LPL Investment Holdings Inc.
Form S-1/A
November 03, 2010

Table of Contents

As filed with the Securities and Exchange Commission on November 3, 2010
Registration No. 333-167325

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Amendment No. 4
to
Form S-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933
LPL Investment Holdings Inc.
(Exact name of registrant as specified in its charter)

Delaware	**6200**	**20-3717839**
(State or other jurisdiction of incorporation or organization)	*(Primary Standard Industrial Classification Code Number)*	*(I.R.S. Employer Identification No.)*

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

Mark S. Casady
Stephanie L. Brown
LPL Investment Holdings Inc.
One Beacon Street, Boston, MA 02108
(617) 423-3644
(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

Julie H. Jones, Esq.
Keith F. Higgins, Esq.
Ropes & Gray LLP
Prudential Tower
800 Boylston Street
Boston, MA 02199
Telephone (617) 951-7000
Fax (617) 951-7050

William F. Gorin, Esq.
Cleary Gottlieb Steen & Hamilton LLP
One Liberty Plaza
New York, NY 10006
Telephone (212) 225-2000
Fax (212) 225-3999

Approximate date of commencement of proposed sale to public: As soon as practicable after this Registration Statement becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act), check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective

registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

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

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered[(1)]	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price[(2)]	Amount of Registration Fee[(3)]
Common Stock, $0.001 par value per share	17,176,195	$30.00	$515,285,850	$36,740

(1) Includes shares of common stock issuable upon exercise of an option to purchase additional shares granted to the underwriters.

(2) Estimated solely for the purpose of calculating the registration fee pursuant to Rule 457(a) under the Securities Act, based on an estimate of the proposed maximum aggregate offering price.

(3) $42,780 was previously paid on June 4, 2010. Accordingly, no additional registration fee is due.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

Table of Contents

The information in this preliminary prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This preliminary prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated November 3, 2010.

15,614,723 Shares

Common Stock

This is an initial public offering of common stock of LPL Investment Holdings Inc.

The selling stockholders identified in this prospectus are offering 15,614,723 shares to be sold in the offering. LPL Investment Holdings Inc. will not receive any of the proceeds from the sale of the shares being sold by the selling stockholders.

Prior to this offering, there has been no public market for the common stock. It is currently estimated that the initial public offering price per share will be between $27.00 and $30.00. LPL Investment Holdings Inc. intends to list the common stock on the NASDAQ Global Select Market under the symbol LPLA.

See Risk Factors on page 14 to read about factors you should consider before buying shares of the common stock.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Initial public offering price	$	$
Underwriting discount	$	$
Proceeds, before expenses, to the selling stockholders	$	$

To the extent the underwriters sell more than 15,614,723 shares of common stock, the underwriters have the option to purchase up to an additional 1,561,472 shares from LPL Investment Holdings Inc. and one of our stockholders at the initial public offering price less the underwriting discount.

The underwriters expect to deliver the shares against payment in New York, New York on , 2010.

Goldman, Sachs & Co. **Morgan Stanley**

BofA Merrill Lynch **J.P. Morgan**

Sanford C. Bernstein **William Blair & Company** **Citi** **Keefe, Bruyette & Woods**

Lazard Capital Markets **Macquarie Capital** **Sandler O Neill + Partners, L.P.** **UBS Investment Bank**

Prospectus dated , 2010.

Table of Contents

TABLE OF CONTENTS

Market, Ranking and Other Industry Data	ii
Prospectus Summary	1
Risk Factors	14
Special Note Regarding Forward-Looking Statements	29
Use of Proceeds	30
Dividend Policy	31
Capitalization	32
Selected Consolidated Financial Data	34
Management s Discussion and Analysis of Financial Condition and Results of Operations	37
Business	78
Management	94
Executive Compensation	104
Certain Relationships and Related Party Transactions	120
Principal and Selling Stockholders	123
Description of Capital Stock	127
Shares Eligible For Future Sale	131
Material U.S. Federal Income Tax Considerations For Non-U.S. Holders Of Common Stock	133
Underwriting	137
Legal Matters	142
Experts	142
Where You Can Find Additional Information	142
Incorporation of Certain Information by Reference	143
Index to Financial Statements of LPL Investment Holdings Inc.	F-1

Ex-5.1
Ex-10.21
Ex-10.22
Ex-21.1
Ex-23.1

We have not authorized anyone to provide any information or to make any representations other than those contained in or incorporated by reference into this prospectus or in any free writing prospectuses we have prepared. We take no responsibility for, and can provide no assurance as to the reliability of, any other information that others may give you. This prospectus is an offer to sell only the shares offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus is current only as of its date.

Table of Contents

MARKET, RANKING AND OTHER INDUSTRY DATA

The data included in this prospectus regarding markets and ranking, including the size of certain markets and our position and the position of our competitors within these markets, are based on reports of government agencies or published industry sources and estimates based on our management s knowledge and experience in the markets in which we operate. These estimates have been based on information obtained from our trade and business organizations and other contacts in the markets in which we operate. We believe these estimates to be accurate as of the date of this prospectus. However, this information may prove to be inaccurate because of the method by which we obtained some of the data for the estimates or because this information cannot always be verified with complete certainty due to the limits on the availability and reliability of raw data, the voluntary nature of the data gathering process and other limitations and uncertainties. As a result, you should be aware that market, ranking and other similar industry data included in this prospectus, and estimates and beliefs based on that data, may not be reliable.

PROSPECTUS SUMMARY

This summary highlights information contained elsewhere or incorporated by reference in this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read this entire prospectus carefully, especially the Risk Factors section of this prospectus and our consolidated financial statements and related notes appearing at the end of this prospectus, before making an investment decision. This summary contains forward-looking statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in the forward-looking statements as a result of certain factors, including those set forth in Risk Factors and Special Note Regarding Forward-Looking Statements.

We refer to Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per share in this prospectus summary and elsewhere in this prospectus. For the definitions of Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per share, an explanation of why we present these metrics and a description of the limitations of these non-GAAP measures, as well as a reconciliation to net income, see Management s Discussion and Analysis of Financial Condition and Results of Operations How We Evaluate Growth.

When we use the terms we, us, our, LPL or the company, we mean LPL Investment Holdings Inc., a Delaware corporation, and its consolidated subsidiaries, including LPL Financial Corporation (LPL Financial), taken as a whole, as well as the predecessor entity LPL Holdings, Inc. (predecessor), unless the context otherwise indicates.

Overview

We provide an integrated platform of proprietary technology, brokerage and investment advisory services to over 12,000 independent financial advisors and financial advisors at financial institutions (our advisors) across the country, enabling them to successfully service their retail investors with unbiased, conflict-free financial advice. In addition, we support approximately 4,000 financial advisors with customized clearing, advisory platforms and technology solutions. Our singular focus is to support our advisors with the front, middle and back-office support they need to serve the large and growing market for independent investment advice, particularly in the mass affluent market (which we define as investors with $100,000-$1,000,000 in investable assets). We believe we are the only company that offers advisors the unique combination of an integrated technology platform, comprehensive self-clearing services and full open architecture access to leading financial products, all delivered in an environment unencumbered by conflicts from product manufacturing, underwriting or market making.

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

Market Opportunity and Industry Background

The market our advisors serve is significant and expanding. According to the Federal Reserve, U.S. household and non-profit organization financial assets totaled $45.1 trillion as of December 31, 2009, up from $41.7 trillion at December 31, 2008 and $38.9 trillion at December 31, 2004. In addition, according to Cerulli Associates, a research and consulting firm specializing in the financial services industry, $8.5 trillion of retail assets were professionally managed as of December 31, 2008, up from $6.8 trillion as of December 31, 2003. Finally, 58% of all

U.S. households utilized a financial advisor in 2008.

Cerulli Associates divides the retail advisor market into six broad channels: the two independent channels that we serve (independent and registered investment advisors (RIAs)) and four employee model or captive channels (insurance, wirehouse, regional and bank). During the period from 2004 to 2009, the independent channels experienced substantial growth on both an absolute and relative basis, taking market share from the captive channels. According to Cerulli Associates, the independent channels market share by number of advisors increased from 37% in 2004 to 40% in 2009. In 2009, over 132,000 independent financial advisors managed $3.5 trillion in client assets, representing 33% of total retail advisor client assets.

Cerulli Associates forecasts that total U.S. assets under management will grow 22% from 2009 to 2012 due to factors such as the retirement of the baby boomer generation as well as the continued growth of individual retirement account rollovers. Cerulli Associates estimates that from 2009 to 2012, the independent channels market share by number of advisors will grow by four percentage points to 44%, and market share by client assets will grow four percentage points to 37%.

We believe there are several key factors driving the growth of the independent channels. Investors in the mass affluent market, and increasingly in the high net worth market, are seeking unbiased, conflict-free advice. The number of advisors electing to leave the large financial institutions to become independent financial advisors has accelerated over the last several years in part because of the ongoing consolidation among the captive platforms, particularly among the wirehouses. Finally, many advisors have entrepreneurial aspirations and are attracted to the flexibility, control and compelling economics inherent in the independent financial advisor model.

Our Business

With our focus and scale, we are not only a beneficiary of the secular shift among advisors toward independence, but an active catalyst of this trend. Between 2004 and 2009, our number of advisors increased at a compound annual growth rate (CAGR) of 15%, while according to Cerulli Associates, the total number of advisors across all channels remained relatively flat. We enable our advisors to provide their clients with high quality independent financial advice and investment solutions, and support our advisors in managing the complexity of their businesses by providing a comprehensive integrated platform of technology and clearing services. We provide these services through an open architecture product platform with no proprietary manufactured products, which enables an unbiased, conflict-free environment. Our historical advisor growth rate does not guarantee that we will attract advisors at comparable rates in the future. For example, when comparing our number of advisors as of September 30, 2010 to September 30, 2009, we had a net decrease in advisors, and as of December 31, 2009 to December 31, 2008, we had relatively no change in our number of advisors, in both cases due to the attrition of advisors in connection with the consolidation of the operations of certain of our previously acquired subsidiaries. See Management s Discussion and Analysis of Financial Condition and Results of Operations How We Evaluate Growth.

Our Financial Advisors

For more than 20 years our Commitment Creed has been ingrained in our culture and reflects our singular focus on the advisors we serve. The size and growth of our business has benefited from this focus. Our advisor base has grown from 3,596 advisors in 2000 to 12,017 as of September 30, 2010, representing a CAGR of 13.2%. Our historical advisor growth rate does not guarantee that we will attract advisors at comparable rates in the future.

Our advisor base includes independent financial advisors, RIAs and advisors at small and mid-sized financial institutions. Advisors that join us average over 15 years of industry experience. This substantial industry experience allows us to focus on enhancing our advisors businesses without the need for basic training or subsidizing advisors that are new to the industry. We are also rigorous in both our initial advisor screening and diligence as well as our ongoing monitoring through our internal risk management and compliance functions.

Table of Contents

Our independent advisors join us from a broad range of firms including wirehouses, regional and insurance broker-dealers, banks and other independent firms. Our flexible business platform allows our advisors to choose the most appropriate business model to support their clients, whether they conduct brokerage business, offer brokerage and fee-based services on our corporate RIA platforms or provide fee-based services through their own RIAs.

Among our 12,000 advisors, we support over 2,400 advisors at over 750 banks and credit unions. We believe these financial institutions are drawn to our outsourcing solutions because we provide the broad array of services advisors at these institutions need to be successful, allowing these institutions to focus their energy and capital on their core businesses.

We also provide support to approximately 4,000 additional financial advisors who are affiliated and licensed with insurance companies. These outsourcing arrangements provide customized clearing, advisory platforms and technology solutions that enable financial advisors at these insurance companies to efficiently provide a breadth of services to their client base.

Our Service Value Proposition

The core of our business is dedicated to meeting the evolving needs of our advisors and providing the platform and tools to grow and enhance the profitability of their businesses. We support our advisors by providing front, middle and back-office solutions through the four pillars of our distinct value proposition:

Enabling Technology. We provide our technology and service to advisors through BranchNet, our proprietary, integrated technology platform that is server-based and web-accessed. Using the BranchNet workstation, our advisors effectively manage all critical aspects of their businesses while remaining highly efficient and responsive to their clients needs.

Comprehensive Clearing and Compliance Services. We custody and clear the majority of our advisors transactions, providing an enhanced advisor experience and expedited processing capabilities. Our self-clearing platform also enables us to serve a wider variety of advisors, including RIAs and dually-registered advisors (hybrid RIAs). We have made sizeable investments in our compliance offering to fully integrate these tools into our technology platform. Since 2000, our commitment of resources and focus on compliance have enabled us to maintain one of the best regulatory compliance records, based upon the number of regulatory events reported in FINRA s BrokerCheck Reports, among the five largest U.S. broker-dealers, ranked by number of advisors.

Practice Management Programs and Training. Our practice management programs help our advisors enhance and grow their businesses. Because of our scale, we are able to dedicate a large and experienced group of professionals that work with our advisors to build and better manage their business and client relationships through one-on-one consulting. In addition, we hold 140 conferences and group training events annually for the benefit of our advisors.

Independent Research. Our research team consists of over 25 professionals with an average of 12 years of industry experience, dedicated to providing unbiased, conflict-free advice. We provide our advisors with integrated access to comprehensive proprietary and third-party independent research on mutual funds, separate accounts, insurance and annuities, asset allocation strategies, financial markets and the economy, among other areas.

Our Economic Value Proposition

We offer a compelling economic value proposition that is a key factor in our ability to attract and retain advisors. The independent channels pay advisors a greater share of brokerage commissions and advisory fees than the captive channels generally 80-90% compared to 30-50%. Because of our scale and efficient operating model, we offer our advisors the highest average payout ratios

among the five largest U.S. broker-dealers, ranked by number of advisors, which we believe provides us with an important competitive advantage. Throughout this prospectus, we use payout ratio to refer to the portion of advisor-generated revenues, consisting of commissions and advisory fees, that we collect from advisors clients and pay to advisors.

We believe our superior technology and service platforms enable our advisors to operate their practices at a lower cost than other independent advisors. As a result, we believe owners of practices associated with us earn meaningfully more pre-tax profit than owners of practices affiliated with other independent brokerage firms. We attribute this difference in profitability, in part, to lower fixed costs driven by the need for fewer staff at our associated practices. Finally, as business owners, independent advisors, unlike captive advisors, also have the opportunity to build equity in their own businesses.

Our Product Access

We do not manufacture any financial products. Instead, we provide our advisors open architecture access to a large variety of commission, fee-based, cash and money market products and services. Our platform provides access to over 8,500 financial products, which are manufactured by over 400 product sponsors. Our product diligence group pre-screens all new products.

As of September 30, 2010, advisory and brokerage assets totaled $293 billion, of which $86 billion was in advisory assets. In 2009, brokerage sales were over $28 billion, including over $10 billion in mutual funds and $14 billion in annuities. Advisory sales were $23 billion, which consisted primarily of mutual funds. As a result of this scale and significant distribution capabilities, we can offer leading products and services with attractive economics to our advisors.

Our Financial Model

We have a proven track record of strong financial performance. We have increased our annual Adjusted EBITDA for the past five consecutive years with only one decline in annual revenue in 2009 in conjunction with the major market downturn. Our net income over the same period has declined two times, in 2006 and 2008. We have experienced greater variability in our net income primarily due to amortization of purchased assets and interest expense from our senior secured credit facilities and subordinated notes, both a result of our merger transaction in 2005 with the investment funds affiliated with Hellman & Friedman LLC and TPG Capital (collectively, the Majority Holders), as well as expenses associated with our acquisition integration and restructuring initiatives.

