides information with respect to our commitments and obligations as of June 30, 2009:

	Payments due by period				
	Total	<1 year	1-3 years	4-5 years	> 5 years
	(in thousands)				
Leases and Other Obligations(1)	$ 119,139	$ 27,270	$ 46,275	$ 27,011	$ 18,583
Senior Secured Credit Facilities and Senior Unsecured Subordinated Notes(2)(3)	1,373,435	8,424	16,848	798,163	550,000
Revolving Line of Credit	90,000	—	90,000	—	—
Fixed Interest Payments	381,849	59,125	118,250	118,250	86,224
Variable Interest Payments(2)(3)	122,680	20,789	67,636	34,255	—
Interest Rate Swap Agreements(2)(3)	31,608	18,303	13,305	—	—
Total contractual cash obligations	$ 2,118,711	$ 133,911	$ 352,314	$ 977,679	$ 654,807

(1) Note 10 of our condensed consolidated financial statements provides further detail on operating lease obligations and obligations under non-cancellable service contracts.

(2) Notes 8 and 9 of our condensed consolidated financial statements provide further detail on these debt obligations.

(3) Our senior credit facilities bear interest at floating rates. Of the $823.4 million outstanding at June 30, 2009, we have hedged the variable rate cash flows using interest rate swaps of $400.0 million of principle (see Notes 8 and 9 of our condensed consolidated financial statements). Variable interest payments are shown for the unhedged ($423.4 million) portion of the senior credit facilities assuming the one-month LIBOR at June 30, 2009 remains unchanged (see Note 8 of our condensed consolidated financial statements for more information).

As of June 30, 2009, we reflect a liability for unrecognized tax benefits of $22.5 million in accordance with FIN 48, which we have included in income taxes payable on the accompanying 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 in accordance with SFAS 157, 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 quotes market prices and review of other relevant market data including implied yields of major categories of securities. At June 30, 2009, 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 condensed consolidated financial statements and in "Item 7—Management's Discussion and Analysis of Financial Condition and Results of Operations" included in our 2008 Annual Report on Form 10-K, 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 2008 Annual Report on Form 10-K. The accounting principles utilized by us in preparing our condensed consolidated financial statements conform in all material respects to GAAP.

Recent Accounting Pronouncements

Refer to Note 2 of our notes to the 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 bear some market risk on margin transactions affected for our financial advisors' clients. In margin transactions we extend credit to clients collateralized by cash and securities in the client's account. As our financial 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 financial advisors fail to reimburse us for such losses. The risk of default depends on the creditworthiness of the client. To minimize this risk we assess the creditworthiness of the clients and monitor the margin level daily. Clients are required to deposit additional collateral, or reduce positions, when necessary.

We also have market risk on the fees we earn that are based on the market value of assets in certain client accounts and for which ongoing fees or commissions are paid. We do not enter into derivatives or other similar financial instruments for trading or speculative purposes.

Interest Rate Risk

We are exposed to risk associated with changes in interest rates. As of June 30, 2009, all of the outstanding debt under our senior secured credit facilities, $823.4 million, 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 covering a significant portion ($400.0 million) of our senior secured indebtedness. The interest rate swap agreements qualify for hedge accounting under SFAS 133. Accordingly, any interest rate differential is reflected in an adjustment to interest expense over the lives of the interest rate swap agreements. While the unhedged portion of our senior secured debt is subject to increases in interest rates, we believe that this risk is offset with variable interest rates associated with client borrowings. At June 30, 2009, we had $423.4 million in unhedged senior secured borrowings, the variable cost of which is partially offset by variable interest income on $213.4 million of client receivables. Because of this relationship, and our expectation for outstanding balances in the future, we do not believe that a short-term change in interest rates would have a material impact on our income before taxes. For a discussion of such interest rate swap agreements, see Note 9 to our unaudited condensed consolidated financial statements.