Since 2005, we have grown our net revenues at an 18% CAGR, our net income at a 2% CAGR, our Adjusted EBITDA at a 17% CAGR and our Adjusted Net Income at a 13% CAGR. See Selected Consolidated Financial Data. Our historical growth rates do not guarantee future results, levels of activity, performance or achievements. See Special Note Regarding Forward-Looking Statements. As we demonstrated during the financial crisis of 2008 and 2009, our financial model has inherent resilience, and our overall financial performance is a function of the following favorable characteristics:

Diverse and Recurring Revenue. Our revenue stems from diverse and recurring sources, including commission and advisory fees, asset based fees, fees from product manufacturers, recordkeeping and cash sweep balances. Our recurring revenue is associated with asset balances and is not based on transaction volumes or other activity-based fees. Therefore, although the level of our revenue sources can be impacted by external market conditions such as the economic downturn experienced in 2008 and 2009, their recurring nature provides a level of predictability. This is demonstrated by our recurring revenues in 2009, 2008 and 2007, which were 57.3%, 58.5% and 57.1%, respectively, of our net revenues.

Variable Expenses. Our expenses are predominantly variable. They consist primarily of payouts to advisors, which are determined as a percentage of advisor-generated revenue. This percentage payout generally varies with advisor productivity, which is correlated to market

Table of Contents

performance. Our general and administrative expenses can be actively managed, as evidenced during the recent financial crisis.

Low Capital Requirements. We do not manufacture products, make markets, provide underwriting or engage in mortgage lending. As a result, our cash flow is not encumbered by capital intensive activities. In addition, we can reinvest the substantial free cash flows that we generate in our business.

Our Competitive Strengths

Significant Scale and Market Leadership Position. We are the established leader in the independent advisor market, which is our core business focus. Our scale enables us to benefit from the following dynamics:

We actively reinvest in our comprehensive technology platform and practice support, which further improves the productivity of our advisors.

As one of the largest distributors of financial products in the United States, we are able to obtain attractive economics from product manufacturers.

Among the five largest U.S. broker-dealers by number of advisors, we offer the highest average payout ratios to our advisors.

The combination of our ability to reinvest in the business and maintain highly competitive payout ratios allows us to attract and retain advisors successfully. This, in turn, drives our growth and leads to a virtuous cycle that reinforces our established scale advantage.

Unique Value Proposition for Independent Advisors. We believe we are the only company that offers a conflict-free, open architecture and scalable platform, which leads to greater economics for our advisors and allows them to build equity in their businesses. This generates a significant opportunity to attract and retain highly qualified advisors who are seeking independence.

Unique Value Proposition for Institutions. We provide solutions to financial institutions, such as regional banks, credit unions and insurers, who would otherwise find the technology, infrastructure and regulatory requirements associated with delivering financial advice to be cost-prohibitive.

Ability to Profitably Serve the Mass Affluent Market. We have designed and integrated all aspects of our platforms and services to profitably meet the needs of advisors who serve the mass affluent market. We believe there is an attractive opportunity in this market, in part because wirehouses have not historically focused on the mass affluent market. We believe our scale will sustain and strengthen our competitive advantage in the mass affluent market.

Ability to Serve a Broad Range of Advisor Models. As a result of our integrated technology platform and the resulting flexibility, we are able to attract and retain advisors from multiple channels, including wirehouses, regional broker-dealers and other independent broker-dealers. In addition, although we have grown through our focus on the mass affluent market, the breadth of our platform has facilitated growing penetration of the high net worth market. As of September 30, 2010, our advisors supported accounts with more than $1 million in assets that in the aggregate represented $44.0 billion in advisory and brokerage assets, or 15% of our total.

Experienced and Committed Senior Management Team. We have an experienced and committed senior management team that provides stable and long-standing leadership for our business. The management team

is aligned with stockholders and holds significant equity ownership in the company.

Risks That We Face

Our business is subject to a number of risks of which you should be aware before making an investment decision. These risks are discussed more fully in the Risk Factors section of this prospectus immediately following this prospectus summary. These risks include the following:

We depend on our ability to attract and retain experienced and productive advisors. We derive a large portion of our revenues from commissions and fees generated by our advisors. If we fail to attract new advisors or to retain and motivate our current advisors, our business may suffer.

Our financial condition and results of operations may be adversely affected by market fluctuations and other economic factors. General economic and market factors can affect our commission and fee revenue. Significant downturns and volatility in equity and other financial markets have had and could continue to have an adverse effect on our financial condition and results of operations.

Regulatory developments and our failure to comply with regulations could adversely affect our business by increasing our costs and exposure to litigation, affecting our reputation and making our business less profitable. Our business is subject to extensive U.S. regulation and supervision, including securities and investment advisory services. The recently enacted Dodd-Frank Wall Street Reform and Consumer Protection Act is likely to generate a number of new rules and regulations. Our ability to conduct business depends on our compliance with these laws, rules and regulations, which is largely dependent on our establishment and maintenance of compliance systems and procedures.

We operate in an intensely competitive industry, which could cause us to lose advisors and their assets, thereby reducing our revenues and net income. We are subject to competition in all aspects of our business, including competition for our advisors and their clients. If we fail to continue to attract highly qualified advisors or advisors licensed with us leave us to pursue other opportunities, or if current or potential clients of our advisors decide to use one of our competitors, we could face a significant decline in market share, commission and fee revenues, and net income.

We rely on technology in our business, and technology and execution failures could subject us to losses, litigation and regulatory actions. Our business relies extensively on electronic data processing and communications systems. Failure of our systems, which could result from events beyond our control, or an inability to effectively upgrade those systems or implement new technology-driven products or services, could result in financial losses, liability to clients and damage to our reputation.

Our indebtedness could adversely affect our financial health and may limit our ability to use debt to fund future capital needs. Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions, require us to dedicate a substantial portion of our cash flow from operation to payments on our indebtedness and may limit our flexibility in planning for changes in our business and the industry in which we operate.

The Majority Holders will have the ability to control the outcome of matters submitted for stockholder approval and may have interests that differ from those of our other stockholders. Due to their ownership of a majority of our capital stock, the Majority Holders have significant influence over corporate transactions and are able to effectively control our decisions, regardless of whether or not other stockholders believe that the transaction is in their own best interests.

Table of Contents

Our Sources of Growth

We expect to increase our revenue and profitability by benefiting from favorable industry trends and by executing strategies to accelerate our growth beyond that of the broader markets in which we operate.

Favorable Industry Trends

Growth in Investable Assets. According to Cerulli Associates, total U.S. assets under management in the United States are anticipated to grow each year at 7% per year over the next five years and retirement assets are expected to grow 8% from 2008 to 2014 (in part due to the retirement of the baby boomer generation and the resulting assets which are projected to flow out of retirement plans and into individual retirement accounts). In addition, individual retirement account rollovers are projected to almost double, growing from $3.6 trillion as of 2008 to $6.8 trillion by 2014.

Increasing Demand for Independent Financial Advice. Retail investors, particularly in the mass affluent market, are increasingly seeking financial advice from independent sources.

Advisor Migration to Independence. Independent channels are gaining market share from captive channels. We believe that we are not just a beneficiary of this secular shift, but an active catalyst in the movement to independence.

Macroeconomic Trends. As the macroeconomic environment continues to stabilize, we anticipate an appreciation in asset prices and a rise in interest rates from current, historically low levels. We expect that our business will benefit from growth in advisory and brokerage assets as well as increasing asset-based and cash sweep fees.

LPL-Specific Growth Opportunities

Attracting New Advisors to our Platform. We have only 3.6% market share of the approximately 334,000 financial advisors in the United States, according to Cerulli Associates, which provides us with significant opportunity to attract new advisors.

Ramp-up of Newly-Attracted Advisors. We predominately attract experienced advisors who have established practices. In our experience, it takes an average of three years for new advisors to re-establish their practices and associated revenues. This seasoning process creates accelerated growth of revenue from our new advisors.

Increasing Productivity of Existing Advisor Base. The productivity of our advisors increases over time as we enable them to add new clients, gain shares of their clients investable assets, and expand their existing practices with additional advisors. We facilitate these productivity improvements by helping our advisors better manage their practices in an increasingly complex environment.

Our Business Model has Inherent Economies of Scale. The largely fixed costs necessary to support our advisors deliver higher marginal profitability as our advisors client assets and our revenues grow. Historically, this dynamic has been demonstrated through the growth in our operating margins.

Opportunistic Pursuit of Acquisitions. We have a proven history of expanding our business through opportunistic acquisitions. In the past six years, we have successfully completed four transactions. Our scalable business model and operating platform make us an attractive acquirer in a fragmented market.

Recent Developments

Acquisition of National Retirement Partners

On July 14, 2010, we announced a definitive agreement to acquire certain assets from National Retirement Partners, Inc. (NRP). NRP s advisors offer products and services to retirement plan sponsors and participants and comprehensive financial services to high net worth individuals. Through this asset purchase, NRP s independent advisors will have the opportunity to join LPL Financial. This transaction will further enhance our capabilities and presence in group retirement plans, while providing benefits for both NRP advisors who join LPL Financial as well as for our existing advisors.

The consideration for the transaction consists of a payment on the closing date of $27.0 million, subject to a post-closing purchase price adjustment secured by a $5.4 million escrow, and a contingent payment to be made on the third anniversary of closing of approximately 25%-30% of the amount by which the gross trailing twelve-month commission and fee revenues relating to the business exceed an agreed upon performance target. There is no cap on the contingent payment amount, which is currently anticipated to be substantially less than the closing date payment amount. Upon completion of this transaction, certain NRP employees will join LPL Financial. NRP has agreed to indemnify us for breaches of representations and warranties and covenants, as well as pre-closing actions or omissions. The transaction is expected to close in the fourth quarter of 2010, subject to customary closing conditions including regulatory approvals and, because the transaction is not yet closed, the terms are subject to adjustment as agreed upon by the parties.

Our Corporate Structure

LPL Investment Holdings Inc. is the parent company of our collective businesses. Our address is One Beacon Street, Boston, Massachusetts 02108. Our telephone number is (617) 423-3644. Our website address is www.lpl.com. Information contained in, and that can be accessed through, our website is not incorporated into and does not form a part of this prospectus.

On December 28, 2005, LPL Holdings, Inc., the predecessor, and its subsidiaries were acquired through a merger transaction by funds affiliated with the Majority Holders. Any activities shown or described for periods prior to December 28, 2005 are those of the predecessor.

THE OFFERING

Common stock selling stockholders are offering	15,614,723 shares
Common stock to be outstanding after this offering	107,139,689 shares
	This includes 12,889,935 shares that will be issued by us upon exercise of options by selling stockholders in connection with the offering (net of any shares used to satisfy the exercise price in a cashless exercise).
Option to purchase additional shares offered to underwriters	1,561,472 shares
	We, along with one of our stockholders, have granted the underwriters an option to purchase up to 1,561,472 additional shares. If this option is exercised in full, we will issue and sell 1,461,472 shares and the stockholder will sell 100,000 shares.
Use of proceeds	We will not receive any of the proceeds from the sale of common stock by selling stockholders. If the underwriters exercise their option to purchase additional shares in full, assuming an initial public offering price of $28.50, which is the midpoint of the range listed on the cover page of this prospectus, we estimate that the net proceeds to us from this offering will be approximately $35.4 million. We expect to use all of the net proceeds from this offering received by us to repay a portion of the term loans under our senior secured credit facilities. See Use of Proceeds. The selling stockholders also include certain members of management.
Risk factors	You should read the Risk Factors section of this prospectus beginning on page 14 for a discussion of factors to consider carefully before deciding whether to purchase shares of our common stock.
Proposed NASDAQ Global Select Market symbol	LPLA

The number of shares of our common stock to be outstanding after this offering is based on 94,249,754 shares of common stock outstanding as of October 19, 2010 and excludes:

8,719,986 shares of common stock issuable upon the exercise of options and warrants expected to remain outstanding after the completion of this offering, assuming an initial public offering price of $28.50, which is the midpoint of the range listed on the cover page of this prospectus, with exercise prices ranging from $1.35 to $27.80 per share and a weighted average exercise price of $5.76 per share (the number, price and range of outstanding options and warrants will be adjusted to reflect actual exercises of options and warrants by selling stockholders in connection with this offering);

2,823,452 stock units outstanding as of October 19, 2010 under our 2008 Nonqualified Deferred Compensation Plan, each representing the right to receive one share of common stock at the earliest of (a) a date in 2012 to be determined by the board of directors; (b) a change in control of the company or (c) death or disability of the holder;

3,218,969 additional shares of common stock as of October 19, 2010 reserved for future grants under our equity incentive plans currently in effect and

12,055,945 additional shares of common stock reserved for future equity incentive plans, including up to 155,000 shares issuable upon the exercise of options that we expect to grant on the date on which the registration statement, of which this prospectus forms a part, is declared effective, at an exercise price equal to the initial public offering price.

Unless otherwise indicated, all information in this prospectus:

assumes the adoption of our amended and restated certificate of incorporation (certificate of incorporation) and our second amended and restated bylaws (bylaws), to be effective upon the closing of this offering and

assumes no exercise by the underwriters of their option to purchase up to 1,561,472 additional shares of our common stock in this offering.

9

Table of Contents

SUMMARY FINANCIAL DATA

The following tables present a summary of our historical financial information and operating data. You should read the following summary in conjunction with Selected Consolidated Financial Data, Management s Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, all included elsewhere in this prospectus.

Historical dividends per share are presented as declared by the predecessor under its capital structure at that time. Shares of common stock of our predecessor are not equal to shares of common stock under our current capital structure and are not necessarily indicative of amounts that would have been received per share of common stock under our current capital structure.

	For the Nine Months Ended September 30,		For the Year Ended December 31,				Predecessor(2
	2010(1)	2009(1)	2009(1)	2008(1)	2007(1)	2006	2005
	(unaudited)						
	(In thousands, except per share data)						
Consolidated tatements of income lata:							
Net revenues	$ 2,293,531	$ 2,014,621	$ 2,749,505	$ 3,116,349	$ 2,716,574	$ 1,739,635	$ 1,406,320
Total expenses	2,194,175	1,962,173	2,676,938	3,023,584	2,608,741	1,684,769	1,290,570
ncome from continuing perations before rovision for income axes	99,356	52,448	72,567	92,765	107,833	54,866	115,750
Provision for income axes	39,658	23,526	25,047	47,269	46,764	21,224	46,461
ncome from continuing perations	59,698	28,922	47,520	45,496	61,069	33,642	69,289
Discontinued operations							(26,200)
Net income	59,698	28,922	47,520	45,496	61,069	33,642	43,089
Earnings per share							
Basic	$ 0.68	$ 0.33	$ 0.54	$ 0.53	$ 0.72	$ 0.41	$ 0.52
Diluted	$ 0.59	$ 0.29	$ 0.47	$ 0.45	$ 0.62	$ 0.35	$ 0.45
Pro forma net loss per share (unaudited)(3)	$ (0.66)		$ (0.77)				

As of September 30,		As of December 31,				Predecessor(2)
2010(1)	2009(1)	2009(1)	2008(1)	2007(1)	2006	2005
(unaudited)						
(In thousands)						

Consolidated statements of financial condition data:							
Cash and cash equivalents	$ 442,547	$ 245,489	$ 378,594	$ 219,239	$ 188,003	$ 245,163	$ 134,592
Total assets	3,364,896	3,213,879	3,336,936	3,381,779	3,287,349	2,797,544	2,638,486
Total debt(4)	1,390,132	1,404,829	1,369,223	1,467,647	1,451,071	1,344,375	1,345,000

Table of Contents

	As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31,				Predecessor(2)
	2010(1)	2009(1)	2009(1)	2008(1)	2007(1)	2006	2005
	(unaudited)		(unaudited)				
Other financial and operating data:							
Adjusted EBITDA(5) (in thousands)	$ 313,954	$ 261,219	$ 356,068	$ 350,171	$ 329,079	$ 247,912	$ 188,917
Adjusted Net Income(5) (in thousands)	$ 128,043	$ 87,499	$ 129,556	$ 108,863	$ 107,404	$ 65,372	$ 78,278
Adjusted Net Income per share(5)	$ 1.29	$ 0.89	$ 1.32	$ 1.09	$ 1.08	$ 0.68	$ 0.82
Number of advisors(6)	12,017	12,027	11,950	11,920	11,089	7,006	6,481
Advisory and brokerage assets(7) (in billions)	$ 293.3	$ 268.9	$ 279.4	$ 233.9	$ 283.2	$ 164.7	$ 105.4
Advisory assets under management (in billions)(8)	$ 86.2	$ 72.6	$ 77.2	$ 59.6	$ 73.9	$ 51.1	$ 38.4
Insured cash account balances (in billions)(8)	$ 11.7	$ 11.4	$ 11.6	$ 11.2	$ 8.6	$ 5.8	n/a
Money market account balances (in billions)(8)	$ 6.9	$ 7.5	$ 7.0	$ 11.2	$ 7.4	$ 3.5	$ 6.4

(1) Financial results as of and for the years ended December 31, 2009, 2008 and 2007 and the nine months ended September 30, 2010 and 2009 include the acquisitions of UVEST Financial Services Group, Inc. (UVEST) (acquired on January 2, 2007), Pacific Select Group, LLC (renamed LPL Independent Advisor Services Group, LLC) and its wholly owned subsidiaries: Mutual Service Corporation (MSC), Associated Financial Group, Inc. (AFG), Associated Securities Corp. (Associated), Associated Planners Investment Advisory, Inc. (APIA) and Waterstone Financial Group, Inc. (WFG) (Pacific Select Group, LLC, together with MSC, AFG, Associated, APIA and WFG, are collectively referred to herein as the Affiliated Entities) (acquired on June 20, 2007) and IFMG Securities, Inc., Independent Financial Marketing Group, Inc. and LSC Insurance Agency of Arizona, Inc. (collectively IFMG) (acquired on November 7, 2007). Consequently, the financial results as of and for the years

ended December 31, 2009, 2008 and 2007 and the nine months ended September 30, 2010 and 2009 may not be directly comparable to prior periods.

(2) On December 28, 2005, investment funds affiliated with the Majority Holders acquired a majority of our capital stock through a merger transaction. Activities as of December 28, 2005 and periods prior are those of the predecessor. Predecessor net revenues were $1,155.9 million, $907.6 million, $796.2 million, $739.4 million and $811.7 million for the years ended December 31, 2004, 2003, 2002, 2001 and 2000, respectively. Predecessor net income was $35.4 million, $16.4 million, $35.9 million, $38.1 million and $29.7 million for the years ended December 31, 2004, 2003, 2002, 2001 and 2000, respectively.

(3) The unaudited pro forma net loss per share gives effect to: (i) an estimated after-tax share-based compensation charge of $128.2 million resulting from the release of the restriction on 7,399,403 shares issued under the Fifth Amended and Restated 2000 Stock Bonus Plan multiplied by $28.50 per share, which is the midpoint of the range listed on the cover page of this prospectus, (ii) the issuance of 12,889,935 shares of common stock upon exercise of stock options by selling stockholders in connection with this offering, net of any shares used to satisfy the exercise price in a cashless exercise, and (iii) estimated after-tax offering costs of $2.5 million to be incurred and expensed in connection with the offering. See Management s Discussion and Analysis of Financial Condition and Results of Operations Tax Benefit Analysis.

Weighted average shares outstanding used in the determination of unaudited pro forma net loss per share was 107,023,454 shares for the nine months ended September 30, 2010 and 106,862,421 shares for the year ended December 31, 2009. Outstanding stock options, warrants and restricted stock units were excluded from the computation of pro forma net loss per share because the effect would have been anti-dilutive.

(4) Total debt consists of our senior secured credit facilities, senior unsecured subordinated notes, revolving line of credit facility and bank loans payable.

Table of Contents

(5) The reconciliation from net income to Adjusted EBITDA and Adjusted Net Income for the periods presented is as follows (in thousands, except per share data):

	For the Nine Months Ended September 30,		For the Year Ended December 31,				Predecessor(2)
	2010	2009	2009	2008 (unaudited)	2007	2006	2005
Net income	$ 59,698	$ 28,922	$ 47,520	$ 45,496	$ 61,069	$ 33,642	$ 43,089
Loss from discontinued operations							26,200
Interest expense	71,530	76,599	100,922	115,558	122,817	125,103	1,388
Income tax expense	39,658	23,526	25,047	47,269	46,764	21,224	46,461
Amortization of purchased intangible assets and software (a)	34,401	45,161	59,577	61,702	56,068	49,220	2,079
Depreciation and amortization of all other fixed assets	33,071	36,435	48,719	38,760	22,680	16,128	15,775
EBITDA	238,358	210,643	281,785	308,785	309,398	245,317	134,992
EBITDA Adjustments:							
Share-based compensation expense (b)	7,628	3,912	6,437	4,160	2,159	2,878	8,354
Acquisition and integration related expenses (c)	9,785	2,389	3,037	18,326	16,350	1,237	33,741
Restructuring and conversion costs (d)	19,438	44,161	64,658	15,122			
Debt amendment and extinguishment costs (e)	38,633						
Other (f)	112	114	151	3,778	1,172	(1,520)	11,830
Total EBITDA Adjustments	75,596	50,576	74,283	41,386	19,681	2,595	53,925
Adjusted EBITDA	$ 313,954	$ 261,219	$ 356,068	$ 350,171	$ 329,079	$ 247,912	$ 188,917
Net income	$ 59,698	$ 28,922	$ 47,520	$ 45,496	$ 61,069	$ 33,642	$ 43,089
After-Tax:							
EBITDA Adjustments (g)							
Share-based compensation expense (h)	6,137	3,206	5,146	3,553	1,614	1,981	6,087
Acquisition and integration related expenses	5,946	1,441	1,833	11,080	9,936	752	20,616

Restructuring and conversion costs	11,812	26,629	39,019	9,143			
Debt amendment and extinguishment costs	23,477						
Other	68	68	91	2,269	713	(913)	7,216
Total EBITDA Adjustments	47,440	31,344	46,089	26,045	12,263	1,820	33,919
Amortization of purchased intangible assets and software (g)	20,905	27,233	35,947	37,322	34,072	29,910	1,270
Adjusted Net Income	$ 128,043	$ 87,499	$ 129,556	$ 108,863	$ 107,404	$ 65,372	$ 78,278
Adjusted Net Income per share (i)	$ 1.29	$ 0.89	$ 1.32	$ 1.09	$ 1.08	$ 0.68	$ 0.82
Weighted average shares outstanding diluted	99,303	98,527	98,494	100,334	99,099	96,159	95,555

(a) Represents amortization of intangible assets and software as a result of our purchase accounting adjustments from our merger transaction in 2005 with the Majority Holders and our 2007 acquisitions of UVEST, the Affiliated Entities and IFMG.

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

(c) Represents acquisition and integration costs primarily as a result of our 2007 acquisitions of UVEST, the Affiliated Entities and IFMG. Included in the nine months ended September 30, 2010 are expenditures for certain legal settlements that have not been resolved with the indemnifying party. See Business Legal Proceedings.

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

Table of Contents

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

(f) Represents impairment charges in 2008 for our equity investment in Blue Frog Solutions, Inc. (Blue Frog) and in 2005 for our mortgage subsidiary Innovex Mortgage, Inc., which subsequently ceased operations on December 31, 2007, as well as other taxes and employment tax withholding related to a nonqualified deferred compensation plan.

(g) EBITDA Adjustments and amortization of purchased intangible assets and software have been tax effected using a federal rate of 35.0% and the applicable effective state rate, which ranged from 3.90% to 4.71%, net of the federal tax benefit.

(h) Represents the after-tax expense recognized on non-qualified stock options for which we receive a tax deduction upon exercise and the full expense impact of incentive stock options granted to employees, for which we do not receive a tax deduction upon exercise. Share-based compensation for vesting of incentive stock options was $3.8 million and $2.1 million, respectively, for the nine months ended September 30, 2010 and 2009, and $3.2 million, $2.6 million, $0.8 million, $0.6 million and $2.5 million, respectively, for the years ended December 31, 2009, 2008, 2007, 2006 and 2005.

(i) Represents Adjusted Net Income divided by weighted average number of shares outstanding on a fully diluted basis. Set forth is a reconciliation of earnings per share on a fully diluted basis as calculated in accordance with GAAP to Adjusted Net Income per share:

	For the Nine Months Ended September 30,		For The Year Ended December 31,				
							Predecessor
	2010	2009	2009	2008 (unaudited)	2007	2006	2005
Earnings per share diluted	$ 0.59	$ 0.29	$ 0.47	$ 0.45	$ 0.62	$ 0.35	$ 0.45
Adjustment for allocation of undistributed earnings to stock units	$ 0.01	$ 0.01	$ 0.01	$	$	$	$
After-Tax:							
EBITDA Adjustments per share	$ 0.48	$ 0.32	$ 0.47	$ 0.26	$ 0.12	$ 0.02	$ 0.35
Amortization of purchased intangible assets and software per share	$ 0.21	$ 0.27	$ 0.37	$ 0.38	$ 0.34	$ 0.31	$ 0.02
Adjusted Net Income per share	$ 1.29	$ 0.89	$ 1.32	$ 1.09	$ 1.08	$ 0.68	$ 0.82

(6) Number of advisors is defined as those investment professionals who are licensed to do business with our broker-dealer subsidiaries. In 2009, we attracted record levels of new advisors due to the dislocation in the marketplace that impacted many of our competitors. This record recruitment was offset by attrition related to the consolidation of the operations of the Affiliated Entities. Excluding this attrition, we added 750 net new advisors during 2009, representing 6.3% advisor growth.

(7) Advisory and brokerage assets are comprised of assets that are custodied, networked and non-networked and reflect market movement in addition to new assets, inclusive of new business development and net of attrition. Non-networked assets was not available in 2005 and accordingly, advisory and brokerage assets for 2005 is comprised of custodied and networked accounts.

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

RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information in this prospectus, before deciding to invest in our common stock. The occurrence of any of the following risks could harm our business, financial condition, results of operations or prospects. In that case, the trading price of our common stock could decline, and you may lose all or part of your investment.

Risks Related to Our Business and Industry

We depend on our ability to attract and retain experienced and productive advisors.

We derive a large portion of our revenues from commissions and fees generated by our advisors. Our ability to attract and retain experienced and productive advisors has contributed significantly to our growth and success, and our strategic plan is premised upon continued growth in the number of our advisors. If we fail to attract new advisors or to retain and motivate our current advisors, our business may suffer.

The market for experienced and productive advisors is highly competitive, and we devote significant resources to attracting and retaining the most qualified advisors. In attracting and retaining advisors, we compete directly with a variety of financial institutions such as wirehouses, regional broker-dealers, banks, insurance companies and other independent broker-dealers. If we are not successful in attracting or retaining highly qualified advisors, we may not be able to recover the expense involved in attracting and training these individuals. There can be no assurance that we will be successful in our efforts to attract and retain the advisors needed to achieve our growth objectives.

Our financial condition and results of operations may be adversely affected by market fluctuations and other economic factors.

Our financial condition and results of operations may be adversely affected by market fluctuations and other economic factors. Significant downturns and volatility in equity and other financial markets have had and could continue to have an adverse effect on our financial condition and results of operations.

General economic and market factors can affect our commission and fee revenue. For example, a decrease in market levels can:

- reduce new investments by both new and existing clients in financial products that are linked to the stock market, such as variable life insurance, variable annuities, mutual funds and managed accounts;
- reduce trading activity, thereby affecting our brokerage commissions;
- reduce the value of advisory and brokerage assets, thereby reducing asset-based fee income and
- motivate clients to withdraw funds from their accounts, reducing advisory and brokerage assets, advisory fee revenue and asset-based fee income.

In addition, because certain of our expenses are fixed, our ability to reduce them over short periods of time is limited, which could negatively impact our profitability.

Significant interest rate changes could affect our profitability and financial condition.

Our revenues are exposed to interest rate risk primarily from changes in the interest rates payable to us from banks participating in our cash sweep programs. In the current low interest rate environment, our revenue from our cash sweep program has declined and may decline further due to changes in interest rates or clients moving assets out of our cash sweep program. We may also be

limited in the amount we can reduce interest rates payable to clients in our cash sweep program and still offer a competitive return.

Lack of liquidity or access to capital could impair our business and financial condition.

Liquidity, or ready access to funds, is essential to our business. We expend significant resources investing in our business, particularly with respect to our technology and service platforms. In addition, we must maintain certain levels of required capital. As a result, reduced levels of liquidity could have a significant negative effect on us. Some potential conditions that could negatively affect our liquidity include:

- illiquid or volatile markets;
- diminished access to debt or capital markets or
- unforeseen cash or capital requirements, adverse legal settlements or judgments (including, among others, risks associated with auction rate securities).

The capital and credit markets continue to experience varying degrees of volatility and disruption. In some cases, the markets have exerted downward pressure on availability of liquidity and credit capacity for businesses similar to ours. Without sufficient liquidity, we could be required to curtail our operations, and our business would suffer.

Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from the delayed receipt of funds associated with the settlement of 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 of credit secured by client securities to fund margin loans and other client transaction-related timing differences.

In the event current resources are insufficient to satisfy our needs, we may need to rely on financing sources such as bank debt. The availability of additional financing will depend on a variety of factors such as

- market conditions;
- the general availability of credit;
- the volume of trading activities;
- the overall availability of credit to the financial services industry;
- our credit ratings and credit capacity and
- the possibility that our stockholders, advisors or lenders could develop a negative perception of our long-or short-term financial prospects if the level of our business activity decreases due to a market downturn.

Similarly, our access to funds may be impaired if regulatory authorities or rating organizations take negative actions against us.

Disruptions, uncertainty or volatility in the capital and credit markets may also limit our access to capital required to operate our business. Such market conditions may limit our ability to satisfy statutory capital requirements, generate

commission, fee and other market-related revenue to meet liquidity needs and access the capital necessary to grow our business. As such, we may be forced to delay raising capital, issue different types of capital than we would otherwise, less effectively deploy such capital or bear an unattractive cost of capital, which could decrease our profitability and significantly reduce our financial flexibility.

If the counterparties to the derivative instruments we use to hedge our interest rate risk default, we may be exposed to risks we had sought to mitigate.

We use derivative instruments to hedge our interest rate risk. If our counterparties fail to honor their obligations under the derivative instruments, our hedges of the interest rate risk will be ineffective. That failure could have an adverse effect on our financial condition, results of operations and cash flows that could be material. For the names of key counterparties upon which we currently rely, see Management s Discussion and Analysis of Financial Condition and Results of Operations Quantitative and Qualitative Disclosures About Risk Interest Rate Risk.

A loss of our marketing relationships with manufacturers of financial products could harm our relationship with our advisors and, in turn, their clients.

We operate on an open architecture product platform with no proprietary financial products. To help our advisors meet their clients needs with suitable investment options, we have relationships with most of the industry-leading providers of financial and insurance products. We have sponsorship agreements with some manufacturers of fixed and variable annuities and mutual funds that, subject to the survival of certain terms and conditions, may be terminated upon notice. If we lose our relationships with one or more of these manufacturers, our ability to serve our advisors and our business may be materially and adversely affected.

Risks Related to Our Regulatory Environment

Regulatory developments and our failure to comply with regulations could adversely affect our business by increasing our costs and exposure to litigation, affecting our reputation and making our business less profitable.

Our business is subject to extensive U.S. regulation and supervision, including securities and investment advisory services. The securities industry in the United States is subject to extensive regulation under both federal and state laws. Our broker-dealer subsidiary, LPL Financial, is:

- registered as a broker-dealer with the Securities and Exchange Commission (SEC), each of the 50 states, and the District of Columbia, Puerto Rico and the U.S. Virgin Islands;
- registered as an investment advisor with the SEC;
- a member of Financial Industry Regulatory Authority, Inc. (FINRA);
- regulated by the Commodities Future Trading Commission (CFTC) with respect to the futures and commodities trading activities it conducts as an introducing broker and
- a member of the NASDAQ Stock Market and the Chicago Stock Exchange.

Much of the regulation of broker-dealers has been delegated to self-regulatory organizations (SROs), namely FINRA and the Municipal Securities Rulemaking Board (MSRB). The primary regulators of LPL Financial are FINRA, and for municipal securities, the MSRB. The CFTC has designated the National Futures Association (NFA) as LPL Financial s primary regulator for futures and commodities trading activities.