We offer our customers and their clients two primary cash sweep programs that are interest rate sensitive: money market sweep vehicles involving multiple money market fund providers and our bank sweep programs. Our bank sweep programs use multiple non-affiliated banks to provide up to $1.0 million ($2.0 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 not based on prevailing interest rates, but may be adjusted in a declining interest rate environment or for other reasons. Changes in interest rates 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. At June 30, 2009, the Federal Reserve effective federal funds rate was 0.17%. 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 $11.5 million on an annual basis (assuming that client balances and yield at June 30, 2009 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.

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 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, 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 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 financial statements, (ii) our compliance with legal and regulatory requirements that may impact our 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.

In addition to various committees, we have written policies and procedures that govern the conduct of business by our customers and employees, our relationship with clients and the terms and conditions of our relationships with product manufacturers. Our client and financial 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 financial advisor conduct among other matters.

Item 4. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

Our Disclosure Committee, 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 Exchange Act, 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 quarter ended June 30, 2009 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.

Information regarding reportable legal proceedings is contained in Part I, "Item 3. Legal Proceedings" in our 2008 Annual Report on Form 10-K. There have been no material changes in our reportable legal proceedings from those disclosed in our 2008 Annual Report on Form 10-K other than those set forth below.

ASC is a respondent or defendant in several arbitration and court proceedings involving the activities of a former agent. In January 2009, a federal court issued a summary judgment order dismissing ASC from one such case. Plaintiffs in that case have appealed the dismissal to the U.S. Court of Appeals for the Ninth Circuit. In an arbitration matter decided in March 2009, an arbitration panel found ASC and the former agent jointly and severally liable for damages totaling $8.9 million. ASC has filed a motion to vacate the arbitration decision. On July 30, 2009, ASC settled the arbitration and court proceedings described in Note 10. The Company is indemnified for these matters and has received full payment from ASC's previous owners for the settlement amount.

Item 1A. Risk Factors.

In addition to the other information set forth in this Quarterly Report on Form 10-Q, you should carefully review the factors discussed in Part I, "Item 1A. Risk Factors" in our 2008 Annual Report on Form 10-K.

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

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Submission of Matters to a Vote of Security Holders.

The Annual Meeting of Shareholders was held on April 23, 2009. The following proposals were adopted by the margins indicated:

To elect a Board of Directors to hold office until the next annual meeting of shareholders and until their successors are elected and qualified.

	Number of Shares(1)	
	For	Withheld(2)
Mark S. Casady	80,995,704	—
Jeffrey A. Goldstein	80,971,024	24,680
Douglas M. Haines	80,970,484	25,220
James S. Putnam	80,995,704	—
James S. Riepe	80,970,484	25,220
Richard P. Schifter	80,971,024	24,680
Jeffrey E. Stiefler	80,982,984	12,720
Allen R. Thorpe	80,970,484	25,220

(1) The Company has received and can account for proxy cards representing a total of 80,995,704 shares. The holders of the remaining number of the Company's outstanding shares either declined to vote or mailed in proxy cards containing irregularities making it impossible to include them in the vote count. The exclusion of the irregular proxy cards does not affect the overall outcome of the election of our Board of Directors.

(2) The Company has received proxy cards representing an immaterial number of shares providing for votes to be withheld from certain nominees. Due to irregularities with the proxy cards, the precise number of the shares being so withheld is not determinable. The exclusion of the irregular proxy cards does not affect the overall outcome of the election of our Board of Directors.

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.
10.1	LPL Investment Holdings Inc. and Affiliates 2009 Corporate Executive Bonus Plan is incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q filed on May 14, 2009.
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: August 11, 2009	By:	/s/ MARK S. CASADY
		Mark S. Casady *Chairman and Chief Executive Officer*
Date: August 11, 2009	By:	/s/ ROBERT J. MOORE
		Robert J. Moore *Chief Financial Officer*

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Exhibit 31.1

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: August 11, 2009

QuickLinks

Exhibit 31.1

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Exhibit 31.2

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: August 11, 2009

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Exhibit 31.2

Exhibit 32.1

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 June 30, 2009 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: August 11, 2009

QuickLinks

Exhibit 32.1

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Exhibit 32.2

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 June 30, 2009 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: August 11, 2009

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Exhibit 32.2