The SEC, FINRA, CFTC, Office of the Comptroller of the Currency (OCC), various securities and futures exchanges and other U.S. governmental or regulatory authorities continuously review legislative and regulatory initiatives and may adopt new or revised laws and regulations. There can also be no assurance that other federal or state agencies will not attempt to further regulate our business. These legislative and regulatory initiatives may affect the way in which

we conduct our business and may make our business model less profitable.

Our ability to conduct business in the jurisdictions in which we currently operate depends on our compliance with the laws, rules and regulations promulgated by federal regulatory bodies and the regulatory authorities in each of these jurisdictions. Our ability to comply with all applicable laws, rules

and regulations is largely dependent on our establishment and maintenance of compliance, audit and reporting systems and procedures, as well as our ability to attract and retain qualified compliance, audit and risk management personnel. While we have adopted policies and procedures reasonably designed to comply with all applicable laws, rules and regulations, these systems and procedures may not be fully effective, and there can be no assurance that regulators or third parties will not raise material issues with respect to our past or future compliance with applicable regulations.

Our profitability could also be affected by rules and regulations that impact the business and financial communities generally and, in particular, our advisors clients, including changes to the laws governing taxation (including the classification of independent contractor status of our advisors), electronic commerce, privacy and data protection. Failure to comply with new rules and regulations, including in particular, rules and regulations that may arise pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, could subject us to regulatory actions or litigation and it could have a material adverse effect on our business, results of operations, cash flows or financial condition. In addition, new rules and regulations could result in limitations on the lines of business we conduct, modifications to our business practices, increased capital requirements or additional costs. For example, the U.S. Department of Labor has issued a proposed rule that, if adopted as currently proposed, would broaden the circumstances under which we may be considered a fiduciary under Section 3(21) of the Employee Retirement Income Security Act of 1974, as amended (ERISA).

We are subject to various regulatory ownership requirements, which, if not complied with, could result in the restriction of the ongoing conduct, growth or even liquidation of parts of our business.

The business activities that we may conduct are limited by various regulatory agencies. Our membership agreement with FINRA may be amended by application to include additional business activities. This application process is time-consuming and may not be successful. As a result, we may be prevented from entering new potentially profitable businesses in a timely manner, or at all. In addition, as a member of FINRA, we are subject to certain regulations regarding changes in control of our ownership. Rule 1017 of the National Association of Securities Dealers (NASD) generally provides, among other things, that FINRA approval must be obtained in connection with any transaction resulting in a change in our equity ownership that results in one person or entity directly or indirectly owning or controlling 25% or more of our equity capital. Similarly, the OCC imposes advance approval requirements for a change of control, and control is presumed to exist if a person acquires 10% or more of our common stock. These regulatory approval processes can result in delay, increased costs and/or impose additional transaction terms in connection with a proposed change of control, such as capital contributions to the regulated entity. As a result of these regulations, our future efforts to sell shares or raise additional capital may be delayed or prohibited.

We are subject to various regulatory capital requirements, which, if not complied with, could result in the restriction of the ongoing conduct, growth, or even liquidation of parts of our business.

The SEC, FINRA, CFTC, OCC and NFA have extensive rules and regulations with respect to capital requirements. As a registered broker-dealer, LPL Financial is subject to Rule 15c3-1 (Uniform Net Capital Rule) under the Securities Exchange Act of 1934, as amended (the Exchange Act), and related SRO requirements. The CFTC and NFA also impose net capital requirements. The Uniform Net Capital Rule specifies minimum capital requirements that are intended to ensure the general soundness and liquidity of broker-dealers. Because we are not a registered broker-dealer, we are not subject to the Uniform Net Capital Rule. However, our ability to withdraw capital from our broker-dealer subsidiaries could be restricted, which in turn could limit our ability to repay debt and redeem or purchase shares of our outstanding stock. A large operating loss or charge against net capital could adversely affect our ability to expand or even maintain our present levels of business.

Table of Contents

Failure to comply with ERISA regulations could result in penalties against us.

We are subject to ERISA and Sections 4975(c)(1)(A), (B), (C) and (D) of the Internal Revenue Code of 1986, as amended (the Internal Revenue Code), and to regulations promulgated thereunder, insofar as we act as a fiduciary under ERISA with respect to benefit plan clients or otherwise deal with benefit plan clients. ERISA and applicable provisions of the Internal Revenue Code impose duties on persons who are fiduciaries under ERISA, prohibit specified transactions involving ERISA plan clients (including, without limitation, employee benefit plans (as defined in Section 3(3) of ERISA), individual retirement accounts and Keogh plans) and impose monetary penalties for violations of these prohibitions. Our failure to comply with these requirements could result in significant penalties against us that could have a material adverse effect on our business (or, in a worst case, severely limit the extent to which we could act as fiduciaries for any plans under ERISA).

Risks Related to Our Competition

We operate in an intensely competitive industry, which could cause us to lose advisors and their assets, thereby reducing our revenues and net income.

We are subject to competition in all aspects of our business, including competition for our advisors and their clients, from:

- asset management firms;
- commercial banks and thrift institutions;
- insurance companies;
- other clearing/custodial technology companies and
- brokerage and investment banking firms.

Many of our competitors have substantially greater resources than we do and may offer a broader range of services, including financial products, across more markets. Some operate in a different regulatory environment than we do which may give them certain competitive advantages in the services they offer. For example, certain of our competitors only provide clearing services and consequently would not have any supervision or oversight liability relating to actions of their financial advisors. We believe that competition within our industry will intensify as a result of consolidation and acquisition activity and because new competitors face few barriers to entry.

If we fail to continue to attract highly qualified advisors or advisors licensed with us leave us to pursue other opportunities, or if current or potential clients of our advisors decide to use one of our competitors, we could face a significant decline in market share, commission and fee revenues and net income. If we are required to increase our payout of commissions and fees to our advisors in order to remain competitive, our net income could be significantly reduced.

Poor service or performance of the financial products that we offer or competitive pressures on pricing of such services or products may cause clients of our advisors to withdraw their assets on short notice.

Clients of our advisors control their assets under management with us. Poor service or performance of the financial products that we offer or competitive pressures on pricing of such services or products may result in the loss of accounts. In addition, we must monitor the pricing of our services and financial products in relation to competitors and

periodically may need to adjust commission and fee rates, interest rates on deposits and margin loans and other fee structures to remain competitive. Competition from other financial services firms, such as reduced commissions to attract clients or trading volume or higher deposit rates to attract client cash balances, could adversely impact our business. The decrease in revenue that could result from such an event could have a material adverse effect on our business.

We face competition in attracting and retaining key talent.

Our success and future growth depends upon our ability to attract and retain qualified employees. There is significant competition for qualified employees in the broker-dealer industry. We may not be able to retain our existing employees or fill new positions or vacancies created by expansion or turnover. The loss or unavailability of these individuals could have a material adverse effect on our business.

Moreover, our success depends upon the continued services of our key senior management personnel, including our executive officers and senior managers. The loss of one or more of our key senior management personnel, and the failure to recruit a suitable replacement or replacements, could have a material adverse effect on our business.

Risks Related to Our Debt

Our indebtedness could adversely affect our financial health and may limit our ability to use debt to fund future capital needs.

At September 30, 2010, we had total indebtedness of $1.4 billion. Our level of indebtedness could increase our vulnerability to general adverse economic and industry conditions. It could also require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing the availability of our cash flow to fund working capital, capital expenditures and other general corporate purposes. In addition, our level of indebtedness may limit our flexibility in planning for changes in our business and the industry in which we operate, place us at a competitive disadvantage compared to our competitors that have less debt and limit our ability to borrow additional funds.

Our ability to make scheduled payments on or to refinance indebtedness obligations depends on our financial condition and operating performance, which are subject to prevailing economic and competitive conditions and to certain financial, business and other factors beyond our control.

We may not be able to maintain a level of cash flows from operating activities sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness. In addition, as discussed above, we are limited in the amount of capital that we can draw from our broker-dealer subsidiaries. If our cash flows and capital resources are insufficient to fund our debt service obligations, we could face substantial liquidity problems and could be forced to sell assets, seek additional capital or seek to restructure or refinance our indebtedness. These alternative measures may not be successful or feasible. Our Third Amended and Restated Credit Agreement (senior secured credit agreement) restricts our ability to sell assets. Even if we could consummate those sales, the proceeds that we realize from them may not be adequate to meet any debt service obligations then due. Furthermore, if an event of default were to occur with respect to our senior secured credit agreement or other indebtedness, our creditors could, among other things, accelerate the maturity of our indebtedness.

In addition, as a result of reduced operating performance or weaker than expected financial condition, rating agencies could downgrade our senior unsecured subordinated notes, which would adversely affect the value of shares of our common stock.

Our senior secured credit agreement permits us to incur additional indebtedness. Although our senior secured credit agreement contains restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and the indebtedness incurred in compliance with these restrictions could be substantial. Also, these restrictions do not prevent us from incurring obligations that do not constitute indebtedness as defined in our senior secured credit agreement. To the extent new debt or other obligations are added to our currently anticipated debt levels, the substantial indebtedness risks described above would increase.

Restrictions under certain of our indebtedness may prevent us from taking actions that we believe would be in the best interest of our business.

Certain of our indebtedness contain customary restrictions on our activities, including covenants that may restrict us from:

- incurring additional indebtedness or issuing disqualified stock or preferred stock;
- paying dividends on, redeeming or repurchasing our capital stock;
- making investments or acquisitions;
- creating liens;
- selling assets;
- restricting dividends or other payments to us;
- guaranteeing indebtedness;
- engaging in transactions with affiliates and
- consolidating, merging or transferring all or substantially all of our assets.

We are also required to meet specified financial ratios. These restrictions may prevent us from taking actions that we believe would be in the best interest of our business. Our ability to comply with these restrictive covenants will depend on our future performance, which may be affected by events beyond our control. If we violate any of these covenants and are unable to obtain waivers, we would be in default under the applicable agreements and payment of the indebtedness could be accelerated. The acceleration of our indebtedness under one agreement may permit acceleration of indebtedness under other agreements that contain cross-default or cross-acceleration provisions. If our indebtedness is accelerated, we may not be able to repay that indebtedness or borrow sufficient funds to refinance it. Even if we are able to obtain new financing, it may not be on commercially reasonable terms or on terms that are acceptable to us. If our indebtedness is in default for any reason, our business could be materially and adversely affected. In addition, complying with these covenants may also cause us to take actions that are not favorable to holders of the common stock and may make it more difficult for us to successfully execute our business strategy and compete against companies that are not subject to such restrictions.

Provisions of our senior secured credit agreement could discourage an acquisition of us by a third party.

Certain provisions of our senior secured credit agreement could make it more difficult or more expensive for a third party to acquire us, and any of our future debt agreements may contain similar provisions. Upon the occurrence of certain transactions constituting a change of control, all indebtedness under our senior secured credit agreement may be accelerated and become due and payable. A potential acquirer may not have sufficient financial resources to purchase our outstanding indebtedness in connection with a change of control.

Risks Related to Our Technology

We rely on technology in our business, and technology and execution failures could subject us to losses, litigation and regulatory actions.

Our business relies extensively on electronic data processing and communications systems. In addition to better serving our advisors and clients, the effective use of technology increases efficiency and enables firms like ours to reduce costs. Our continued success will depend, in part, upon:

- our ability to successfully maintain and upgrade the capability of our systems;

our ability to address the needs of our advisors and their clients by using technology to provide products and services that satisfy their demands and

our ability to retain skilled information technology employees.

Failure of our systems, which could result from events beyond our control, or an inability to effectively upgrade those systems or implement new technology-driven products or services, could result in financial losses, liability to clients and damage to our reputation.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Although we take protective measures and endeavor to modify them as circumstances warrant, the computer systems, software and networks may be vulnerable to unauthorized access, computer viruses or other malicious code and other events that could have a security impact. If one or more of these events occur, this could jeopardize our own, our advisors or their clients or counterparties confidential and other information processed, stored in and transmitted through our computer systems and networks, or otherwise cause interruptions or malfunctions in our own, our advisors or their clients , our counterparties or third parties operations. We may be required to expend significant additional resources to modify our protective measures, to investigate and remediate vulnerabilities or other exposures or to make required notifications, and we may be subject to litigation and financial losses that are either not insured or are not fully covered through any insurance we maintain.

The securities settlement process exposes us to risks that may expose our advisors and us to adverse movements in price.

LPL Financial, one of our subsidiaries, provides clearing services and trade processing for our advisors and their clients and certain financial institutions. Broker-dealers that clear their own trades are subject to substantially more regulatory requirements than brokers that outsource these functions to third-party providers. Errors in performing clearing functions, including clerical, technological and other errors related to the handling of funds and securities held by us on behalf of clients, could lead to censures, fines or other sanctions imposed by applicable regulatory authorities as well as losses and liability in related lawsuits and proceedings brought by our advisors clients and others. Any unsettled securities transactions or wrongly executed transactions may expose our advisors and us to adverse movements in the prices of such securities.

Our networks may be vulnerable to security risks.

The secure transmission of confidential information over public networks is a critical element of our operations. As part of our normal operations, we maintain and transmit confidential information about clients of our advisors as well as proprietary information relating to our business operations. Our application service provider systems maintain and process confidential data on behalf of advisors and their clients, some of which is critical to our advisors business operations. If our application service provider systems are disrupted or fail for any reason, or if our systems or facilities are infiltrated or damaged by unauthorized persons, our advisors could experience data loss, financial loss, harm to reputation and significant business interruption. If such a disruption or failure occurs, we may be exposed to unexpected liability, advisors may withdraw their assets, our reputation may be tarnished and there could be a material adverse effect on our business.

Our networks may be vulnerable to unauthorized access, computer viruses and other security problems in the future. We rely on our advisors to comply with our policies and procedures to safeguard confidential data. The failure of our advisors to comply with such policies and procedures could result in the loss or wrongful use of their clients confidential information or other sensitive information. In addition, even if we and our advisors comply with our

policies and procedures, persons who circumvent security measures could wrongfully use our confidential information or clients

confidential information or cause interruptions or malfunctions in our operations. Such loss or use could, among other things:

- seriously damage our reputation;
- allow competitors access to our proprietary business information;
- subject us to liability for a failure to safeguard client data;
- result in the termination of relationships with our advisors;
- subject us to regulatory sanctions or burdens, based on the authority of the SEC and FINRA to enforce regulations regarding business continuity planning and
- require significant capital and operating expenditures to investigate and remediate the breach.

Failure to maintain technological capabilities, flaws in existing technology, difficulties in upgrading our technology platform or the introduction of a competitive platform could have a material adverse effect on our business.

We depend on highly specialized and, in many cases, proprietary technology to support our business functions, including among others:

- securities trading and custody;
- portfolio management;
- customer service;
- accounting and internal financial processes and controls and
- regulatory compliance and reporting.

In addition, our continued success depends on our ability to effectively adopt new or adapt existing technologies to meet client, industry and regulatory demands. We might be required to make significant capital expenditures to maintain competitive technology. For example, we believe that our technology platform, particularly our BranchNet system, is one of our competitive strengths, and our future success will depend in part on our ability to anticipate and adapt to technological advancements required to meet the changing demands of our advisors. The emergence of new industry standards and practices could render our existing systems obsolete or uncompetitive. Any upgrades or expansions may require significant expenditures of funds and may also cause us to suffer system degradations, outages and failures. There cannot be any assurance that we will have sufficient funds to adequately update and expand our networks, nor can there be any assurance that any upgrade or expansion attempts will be successful and accepted by our current and prospective advisors. If our technology systems were to fail and we were unable to recover in a timely way, we would be unable to fulfill critical business functions, which could lead to a loss of advisors and could harm our reputation. A technological breakdown could also interfere with our ability to comply with financial reporting and other regulatory requirements, exposing us to disciplinary action and to liability to our advisors and their clients. There cannot be any assurance that another company will not design a similar platform that affects our competitive advantage.

Inadequacy or disruption of our disaster recovery plans and procedures in the event of a catastrophe could adversely affect our business.

We have made a significant investment in our infrastructure, and our operations are dependent on our ability to protect the continuity of our infrastructure against damage from catastrophe or natural disaster, breach of security, loss of power, telecommunications failure or other natural or man-made events. A catastrophic event could have a direct negative impact on us by adversely affecting our advisors, employees or facilities, or an indirect impact on us by adversely affecting the financial markets or the overall economy. While we have implemented business continuity and disaster

recovery plans and maintain business interruption insurance, it is impossible to fully anticipate and protect against all potential catastrophes. If our business continuity and disaster recovery plans and procedures were disrupted or unsuccessful in the event of a catastrophe, we could experience a material adverse interruption of our operations.

We rely on outsourced service providers to perform key functions.

We rely on outsourced service providers to perform certain key technology, processing and support functions. For example, we have an agreement with Thomson Reuters BETA Systems, a division of Thomson Reuters, under which they provide us operational support, including data processing services for securities transactions and back office processing support. Any significant failures by these service providers could cause us to incur losses and could harm our reputation. If we had to change these service providers, we would experience a disruption to our business. Although we believe we have the resources to make such transitions with minimal disruption, we cannot predict the costs and time for such conversions. We cannot provide any assurance that the disruption caused by a change in our service providers would not have a material adverse affect on our business.

Risks Related to Our Business Generally

Any damage to our reputation could harm our business and lead to a loss of revenues and net income.

We have spent many years developing our reputation for integrity and superior client service, which is built upon our four pillars of support for our advisors: enabling technology, comprehensive clearing and compliance services, practice management programs and training, and independent research. Our ability to attract and retain advisors and employees is highly dependent upon external perceptions of our level of service, business practices and financial condition. Damage to our reputation could cause significant harm to our business and prospects and may arise from numerous sources, including:

- litigation or regulatory actions;
- failing to deliver minimum standards of service and quality;
- compliance failures and
- unethical behavior and the misconduct of employees, advisors or counterparties.

Negative perceptions or publicity regarding these matters could damage our reputation among existing and potential advisors and employees. Adverse developments with respect to our industry may also, by association, negatively impact our reputation or result in greater regulatory or legislative scrutiny or litigation against us. These occurrences could lead to loss of revenue and net income.

Our business is subject to risks related to litigation, arbitration actions and governmental and SRO investigations.

We are subject to legal proceedings arising out of our business operations, including lawsuits, arbitration claims, regulatory, governmental or SRO subpoenas, investigations and actions and other claims. Many of our legal claims are client initiated and involve the purchase or sale of investment securities. In our investment advisory programs, we have fiduciary obligations that require us and our advisors to act in the best interests of our advisors clients. We may face liabilities for actual or alleged breaches of legal duties to our advisors clients, in respect of issues related to the suitability of the financial products we make available in our open architecture product platform or the investment advice of our advisors based on their clients investment objectives (including, for example, auction rate securities or exchange traded funds). In addition, we, along with other industry participants, are subject to risks related to litigation

and settlements arising from market events such as the failures in the auction rate securities market. We may also become subject to claims, allegations and legal

proceedings that we infringe or misappropriate intellectual property or other proprietary rights of others. In addition, we may be subject to legal proceedings related to employment matters, including wage and hour, discrimination or harassment claims. The outcome of any such actions cannot be predicted, and a negative outcome in such a proceeding could result in substantial legal liability, loss of intellectual property rights and injunctive or other equitable relief against us. Further, such outcome may cause us significant reputational harm and could have a material adverse effect on our business, results of operations, cash flows or financial condition.

Our risk management policies and procedures may not be fully effective in mitigating our risk exposure in all market environments or against all types of risks.

We have adopted policies and procedures to identify, monitor and manage our operational risk. These policies and procedures, however, may not be fully effective. Some of our risk evaluation methods depend upon information provided by others and public information regarding markets, clients or other matters that are otherwise accessible by us. In some cases, however, that information may not be accurate, complete or up-to-date. Also, because our advisors work in small, decentralized offices, additional risk management challenges may exist. If our policies and procedures are not fully effective or we are not always successful in capturing all risks to which we are or may be exposed, we may suffer harm to our reputation or be subject to litigation or regulatory actions that could have a material adverse effect on our business and financial condition.

Misconduct and errors by our employees and our advisors, who operate in a decentralized-environment, could harm our business.

Misconduct and errors by our employees and our advisors could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm. We cannot always prevent misconduct and errors by our employees and our advisors, and the precautions we take to prevent and detect these activities may not be effective in all cases. Prevention and detection among our advisors, who are not our direct employees and some of whom tend to be located in small, decentralized offices, present additional challenges. There cannot be any assurance that misconduct and errors by our employees and advisors will not lead to a material adverse effect on our business.

Our insurance coverage may be inadequate or expensive.

We are subject to claims in the ordinary course of business. These claims may involve substantial amounts of money and involve significant defense costs. It is not always possible to prevent or detect activities giving rise to claims, and the precautions we take may not be effective in all cases.

We maintain voluntary and required insurance coverage, including, among others, general liability, property, director and officer, excess-SIPC, business interruption, errors and omissions, excess entity errors and omissions and fidelity bond insurance. Recently, premium and deductible costs associated with certain insurance coverages have increased, coverage terms have become more restrictive and the number of insurers has decreased. While we endeavor to purchase coverage that is appropriate to our assessment of our risk, we are unable to predict with certainty the frequency, nature or magnitude of claims for direct or consequential damages. Our business may be negatively affected if in the future our insurance proves to be inadequate or unavailable. In addition, insurance claims may harm our reputation or divert management resources away from operating our business.

Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments.

We may seek to opportunistically acquire businesses that offer complementary products, services or technologies. These acquisitions are accompanied by risks. For instance, the acquisition could have a negative effect on our

financial and strategic position and reputation or the acquired

business could fail to further our strategic goals. We could incur significant costs when integrating an acquired business and may not be successful in doing so. We may have a lack of experience in new markets, products or technologies brought on by the acquisition and we may have an initial dependence on unfamiliar supply or distribution partners. The acquisition may create an impairment of relationships with customers or suppliers of the acquired business or our advisors or suppliers. All of these and other potential risks may serve as a diversion of our management s attention from other business concerns and any of these factors could have a material adverse effect on our business.

Changes in U.S. federal income tax law could make some of the products distributed by our advisors less attractive to clients.

Some of the financial products distributed by our advisors, such as variable annuities, enjoy favorable treatment under current U.S. federal income tax law. Changes in U.S. federal income tax law, in particular with respect to variable annuity products or with respect to tax rates on capital gains or dividends, could make some of these products less attractive to clients and, as a result, could have a material adverse effect on our business, results of operations, cash flows or financial condition.

Risks Related to this Offering and Ownership of Our Common Stock

The Majority Holders will have the ability to control the outcome of matters submitted for stockholder approval and may have interests that differ from those of our other stockholders.

Investment funds affiliated with the Majority Holders own a majority of our capital stock, on a fully-diluted basis, as of September 30, 2010. After the completion of this offering, the Majority Holders will own approximately 63.9% of our common stock, or 57.6% on a fully diluted basis. The Majority Holders have significant influence over corporate transactions. So long as investment funds associated with or designated by the Majority Holders continue to own a significant amount of the outstanding shares of our common stock, even if such amount is less than 50%, the Majority Holders will continue to be able to strongly influence or effectively control our decisions, regardless of whether or not other stockholders believe that the transaction is in their own best interests. Such concentration of voting power could also have the effect of delaying, deterring or preventing a change of control or other business combination that might otherwise be beneficial to our stockholders. If the Majority Holders enter into a change in control transaction, certain members of our executive team have the contractual ability to terminate their employment within the thirty day period immediately following the twelve month anniversary of a change in control and receive severance payments.

In addition, the Majority Holders and their affiliates are in the business of making investments in companies and may, from time to time in the future, acquire interests in businesses that directly or indirectly compete with certain portions of our business. To the extent the Majority Holders invest in such other businesses, the Majority Holders may have differing interests than our other stockholders. The Majority Holders may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us.

An active trading market for our common stock may not develop.

Prior to this offering, there has been no public market for our common stock. Although we have applied to have our common stock listed on the NASDAQ Global Select Market, an active trading market for our shares may never develop or be sustained following this offering. If the market does not develop or is not sustained, it may be difficult for you to sell your shares of common stock at a price that is attractive to you or at all. In addition, an inactive market may impair our ability to raise capital by selling shares and may impair our ability to acquire other companies by using our shares as consideration, which, in turn, could materially adversely affect our business.

Table of Contents

The price of our common stock may be volatile and fluctuate substantially, which could result in substantial losses for investors purchasing shares in this offering.

The initial public offering price for the shares of our common stock sold in this offering will be determined by negotiation between the representatives of the underwriters and us. This price may not reflect the market price of our common stock following this offering. In addition, the market price of our common stock is likely to be highly volatile and may fluctuate substantially due to the following factors (in addition to the other risk factors described in this section):

- actual or anticipated fluctuations in our results of operations;
- variance in our financial performance from the expectations of equity research analysts;
- conditions and trends in the markets we serve;
- announcements of significant new services or products by us or our competitors;
- additions or changes to key personnel;
- the commencement or outcome of litigation;
- changes in market valuation or earnings of our competitors;
- the trading volume of our common stock;
- future sale of our equity securities;
- changes in the estimation of the future size and growth rate of our markets;
- legislation or regulatory policies, practices or actions and
- general economic conditions.

In addition, the stock markets in general have experienced extreme price and volume fluctuations that have often been unrelated or disproportionate to the operating performance of the particular companies affected. These broad market and industry factors may materially harm the market price of our common stock irrespective of our operating performance. As a result of these factors, you might be unable to resell your shares at or above the initial public offering price after this offering. In addition, in the past, following periods of volatility in the overall market and the market price of a company s securities, securities class action litigation has often been instituted against the affected company. This type of litigation, if instituted against us, could result in substantial costs and a diversion of our management s attention and resources.

We are a holding company and rely on dividends, distributions and other payments, advances and transfers of funds from our subsidiaries to meet our debt service and other obligations.

We have no direct operations and derive all of our cash flow from our subsidiaries. Because we conduct our operations through our subsidiaries, we depend on those entities for dividends and other payments or distributions to meet any existing or future debt service and other obligations. The deterioration of the earnings from, or other available assets of, our subsidiaries for any reason could limit or impair their ability to pay dividends or other

distributions to us. In addition, FINRA regulations restrict dividends in excess of 10% of a member firm s excess net capital without FINRA s prior approval. Compliance with this regulation may impede our ability to receive dividends from LPL Financial.

We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.

Following the completion of this offering, we do not anticipate that we will pay any cash dividends on shares of our common stock for the foreseeable future. Furthermore, our senior secured

credit agreement places substantial restrictions on our ability to pay cash dividends. Any determination to pay dividends in the future will be at the discretion of our board of directors and will depend on results of operations, financial condition, contractual restrictions, restrictions imposed by applicable law and other factors our board of directors deems relevant. Accordingly, if you purchase shares in this offering, realization of a gain on your investment will depend on the appreciation of the price of our common stock, which may never occur. Investors seeking cash dividends in the foreseeable future should not purchase our common stock. Please see the section titled Dividend Policy for additional information.

Upon expiration of lock-up agreements between the underwriters and our officers, directors and certain holders of our common stock, a substantial number of shares of our common stock could be sold into the public market shortly after this offering, which could depress our stock price.

Our officers, directors and certain holders of our common stock, options and warrants, holding substantially all of our outstanding shares of common stock prior to completion of this offering, have entered into lock-up agreements with our underwriters which prohibit, subject to certain limited exceptions, the disposal or pledge of, or the hedging against, any of their common stock or securities convertible into or exchangeable for shares of common stock for a period through the date 180 days after the date of this prospectus, subject to extension in certain circumstances. Our Stockholders Agreement also restricts the parties thereto from transferring their shares of common stock or any securities convertible into or exchangeable or exercisable for shares of common stock until 180 days after the effective date of the registration statement. The market price of our common stock could decline as a result of sales by our existing stockholders in the market after this offering and after the expiration of these lock-up periods, or the perception that these sales could occur. Once a trading market develops for our common stock, and after these lock-up periods expire, many of our stockholders will have an opportunity to sell their stock for the first time. These factors could also make it difficult for us to raise additional capital by selling stock. Please see the section titled Shares Eligible for Future Sale for additional information regarding these factors.

Our management will have broad discretion over the use of the proceeds we receive in this offering and might not apply the proceeds in ways that increase the value of your investment.

If the underwriters exercise their option to purchase additional shares in this offering in full, we estimate that net proceeds of the sale of the common stock that we are offering will be approximately $35.4 million, assuming an initial public offering price of $28.50, which is the midpoint of the range listed on the cover page of this prospectus. Our management will have broad discretion to use the net proceeds from this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. They might not apply the net proceeds of this offering in ways that increase the value of your investment. We expect to use all of the net proceeds from this offering to repay a portion of the term loans under our senior secured credit facilities. Our management might not be able to yield any return on the investment and use of these net proceeds. You will not have the opportunity to influence our decisions on how to use the proceeds.

Anti-takeover provisions in our certificate of incorporation and bylaws could prevent or delay a change in control of our company.

Our certificate of incorporation and our bylaws contain certain provisions that may discourage, delay or prevent a change in our management or control over us that stockholders may consider favorable, including the following, some of which may only become effective when the Majority Holders collectively own less than 40% of our outstanding shares of common stock:

- the division of our board of directors into three classes and the election of each class for three-year terms;

the sole ability of the board of directors to fill a vacancy created by the expansion of the board of directors;

advance notice requirements for stockholder proposals and director nominations;

limitations on the ability of stockholders to call special meetings and to take action by written consent;

when the Majority Holders collectively own 50% or less of our outstanding shares of common stock, the approval of holders of at least two-thirds of the shares entitled to vote generally on the making, alteration, amendment or repeal of our certificate of incorporation or bylaws, will be required to adopt, amend or repeal our bylaws, or amend or repeal certain provisions of our certificate of incorporation;

the required approval of holders of at least two-thirds of the shares entitled to vote at an election of the directors to remove directors and, following the classification of the board of directors, removal only for cause and

the ability of our board of directors to designate the terms of and issue new series of preferred stock, without stockholder approval, which could be used to institute a rights plan, or a poison pill, that would work to dilute the stock ownership or a potential hostile acquirer, likely preventing acquisitions that have not been approved by our board of directors.

The existence of the foregoing provisions and anti-takeover measures could limit the price that investors might be willing to pay in the future for shares of our common stock. They could also deter potential acquirers of our company, thereby reducing the likelihood that you could receive a premium for your common stock in the acquisition. For more information, please see the section titled Description of Capital Stock.

If securities or industry analysts do not publish research or reports or publish unfavorable research or reports about our business, our stock price and trading volume could decline.

The trading market for our common stock will depend in part on the research and reports that securities or industry analysts publish about us, our business, our market or our competitors. We may not obtain research coverage by securities and industry analysts. If no securities or industry analysts commence coverage of our company, the trading price for our stock could be negatively impacted. In the event we obtain securities or industry analyst coverage, if one or more of the analysts who covers us publishes unfavorable research or reports or downgrades our stock, our stock price would likely decline. If one or more of these analysts ceases to cover us or fails to regularly publish reports on us, interest in our stock could decrease, which could cause our stock price or trading volume to decline.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus, including the sections titled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations and Business, and the documents incorporated by reference contain forward-looking statements. Forward-looking statements convey our current expectations or forecasts of future events. All statements contained in this prospectus other than statements of historical fact are forward-looking statements. Forward-looking statements include statements regarding our future financial position, business strategy, budgets, projected costs, plans and objectives of management for future operations. The words may, might, should, predict, potential, continue, estimate, intend, plan, will, believe, project, expect, seek, anticip expressions may identify forward-looking statements, but the absence of these words does not necessarily mean that a statement is not forward-looking.

Any or all of our forward-looking statements in this prospectus may turn out to be inaccurate. We have based these forward-looking statements largely on our current expectations and projections about future events and financial trends that we believe may affect our financial condition, results of operations, business strategy and financial needs. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward looking statements including, but not limited to, changes in general economic and financial market conditions, fluctuations in the value of assets under management, effects of competition in the financial services industry, changes in the number of our advisors and their ability to effectively market financial products and services, the effect of current, pending and future legislation and regulation and regulatory actions. In particular, you should consider the numerous risks described in the Risk Factors section of this prospectus.

Although we believe the expectations reflected in the forward looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. In light of these risks, uncertainties and assumptions, the forward-looking events and circumstances discussed in this prospectus may not occur as contemplated, and actual results could differ materially from those anticipated or implied by the forward-looking statements.

You should not unduly rely on these forward-looking statements, which speak only as of the date of this prospectus. Unless required by law, we undertake no obligation to publicly update or revise any forward-looking statements to reflect new information or future events or otherwise. You should, however, review the factors and risks we describe in the reports we will file from time to time with the SEC after the date of this prospectus. See Where You Can Find Additional Information.

USE OF PROCEEDS

We will not receive any proceeds from the sale of shares of common stock by the selling stockholders.

We will not receive any proceeds from this offering of common stock unless the underwriters exercise their option to purchase additional shares. If the underwriters exercise their option to purchase additional shares in full, assuming an initial public offering price of $28.50 per share, which is the midpoint of the range listed on the cover page of this prospectus, we estimate that the net proceeds of the sale of the common stock that we are offering will be approximately $35.4 million, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us.

We expect to use all of the net proceeds from this offering received by us, if any, to repay a portion of the term loans under our senior secured credit facilities.

We currently have three term loan tranches under our senior secured credit facilities a term loan tranche of $317.1 million maturing on June 28, 2013 (the 2013 Term Loans), a term loan tranche of $500.0 million maturing on June 25, 2015 (the 2015 Term Loans) and a term loan tranche of $580.0 million maturing on June 28, 2017 (the 2017 Term Loans). We used the proceeds of the 2017 Term Loans, which we incurred in May 2010, together with cash on hand, to repay all of our then-outstanding senior unsecured subordinated notes due 2015.

The applicable margin for borrowings with respect to the (a) 2013 Term Loans is currently 0.75% for base rate borrowings and 1.75% for LIBOR borrowings, (b) 2015 Term Loans is currently 1.75% for base rate borrowings and 2.75% for LIBOR borrowings, and (c) 2017 Term Loans is currently 2.75% for base rate borrowings and 3.75% for LIBOR borrowings.

We have not yet determined how we will allocate the reduction of indebtedness among our term loan tranches. Management will retain broad discretion in the allocation and use of the net proceeds to us from this offering, and will determine the allocation of the net proceeds to repay indebtedness following the completion of this offering based on a number of factors, including remaining maturity, applicable interest rates, outstanding balance and ability to reborrow.

Table of Contents

DIVIDEND POLICY

We have not paid any dividends on our common stock during the past four fiscal years and we do not currently anticipate declaring or paying cash dividends on our common stock in the foreseeable future. We currently intend to retain all of our future earnings, if any, to finance operations and repay debt. Our senior secured credit facilities contain restrictions on our activities, including paying dividends on our capital stock. For an explanation of these restrictions see Management s Discussion and Analysis of Financial Condition and Results of Operations Indebtedness. In addition, FINRA regulations restrict dividends in excess of 10% of a member firm s excess net capital without FINRA s prior approval, potentially impeding our ability to receive dividends from LPL Financial. Any future determination relating to our dividend policy will be made at the discretion of our board of directors and will depend on a number of factors, including future earnings, capital requirements, financial conditions, future prospects, contractual restrictions and covenants and other factors that our board of directors may deem relevant.

CAPITALIZATION

The following table sets forth our capitalization as of September 30, 2010:

on an actual basis and

on a pro forma basis after giving effect to this offering, including the exercise by the underwriters of their option to purchase an additional 1,561,472 shares. For purposes of this table, the assumed initial public offering price is $28.50 per share, which is the midpoint of the range listed on the cover page of this prospectus.

You should read the following table in conjunction with our financial statements and related notes, Selected Consolidated Financial Data and Management s Discussion and Analysis of Financial Condition and Results of Operations , all included elsewhere in this prospectus.

	September 30, 2010	
	Actual	Pro Forma(1)
	(In thousands)	
Long-term obligations:		
Senior secured term loan(3)	$ 1,390,132	$ 1,354,767(2)
Stockholders equity:		
Common stock: $.001 par value; 200,000,000 shares authorized;		
94,246,414 shares issued and outstanding	87	101
Additional paid-in capital	690,194	999,085(4)
Stockholder loans	(52)	(52)
Accumulated other comprehensive loss	(5,874)	(5,874)
Retained earnings	242,980	112,905(4)
Total stockholders equity(1)	927,335	1,106,165
Total capitalization	$ 2,317,467	$ 2,460,932

(1) A $1.00 increase (decrease) in the assumed initial public offering price of $28.50 per share would increase (decrease) total stockholders equity by $1.5 million, assuming the number of shares offered by the selling stockholders, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated expenses payable by us.

The table above does not include:

(i) in the Actual column, 22,553,926 shares of common stock issuable upon the exercise of options and warrants outstanding as of September 30, 2010, with exercise prices ranging from $1.35 to $27.80 per share and a weighted average exercise price of $6.92 per share and (ii) in the Pro Forma column, 8,719,986 shares of common stock issuable upon exercise of options and warrants expected to remain outstanding after the completion of this offering with exercise prices ranging from $1.35 to $27.80 per share and a weighted average

exercise price of $5.76 per share. The number, price and range of outstanding options and warrants will be adjusted to reflect actual exercises of options and warrants by selling stockholders in connection with this offering;

2,823,452 stock units outstanding as of September 30, 2010 under our 2008 Nonqualified Deferred Compensation Plan, each representing the right to receive one share of common stock at the earliest of (a) a date in 2012 to be determined by the board of directors; (b) a change of control of the company or (c) death or disability of the holder;

3,177,722 additional shares of common stock reserved for future grants under our equity incentive plans currently in effect and

12,055,945 additional shares of common stock reserved for future equity incentive plans, including up to 155,000 shares issuable upon the exercise of options that we expect to grant on the date on which the registration statement, of which this prospectus forms a part, is declared effective, at an exercise price equal to the initial public offering price.

(2) Reflects the use of the net proceeds to us from the underwriters exercise of their option to purchase additional shares to reduce amounts outstanding under our senior secured credit facilities by $35.4 million.

(3) Borrowings under our 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 greatest of (a) the prime rate in effect on such day, (b) the effective federal funds rate in effect on such day, plus 0.50% or (c) solely in the case of the 2015 Term Loans and the 2017 Term Loans, 2.50%. The applicable margin on our senior secured term credit facilities could change depending on our credit rating. Our senior secured credit facilities are subject to certain financial and non-financial covenants. We may voluntarily repay outstanding loans under our senior secured credit facilities at any time without premium or penalty, other than customary breakage costs with respect to LIBOR loans. The LIBOR Rate with respect to the 2015 Term Loans and the 2017 Term Loans shall in no event be less than 1.50%.

(4) Upon the offering, the restriction on 7,399,403 shares of common stock issued to advisors under the Fifth Amended and Restated 2000 Stock Bonus Plan will be released. As a result, we expect to record share-based compensation expense of $210.9 million and a related tax benefit of $82.7 million based on the estimated effective tax rate for the fourth quarter of 2010. We also expect to realize an estimated income tax benefit of $142.3 million in connection with this offering resulting from (a) the exercise of non-qualified stock options and (b) the exercise of incentive stock options and subsequent sale of common stock resulting in a disqualifying disposition. See Management s Discussion and Analysis of Financial Condition and Results of Operations Tax Benefit Analysis.

Table of Contents

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected financial and operating data together with our consolidated financial statements and the related notes appearing at the end of this prospectus and the Management s Discussion and Analysis of Financial Condition and Results of Operations section of this prospectus. We have derived the consolidated statements of income data for the years ended December 31, 2009, 2008 and 2007 and the consolidated statements of financial condition data as of December 31, 2009 and 2008 from our audited financial statements included elsewhere in this prospectus. We have derived the consolidated statements of income data for the years ended December 31, 2006 and 2005 and consolidated statements of financial condition data as of December 31, 2007, 2006 and 2005 from our audited financial statements not included in this prospectus. We have derived the condensed consolidated statements of financial condition data as of September 30, 2010 and the condensed consolidated statements of income data for the nine months ended September 30, 2010 and 2009 from our unaudited condensed consolidated financial statements included elsewhere in this prospectus. Our unaudited condensed consolidated financial statements for the nine months ended September 30, 2010 and 2009 have been prepared on the same basis as the annual consolidated financial statements and include all adjustments, which include only normal recurring adjustments, necessary for fair presentation of this data in all material respects. Our historical results for any prior period are not necessarily indicative of results to be expected in any future period, and our results for any interim period are not necessarily indicative of results for a full fiscal year.

Our selected historical financial data may not be comparable from period to period and may not be indicative of future results. Additionally, historical dividends per share are presented as declared by the predecessor company under its capital structure at that time. Common shares of our predecessor are not equal to common shares under our current capital structure and are not necessarily indicative of amounts that would have been received per common share of current ownership.

	For the Nine Months Ended September 30,		For the Year Ended December 31,				
							Predecessor(2
	2010(1)	2009(1)	2009(1)	2008(1)	2007(1)	2006	2005
	(unaudited)						
			(In thousands, except per share data)				
onsolidated tatements of income lata:							
Net revenues	$ 2,293,531	$ 2,014,621	$ 2,749,505	$ 3,116,349	$ 2,716,574	$ 1,739,635	$ 1,406,320
otal expenses	2,194,175	1,962,173	2,676,938	3,023,584	2,608,741	1,684,769	1,290,570
ncome from continuing perations before rovision for income axes	99,356	52,448	72,567	92,765	107,833	54,866	115,750
rovision for income axes	39,658	23,526	25,047	47,269	46,764	21,224	46,461
ncome from continuing perations	59,698	28,922	47,520	45,496	61,069	33,642	69,289
Discontinued operations							(26,200)

Net income	59,698	28,922	47,520	45,496	61,069	33,642	43,089
Per share data:							
Earnings per basic share:							
Income from continuing operations	$ 0.68	$ 0.33	$ 0.54	$ 0.53	$ 0.72	$ 0.41	$ 0.84
Loss from discontinued operations							$ (0.32)
Earnings per basic share	$ 0.68	$ 0.33	$ 0.54	$ 0.53	$ 0.72	$ 0.41	$ 0.52

	For the Nine Months Ended September 30,		For the Year Ended December 31,				
							Predecessor(2)
	2010(1)	2009(1)	2009(1)	2008(1)	2007(1)	2006	2005
	(unaudited)						
Earnings per diluted share:							
Income from continuing operations	$ 0.59	$ 0.29	$ 0.47	$ 0.45	$ 0.62	$ 0.35	$ 0.72
Loss from discontinued operations							(0.27)
Earnings per diluted share	$ 0.59	$ 0.29	$ 0.47	$ 0.45	$ 0.62	$ 0.35	$ 0.45
Pro forma net loss per share (unaudited)(3)	$ (0.66)		$ (0.77)				
Predecessor cash dividends, per common share (unaudited)							
Class A & C (Predecessor)	n/a	n/a	n/a	n/a	n/a	n/a	$ 6.36
Class B (Predecessor)	n/a	n/a	n/a	n/a	n/a	n/a	$ 1.47

	As of September 30,		As of December 31,				
							Predecessor(2)
	2010	2009	2009(1)	2008(1)	2007(1)	2006	2005
	(unaudited)						
			(In thousands)				
Consolidated statements of financial condition data:							
Cash and cash equivalents	$ 442,547	$ 245,489	$ 378,594	$ 219,239	$ 188,003	$ 245,163	$ 134,592
Total assets	3,364,896	3,213,879	3,336,936	3,381,779	3,287,349	2,797,544	2,638,486
Total debt(4)	1,390,132	1,404,829	1,369,223	1,467,647	1,451,071	1,344,375	1,345,000

	As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31,				
				(unaudited)			Predecessor(2)
	2010	2009	2009(1)	2008(1)	2007(1)	2006	2005
Other financial and							

operating data:							
Adjusted EBITDA(5) (in thousands)	$ 313,954	$ 261,219	$ 356,068	$ 350,171	$ 329,079	$ 247,912	$ 188,917
Adjusted net income(5) (in thousands)	$ 128,043	$ 87,499	$ 129,556	$ 108,863	$ 107,404	$ 65,372	$ 78,278
Adjusted net income per share(5)	$ 1.29	$ 0.89	$ 1.32	$ 1.09	$ 1.08	$ 0.68	$ 0.82
Gross margin(6) (in thousands)	$ 698,163	$ 626,920	$ 844,926	$ 953,301	$ 781,102	$ 508,530	$ 407,019
Gross margin as a % of net revenue(6)	30.4%	31.1%	30.7%	30.6%	28.8%	29.2%	28.9%
Number of advisors(7)	12,017	12,027	11,950	11,920	11,089	7,006	6,481
Advisory and brokerage assets(8) (in billions)	$ 293.3	$ 268.9	$ 279.4	$ 233.9	$ 283.2	$ 164.7	$ 105.4
Advisory assets under management (in billions)(9)	$ 86.2	$ 72.6	$ 77.2	$ 59.6	$ 73.9	$ 51.1	$ 38.4
Insured cash account balances (in billions)(9)	$ 11.7	$ 11.4	$ 11.6	$ 11.2	$ 8.6	$ 5.8	n/a
Money market account balances (in billions)(9)	$ 6.9	$ 7.5	$ 7.0	$ 11.2	$ 7.4	$ 3.5	$ 6.4

(1) Financial results as of and for the years ended December 31, 2009, 2008 and 2007 and the nine months ended September 30, 2010 and 2009 include the acquisitions of UVEST Financial Services Group, Inc. (acquired on January 2, 2007), Pacific Select Group, LLC and its wholly owned subsidiaries: Mutual Service Corporation, Associated Financial Group, Inc., Associated Securities Corp., Associated Planners Investment Advisory, Inc. and Waterstone Financial Group,

Inc. (acquired on June 20, 2007) and IFMG. Consequently, the results of operations for 2009, 2008 and 2007 and the nine months ended September 30, 2010 and 2009 may not be directly comparable to prior periods.

(2) On December 28, 2005, investment funds affiliated with the Majority Holders acquired a majority of our capital stock through a merger transaction. Activities as of December 28, 2005 and periods prior are those of the predecessor.

(3) The unaudited pro forma net loss per share gives effect to: (i) an estimated after-tax share-based compensation charge of $128.2 million resulting from the release of the restriction on 7,399,403 shares issued under the Fifth Amended and Restated 2000 Stock Bonus Plan multiplied by $28.50 per share, which is the midpoint of the range listed on the cover page of this prospectus, (ii) the issuance of 12,889,935 shares of common stock upon exercise of stock options by selling stockholders in connection with this offering, net of any shares used to satisfy the exercise price in a cashless exercise, and (iii) estimated after-tax offering costs of $2.5 million to be incurred and expensed in connection with the offering. See Management s Discussion and Analysis of Financial Condition and Results of Operations Tax Benefit Analysis.

Weighted average shares outstanding used in the determination of unaudited pro forma net loss per share was 107,023,454 shares for the nine months ended September 30, 2010 and 106,862,421 shares for the year ended December 31, 2009. Outstanding stock options, warrants and restricted stock units were excluded from the computation of pro forma net loss per share because the effect would have been anti-dilutive.

(4) Total debt consists of our senior secured credit facilities, senior unsecured subordinated notes, revolving line of credit facility and bank loans payable.

(5) See Management s Discussion and Analysis of Financial Condition and Results of Operations How We Evaluate Growth for an explanation of Adjusted EBITDA, Adjusted Net Income and Adjusted Net Income per share.

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

(7) Number of advisors is defined as those investment professionals who are licensed to do business with our broker-dealer subsidiaries. In 2009, we attracted record levels of new advisors due to the dislocation in the marketplace that impacted many of our competitors. This record recruitment was offset by attrition related to the consolidation of the operations of the Affiliated Entities. Excluding this attrition, we added 750 net new advisors during 2009, representing 6.3% advisor growth.

(8) Advisory and brokerage assets are comprised of assets that are custodied, networked and non-networked and reflect market movement in addition to new assets, inclusive of new business development and net of attrition. Non-networked assets was not available in 2005 and accordingly, advisory and brokerage assets for 2005 is comprised of custodied and networked accounts.

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

MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with our consolidated financial statements and the notes to those consolidated financial statements appearing elsewhere in this prospectus. This discussion contains forward-looking statements that involve significant risks and uncertainties. As a result of many factors, such as those set forth under Risk Factors and elsewhere in this prospectus, our actual results may differ materially from those anticipated in these forward-looking statements.

Overview

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

Our Sources of Revenue

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

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

Table of Contents

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

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

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

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

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

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

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

Interest and Other Revenue. Other revenue includes marketing re-allowances from certain financial product manufacturers as well as interest income from client margin accounts and cash equivalents, net of operating interest expense.

Our Operating Expenses

Production Expenses. Production expenses consist of commissions and advisory fees as well as brokerage, clearing and exchange fees. We pay out the majority of commissions and advisory fees received from sales or services provided by our advisors. Substantially all of these payouts are variable and correlated to the revenues generated by each advisor.

Compensation and Benefits Expense. Compensation and benefits expense includes salaries and wages and related employee benefits and taxes for our employees (including share-based compensation), as well as compensation for temporary employees and consultants.

General and Administrative Expenses. General and administrative expenses include promotional fees, occupancy and equipment, communications and data processing, regulatory fees, travel and entertainment and professional services. We host certain advisor conferences that serve as training, sales and marketing events in our first and third fiscal quarters and as a result, we anticipate higher general and administrative expenses in comparison to other periods.

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

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

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

How We Evaluate Growth

We focus on several business and key financial metrics in evaluating the success of our business relationships and our resulting financial position and operating performance. Our key metrics

---

as of and for the years ended December 31, 2009, 2008, and 2007 and the nine months ended September 30, 2010 and 2009 are as follows:

	As of and for the Nine Months Ended September 30,		As of and for the Year Ended December 31,		
	2010	2009	2009 (unaudited)	2008	2007
Business Metrics					
Advisors(1)	12,017	12,027	11,950	11,920	11,089
Advisory and brokerage assets(2) (in billions)	$ 293.3	$ 268.9	$ 279.4	$ 233.9	$ 283.2
Advisory assets under management(3) (in billions)	$ 86.2	$ 72.6	$ 77.2	$ 59.6	$ 73.9
Insured cash account balances(3) (in billions)	$ 11.7	$ 11.4	$ 11.6	$ 11.2	$ 8.6
Money market account balances(3) (in billions)	$ 6.9	$ 7.5	$ 7.0	$ 11.2	$ 7.4
Financial Metrics					
Revenue growth (decline) from prior period	13.8%	(16.5)%	(11.8)%	14.7%	56.2%
Recurring revenue as a % of net revenue(4)	60.2%	56.2%	57.3%	58.5%	57.1%
Gross margin(5) (in millions)	$ 698.2	$ 626.9	$ 844.9	$ 953.3	$ 781.1
Gross margin as a % of net revenue(5)	30.4%	31.1%	30.7%	30.6%	28.8%
Net income (in millions)	$ 59.7	$ 28.9	$ 47.5	$ 45.5	$ 61.1
Adjusted EBITDA (in millions)	$ 314.0	$ 261.2	$ 356.1	$ 350.2	$ 329.1
Adjusted Net Income (in millions)	$ 128.0	$ 87.5	$ 129.6	$ 108.9	$ 107.4

(1) Advisors are defined as those investment professionals who are licensed to do business with our broker-dealer subsidiaries. In 2009, we attracted record levels of new advisors due to the dislocation in the marketplace that impacted many of our competitors. This record recruitment was offset, however, by the attrition of approximately 720 advisors licensed through the Affiliated Entities related to the consolidation of the operations of the Affiliated Entities. Excluding this attrition, we added 750 new advisors during 2009, representing 6.3% advisor growth.

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

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

(4)

Recurring revenue is derived from sources such as advisory fees, asset-based fees, trailing commission fees, fees related to our cash sweep programs, interest earned on margin accounts and technology and service fees. In 2009, we revised our definition of recurring revenues. Accordingly, prior period amounts have been recast to reflect this change.

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

Adjusted EBITDA

Adjusted EBITDA is defined as EBITDA (net income plus interest expense, income tax expense, depreciation and amortization), further adjusted to exclude certain non-cash charges and other adjustments set forth below. We present Adjusted EBITDA because we consider it an important measure of our performance. Adjusted EBITDA is a useful financial metric in assessing our operating

performance from period to period by excluding certain items that we believe are not representative of our core business, such as certain material non-cash items and other adjustments.

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

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

We use Adjusted EBITDA:

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

Adjusted EBITDA is a non-GAAP measure and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. The term Adjusted EBITDA is not defined under GAAP, and Adjusted EBITDA is not a measure of net income, operating income or any other performance measure derived in accordance with GAAP, and is subject to important limitations.

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

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

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

41

Table of Contents

Set forth below is a reconciliation from our net income to Adjusted EBITDA for the years ended December 31, 2009, 2008 and 2007 and the nine months ended September 30, 2010 and 2009 (in thousands):

	For the Nine Months Ended September 30,		For The Year Ended December 31,		
	2010	2009	2009	2008	2007
		(unaudited)			
Net income	$ 59,698	$ 28,922	$ 47,520	$ 45,496	$ 61,069
Interest expense	71,530	76,599	100,922	115,558	122,817
Income tax expense	39,658	23,526	25,047	47,269	46,764
Amortization of purchased intangible assets and software(a)	34,401	45,161	59,577	61,702	56,068
Depreciation and amortization of all other fixed assets	33,071	36,435	48,719	38,760	22,680
EBITDA	238,358	210,643	281,785	308,785	309,398
EBITDA Adjustments:					
Share-based compensation expense(b)	7,628	3,912	6,437	4,160	2,159
Acquisition and integration related expenses(c)	9,785	2,389	3,037	18,326	16,350
Restructuring and conversion costs(d)	19,438	44,161	64,658	15,122	
Debt amendment and extinguishment costs(e)	38,633				
Other(f)	112	114	151	3,778	1,172
Total EBITDA Adjustments	75,596	50,576	74,283	41,386	19,681
Adjusted EBITDA	$ 313,954	$ 261,219	$ 356,068	$ 350,171	$ 329,079

(a) Represents amortization of intangible assets and software as a result of our purchase accounting adjustments from our merger transaction in 2005 with the Majority Holders and our 2007 acquisitions of UVEST, the Affiliated Entities and IFMG.

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

(c) Represents acquisition and integration costs primarily as a result of our 2007 acquisitions of UVEST, the Affiliated Entities and IFMG. Included in the nine months ended September 30, 2010 are expenditures for certain legal settlements that have not been resolved with the indemnifying party. See Business Legal Proceedings.

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

(e)

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

(f) Represents impairment charges in 2008 for our equity investment in Blue Frog, other taxes and employment tax withholding related to a nonqualified deferred compensation plan.

Table of Contents

Adjusted Net Income and Adjusted Net Income per share

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

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

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

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

- because non-cash equity grants made to employees at a certain price and point in time do not necessarily reflect how our business is performing at any particular time, stock-based compensation expense is not a key measure of our operating performance;

- because costs associated with acquisitions and related integrations, debt refinancing, restructuring and conversions can vary from period to period and transaction to transaction, expenses associated with these activities are not considered a key measure of our operating performance and

- because amortization expenses can vary substantially from company to company and from period to period depending upon each company s financing and accounting methods, the fair value and average expected life of acquired intangible assets and the method by which assets were acquired, the amortization of intangible assets obtained in acquisitions are not considered a key measure in comparing our operating performance.

We have historically not used Adjusted Net Income for internal management reporting and evaluation purposes; however, we believe Adjusted Net Income and Adjusted Net Income per share are useful to investors in evaluating our operating performance because securities analysts use them as supplemental measures to evaluate the overall performance of companies, and we anticipate that our investor and analyst presentations after we are public will include Adjusted Net Income and Adjusted Net Income per share.

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

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

Adjusted Net Income and Adjusted Net Income per share do not reflect our cash expenditures, or future requirements for capital expenditures or contractual commitments;

Adjusted Net Income and Adjusted Net Income per share do not reflect changes in, or cash requirements for, our working capital needs and

Table of Contents

Other companies in our industry may calculate Adjusted Net Income and Adjusted Net Income per share differently than we do, limiting their usefulness as comparative measures.

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

The following table sets forth a reconciliation of net income to Adjusted Net Income and Adjusted Net Income per share for the years ended December 31, 2009, 2008 and 2007 and the nine months ended September 30, 2010 and 2009:

	For the Nine Months Ended September 30,		For The Year Ended December 31,		
	2010	2009	2009	2008	2007
	(In thousands, except per share data) (unaudited)				
Net income	$ 59,698	$ 28,922	$ 47,520	$ 45,496	$ 61,069
After-Tax:					
EBITDA Adjustments(1)					
Share-based compensation expense(2)	6,137	3,206	5,146	3,553	1,614
Acquisition and integration related expenses	5,946	1,441	1,833	11,080	9,936
Restructuring and conversion costs	11,812	26,629	39,019	9,143	
Debt amendment and extinguishment costs	23,477				
Other	68	68	91	2,269	713
Total EBITDA Adjustments	47,440	31,344	46,089	26,045	12,263
Amortization of purchased intangible assets and software(1)	20,905	27,233	35,947	37,322	34,072
Adjusted Net Income	$ 128,043	$ 87,499	$ 129,556	$ 108,863	$ 107,404
Adjusted Net Income per share(3)	$ 1.29	$ 0.89	$ 1.32	$ 1.09	$ 1.08
Weighted average shares outstanding diluted	99,303	98,527	98,494	100,334	99,099

(1) EBITDA Adjustments and amortization of purchased intangible assets and software have been tax-effected using a federal rate of 35.0% and the applicable effective state rate, which ranged from 4.23% to 4.71%, net of the federal tax benefit.

(2) Represents the after-tax expense of non-qualified stock options for which we receive a tax deduction upon exercise and the full expense impact of incentive stock options granted to employees, for which we do not receive a tax deduction upon exercise. Share-based compensation for vesting of incentive stock options was $3.8 million and $2.1 million, respectively, for the nine months ended September 30, 2010 and 2009, and

$3.2 million, $2.6 million and $0.8 million, respectively, for the years ended December 31, 2009, 2008 and 2007.

(3) Represents Adjusted Net Income divided by weighted average number of shares outstanding on a fully diluted basis. Set forth is a reconciliation of earnings per share on a fully diluted basis as calculated in accordance with GAAP to Adjusted Net Income per share:

	For the Nine Months Ended September 30,		For The Year Ended December 31,		
	2010	2009	2009 (unaudited)	2008	2007
Earnings per share diluted	$ 0.59	$ 0.29	$ 0.47	$ 0.45	$ 0.62
Adjustment for allocation of undistributed earnings to stock units	0.01	0.01	0.01		
After-Tax:					
EBITDA Adjustments per share	0.48	0.32	0.47	0.26	0.12
Amortization of purchased intangible assets and software per share	0.21	0.27	0.37	0.38	0.34
Adjusted Net Income per share	$ 1.29	$ 0.89	$ 1.32	$ 1.09	$ 1.08

Economic Overview and Impact of Financial Market Events

Since the middle of 2008, financial markets worldwide, particularly in the United States, experienced significant volatility, turbulence and substantial declines in value, followed by a partial recovery that began during the second quarter of 2009. The market s decline and recovery is illustrated by the daily S&P 500 index, which began 2008 at 1,447, stood at 1,280 on June 30, 2008, declined to 903 at December 31, 2008, and dropped to 667 on March 6, 2009, before recovering to end 2009 at 1,115. During the first nine months of 2010, the equity markets continued to be positive relative to the comparable prior year period. This improvement from the market lows that occurred in March of 2009 is reflected in the daily S&P 500, which averaged 1,096 during the third quarter of 2010, 10.0% above the comparable prior year period. For the nine months ended September 30, 2010, the S&P 500 daily average was 1,118, an increase of 24.2% over the average for the nine months ended September 30, 2009. This rebound has positively influenced our advisory and brokerage assets and improved those revenue sources which are directly driven by asset-based pricing. Despite the recovery from the market lows in the first quarter of 2009, the market and economic environment continue to be uncertain due to continued economic concerns and weak consumer confidence. During the third quarter of 2010, concerns about the sustainability of economic growth, particularly in the United States, led to a decline in the overall market levels, as the S&P 500 daily average for the third quarter was 3.4% lower than the daily average for the second quarter of 2010. The concerns about economic prospects, and the declining markets, led to lower investor activities.

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

While our business has improved as a result of the more favorable environment, our outlook remains cautiously optimistic and we persist in our efforts to reduce costs and control our expenditures.

Throughout 2008 and 2009, we launched a series of expense management and organizational simplification initiatives that enabled us to reduce compensation and benefits expenses and other general and administrative expenses from

2008 to 2009 by $72.7 million and $48.0 million, respectively. 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 250 employees, or approximately 10%, which resulted in additional

expenditures during the fourth quarter of 2008 and reduced compensation and benefits expense by approximately $27.0 million during 2009 in comparison to 2008.

In addition, the strategic business review included expense reductions that we view as temporary in nature. These items include (a) decreases in project expenses, (b) the elimination of or reduction in scope of certain advisor recognition programs and annual conferences and (c) employee-related items such as reduction in bonuses and employer contributions to our retirement plans.

In the third quarter of 2009, we furthered our restructuring plans by consolidating the operations of the Affiliated Entities, with those of LPL Financial. We also identified opportunities to restructure and consolidate certain advisor support activities, including sales and marketing and compliance across certain of our subsidiaries. As of September 30, 2010, we have incurred charges of $69.6 million and expect $4.2 million in additional one-time restructuring charges, all for severance and termination benefits, asset impairments, contract termination fees and other conversion costs. Beginning in 2010, we estimate the 2009 consolidation of our Affiliated Entities will result in approximately $24.0 million of annual cost savings.

We also enjoyed strong business development results in 2009 as market turbulence resulted in a significant dislocation of advisors at firms disrupted by or forced to merge in response to these adverse market conditions. In 2009, we attracted 750 net new advisors, exclusive of the attrition of those advisors impacted by our consolidation of the operations of the Affiliated Entities.

We continue to attempt to mitigate the impact of financial market events on our earnings with a strategic focus on attractive growth opportunities such as business development from attracting new advisors and through efficiency initiatives and 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 volatile market conditions and bolster our growth capabilities. We remain focused on retaining our advisors and enabling them to provide their clients with independent and unbiased financial advice and leading service. This strategy is a key advantage and we believe it provides sustainable success for our advisors and our company.

Recent Acquisitions and Divestitures

From time to time we undertake acquisitions and/or divestitures based on opportunities in the competitive landscape. These activities are part of our overall growth strategy, but can distort comparability when reviewing revenue and expense trends for periods presented. The following describes significant acquisition and divestiture activities that have impacted our 2007, 2008 and 2009 results.

On January 2, 2007, we completed our acquisition of UVEST, augmenting our position in providing independent third-party brokerage services to banks, credit unions and other financial institutions. The purchase price was $89.5 million at closing, comprised of $78.0 million in cash financed primarily through borrowings under our senior secured credit facilities, as well as the issuance of 603,660 shares of our common stock at an estimated fair value of $18.90 per share on the date of acquisition. Immediately following the acquisition, we satisfied certain obligations under a phantom stock plan for UVEST employees by issuing 65,820 shares of common stock at an estimated fair value of $18.90 per share.

On June 20, 2007, we acquired the Affiliated Entities which increased the number of our advisors and strengthened our position as a leading independent broker-dealer. Accordingly, our 2007 results of operations include the activities of the Affiliated Entities beginning on June 21, 2007. Total purchase consideration was $120.5 million comprised of $63.3 million in cash funded primarily through borrowings under our senior secured credit facilities, and the issuance of 2,645,500 shares of common stock with an estimated fair value of $21.60 per share on the date of acquisition.

On November 7, 2007, we acquired all of the outstanding capital stock of IFMG, further expanding our reach in offering financial services to banks, savings and loan institutions and credit

unions nationwide. Accordingly, our 2007 results of operations include the activities of IFMG beginning on November 7, 2007. Purchase consideration at closing was $25.7 million and was financed with borrowings under our senior secured credit facilities. At the time of acquisition, we announced a plan (the Shutdown Plan) to transfer existing IFMG financial institutional relationships to our other broker-dealer subsidiaries, LPL Financial and UVEST. In accordance with the Shutdown Plan, we made several post-closing payments based on the successful recruitment, retention and transition of these relationships during the third and fourth quarter of 2008.

On December 31, 2007, we ceased the operations of our subsidiary Innovex Mortgage, Inc. (Innovex). Prior to that date, Innovex provided comprehensive mortgage services for residential properties of the clients of our advisors.

On September 1, 2009, we consolidated the operations of the Affiliated Entities with those of LPL Financial. The consolidation involved the transfer of securities licenses of certain registered representatives associated with the Affiliated Entities and their client accounts. Following the consolidation, the registered representatives and client accounts that were transferred are now associated with LPL Financial. The consolidation of the Affiliated Entities was effected to enhance service offerings to our advisors while also generating efficiencies.

While our acquisitions of the Affiliated Entities and IFMG have contributed to the overall growth of our base of advisors and related revenue and market position, we have incurred significant non-recurring costs related to acquisition integration and the subsequent shutdown and/or conversion. Many of these expenditures are in the form of restructuring charges, personnel costs, system costs and professional fees. For example, the consolidation of the Affiliated Entities with LPL Financial in September 2009 resulted in restructuring charges including severance and one-time termination benefits, lease and contract termination fees, asset impairments and transfer and conversion costs.

Table of Contents

Results of Operations

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

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

* Not Meaningful.

Table of Contents

Revenues

Commissions

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

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

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

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

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

Total commission revenue

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

Advisory Fees

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

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

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

Asset-Based Fees

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

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

Transaction and Other Fees

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

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

Table of Contents

$3.4 million and professional liability insurance services of $1.6 million in 2010 as compared to 2009 due to increases in pricing for such services.

Other Revenue

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

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

Expenses

Production Expenses

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

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

Compensation and Benefits

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

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

General and Administrative Expenses

General and administrative expenses increased by $3.0 million, or 4.6%, for the three months ended September 30, 2010 compared with 2009. The increase compared to the prior year was due to aggressive cost reduction measures that took place in the first quarter of 2009 due to our strategic business review. As market conditions improved, we

cautiously reinstated certain levels of general and administrative expenses that are necessary to support growth and service to our advisors. For the

Table of Contents

three months ended September 30, 2010, increases in certain advisor conference services contributed to $1.6 million in additional general and administrative expenses.

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

Depreciation and Amortization

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

Restructuring Charges

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

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

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

Other Expenses

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

Table of Contents

Interest Expense

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

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

Loss on Extinguishment of Debt

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

Loss or gain on Equity Method Investment

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

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

Provision for Income Taxes

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

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

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

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

Table of Contents

Years Ended December 31, 2009, 2008 and 2007

The following discussion presents an analysis of our results of operations for the years ended December 31, 2009, 2008 and 2007. 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.

	Year Ended December 31,			Percentage Change	
	2009	2008 (In thousands)	2007	09 vs. 08	08 vs. 07
Revenues					
Commissions	$ 1,477,655	$ 1,640,218	$ 1,470,285	(9.9)%	11.6%
Advisory fees	704,139	830,555	738,938	(15.2)%	12.4%
Asset-based fees	272,893	352,293	260,935	(22.5)%	35.0%
Transaction and other fees	255,574	240,486	184,604	6.3%	30.3%
Other	39,244	52,797	61,812	(25.7)%	(14.6)%
Net revenues	2,749,505	3,116,349	2,716,574	(11.8)%	14.7%
Expenses					
Production	1,904,579	2,163,048	1,935,472	(11.9)%	11.8%
Compensation and benefits	270,436	343,171	257,200	(21.2)%	33.4%
General and administrative	218,416	266,447	199,895	(18.0)%	33.3%
Depreciation and amortization	108,296	100,462	78,748	7.8%	27.6%
Restructuring charges	58,695	14,966		292.2%	*
Other	15,294	17,558	13,931	(12.9)%	26.0%
Total operating expenses	2,575,716	2,905,652	2,485,246	(11.4)%	16.9%
Interest expense	100,922	115,558	122,817	(12.7)%	(5.9)%
Loss on equity method investment	300	2,374	678	(87.4)%	250.1%
Total expenses	2,676,938	3,023,584	2,608,741	(11.5)%	15.9%
Income before provision for income taxes	72,567	92,765	107,833	(21.8)%	(14.0)%
Provision for income taxes	25,047	47,269	46,764	(47.0)%	1.1%
Net income	$ 47,520	$ 45,496	$ 61,069	4.4%	(25.5)%

* Not meaningful.

Revenues

Commissions

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

	Years Ended December 31,					
	2009	% Total	2008	% Total	2007	% Total
Variable annuities	$ 551,345	37.3%	$ 627,021	38.2%	$ 605,318	41.2%
Mutual funds	389,458	26.4%	474,948	28.9%	498,880	33.9%
Fixed annuities	225,342	15.3%	179,743	11.0%	42,775	2.9%
Equities	86,606	5.8%	85,586	5.2%	82,215	5.6%
Alternative investments	77,079	5.2%	112,706	6.9%	113,183	7.7%
Fixed income	75,210	5.1%	65,309	4.0%	48,552	3.3%
Insurance	69,907	4.7%	91,327	5.6%	77,613	5.3%
Other	2,708	0.2%	3,578	0.2%	1,749	0.1%
Total commission revenue	$ 1,477,655	100.0%	$ 1,640,218	100.0%	$ 1,470,285	100.0%

Commission revenue decreased by $162.6 million, or 9.9%, for 2009 compared to 2008. Sales-based commissions decreased as a result of market turbulence and volatility that dampened client demand for purchases of new financial products, particularly in the more market sensitive products such as mutual funds, alternative investments and variable annuities. This decline was partially offset by increased sales of products with more predictable cash flows such as fixed annuities and fixed income securities, which investors normally favor during periods of uncertain equity markets. Trail commissions also decreased as a result of the effect of the market s decline on the underlying assets eligible for trail commissions, partially offset by additional sales of assets eligible for trail payment.

Commission revenue increased by $169.9 million, or 11.6%, for 2008 compared to 2007, fueled primarily by the commission base obtained through our acquisitions of the Affiliated Entities and IFMG. Organic commission revenue growth remained relatively flat during this same period, attributed to the successful recruitment of our base of advisors which increased 7.5% to 11,920 in 2008 from 11,089 in 2007, largely offset by a decline in commissionable transactions and brokerage assets under management due to the unfavorable market conditions in 2008.

Advisory Fees

Advisory fees decreased by $126.4 million, or 15.2%, for 2009 compared to 2008. The decrease primarily reflects the effect of the decline in the equity markets during 2009 as compared to 2008. For 2009, the S&P 500 index averaged 948, down 22.3% from the average for 2008. This decrease was partially offset by increasing sales attributed to new advisory relationships.

Advisory fees increased by $91.6 million, or 12.4%, in 2008 from 2007, driven in part by the advisory fee base obtained through our acquisitions of the Affiliated Entities and IFMG and increased sales attributed to new advisory relationships. The growth in advisory fees from 2007 to 2008 was negatively impacted by declines in the equity market during the second half of 2008. The S&P 500 index averaged 1,220 for 2008, a decrease of 17.4% from 2007.

Asset-Based Fees

Asset-based fees decreased by $79.4 million, or 22.5%, for 2009 compared to 2008. This decrease resulted in part from the decline in the market value of assets included in our various sponsor and asset-based record-keeping programs, as the average for the S&P 500 index declined 22.3% from 2008 to 2009. Asset-based revenues in 2009 were also negatively impacted by the declining interest rate environment as reflected by the average effective federal funds rate and its influence on fees associated with our cash sweep programs. For the year ended December 31, 2009, the effective federal funds rate averaged 0.16% compared to 1.92% for the prior year. Assets in our cash sweep programs averaged $20.5 billion and $19.3 billion for the years ended December 31, 2009 and 2008, respectively.

Asset-based fees increased by $91.4 million, or 35.0%, from 2007 to 2008. Fees from our cash sweep programs increased $60.9 million driven primarily by a 72.7% increase in the average assets custodied in these programs, which can be attributed to prevailing negative market conditions and the resulting shift of client assets from invested capital to our cash sweep programs. During periods of financial uncertainty, the amount of client assets held in cash products increases as investors seek to reduce the risk profile of their investments. For 2008, the increase associated with this trend was partially offset by the negative interest rate environment and its influence on the margins associated with these products.

Transaction and Other Fees

Transaction and other fees increased $15.1 million, or 6.3%, for 2009 compared to 2008. This increase was primarily attributed to increases in our number of advisors and their client accounts. We also had increases of $6.6 million in charges to advisors largely for professional liability insurance premiums and $5.3 million in IRA custodial fees.

Transaction and other fees include revenues from

conferences held for advisors; these revenues declined by $4.4 million from 2008 to 2009, as we cancelled various conferences as a part of our cost containment efforts.

Transaction and other fees increased $55.9 million, or 30.3%, in 2008 from 2007. The increase was attributed primarily to a 59.3% increase in trade volume in 2008. This increase was primarily attributable to an increase in the number of underlying client accounts through our acquisitions of the Affiliated Entities and IFMG.

Other Revenue

Other revenue decreased $13.6 million, or 25.7%, for 2009 compared to 2008. The decrease was due primarily to lower interest revenue from client margin lending activities and to a lesser extent by lower interest income earned on our cash equivalents. Our average client margin balances decreased 33.5% from $328.3 million in 2008 to $218.3 million in 2009, reflecting a reduced demand by clients for margin leverage in reaction to volatility in the equity markets. Margin balances have typically decreased during periods of declining, volatile markets such as those experienced beginning in 2008.

Other revenue decreased $9.0 million, or 14.6%, in 2008 from 2007. Prior to our dissolution of our mortgage subsidiary, Innovex, other revenue also consisted of gains on the sale of mortgage loans held for sale. Through our mortgage affiliate Innovex, we recognized gains related to mortgage loans held for sale during 2007 that did not recur in 2008 because we ceased the operations of Innovex on December 31, 2007.

Expenses

Production Expenses

Production expenses decreased by $258.5 million, or 11.9%, for 2009 compared to 2008. Commission and advisory revenues declined $289.0 million, or 11.7%, during the same period, resulting in a corresponding decrease in our production payout to our advisors. Our production payout averaged 85.8% in 2009 and 86.3% in 2008.

Production expenses increased by $227.6 million, or 11.8%, for 2008 compared to 2007. The increase in production expenses was highly correlated with our increase in commission and advisory revenues, which increased by $261.6 million, or 11.8%, for 2008 compared to 2007. Our production payout averaged 86.3% in 2008 and 86.4% in 2007.

Compensation and Benefits Expense

Compensation and benefits expense decreased by $72.7 million, or 21.2%, for 2009 compared to 2008. The decrease was primarily attributed to our ongoing strategic business review and resulting cost management initiatives. These initiatives, along with ordinary attrition and retirements, resulted in our average number of full-time employees declining by 383, or 13.6%, to 2,430 for 2009, compared to 2,813 for 2008. Compensation and benefits expense in 2009 was further reduced from 2008 levels due to reductions in employee-related items including reduction in bonuses and elimination of the employer contribution to our retirement plans.

Compensation and benefits increased by $86.0 million, or 33.4%, for 2008 compared to 2007. The increase was attributed to salaries and benefits and the average number of full-time employees, which grew by 729, or 35.0%, to 2,813 in 2008, compared to 2,084 in 2007, primarily due to our acquisitions of the Affiliated Entities and IFMG and resulting integration efforts, and our initiative to strengthen our service infrastructure.

Table of Contents

General and Administrative Expenses

General and administrative expenses decreased by $48.0 million, or 18.0%, for 2009 compared to 2008. The decrease was primarily attributable to our ongoing strategic business review and resulting cost reduction measures which led to decreases of $38.3 million in promotional fees, $8.3 million in occupancy and equipment, $5.8 million in travel and entertainment and $3.8 million in communications and data processing.

General and administrative expenses increased by $66.6 million, or 33.3%, for 2008 compared to 2007. The increase was primarily attributable to increases of $35.4 million in promotional fees and business development expenses, $15.3 million in occupancy and equipment and $12.1 million in communication and data processing. The increase in these expenses was primarily due to our acquisitions of the Affiliated Entities and IFMG, and resulting integration efforts to support our overall growth.

Depreciation and Amortization Expense

Depreciation and amortization expense increased by $7.8 million, or 7.8%, for 2009 compared to 2008. The increase was attributed to capital expenditures made to support integration efforts related to the Affiliated Entities and the general growth of our business.

Depreciation and amortization expense increased by $21.7 million, or 27.6%, for 2008 compared to 2007, attributed to amortization of identifiable intangible assets and depreciation and amortization of fixed assets resulting from our acquisitions of the Affiliated Entities and IFMG, as well as capital expenditures made to support integration efforts and the general growth of our business.

Restructuring Charges

Restructuring charges were $58.7 million in 2009, compared to $15.0 million in 2008. In 2009, restructuring charges were incurred for severance and termination benefits of $9.5 million, contract termination costs of $15.9 million, asset impairment charges of $19.9 million and $13.9 million in other expenditures principally relating to the conversion and transfer of advisors and their client accounts from the Affiliated Entities to LPL Financial. These costs were partially offset by $0.5 million in adjustments that were recorded in the first half of 2009 for changes in cost estimates associated with post-employment benefits provided to employees impacted by our 2008 strategic business review.

In 2008, we committed to and implemented a strategic business review, resulting in a reduction in our overall workforce of approximately 250 employees, or approximately 10% of our workforce. Accordingly, we recorded a $15.0 million restructuring charge at the time such plan was communicated to our employees.

Other Expenses

Other expenses decreased by $2.3 million, or 12.9%, from 2008 to 2009. The decrease was primarily due to cost reduction measures.

Other expenses increased by $3.6 million, or 26.0%, from 2007 to 2008. The increase was due primarily to increases in bad debt expense and write-off activity with respect to our advisors. The remaining increase was due to storage services, which grew by $1.1 million in 2008.

Interest Expense

Interest expense decreased by $14.6 million, or 12.7%, for 2009 compared with 2008. The decline reflected lower average interest rates on our borrowings due in part to a credit rating upgrade received in the third quarter of 2008, partially offset by an increase in the average principal amount of debt outstanding due primarily to borrowings under our revolving credit facility. Our average

outstanding borrowing activity in the revolving and uncommitted line of credit facilities increased by $7.8 million from $48.7 million for 2008 to $56.5 million for 2009.

Interest expense decreased by $7.3 million, or 5.9%, from 2007 to 2008, reflecting lower average interest rates on our borrowings due in part by a credit rating upgrade, partially offset by an increase in the principal amount of debt outstanding.

Loss on Equity Method Investment

Loss on equity investment decreased by $2.1 million, or 87.4%, for 2009 compared to 2008. The decrease was attributed to a $1.7 million other than temporary impairment charge incurred during the second quarter of 2008.

Loss on equity method investment increased by $1.7 million, or 250.1%, for 2008 compared to 2007, due to the $1.7 million other than temporary impairment charge during the second quarter of 2008.

Provision for Income Taxes

Our provision for income taxes decreased by $22.2 million, or 47.0%, between 2008 and 2009. The decrease was primarily the result of a decrease in the effective income tax rate under GAAP, which was 34.5% for 2009 as compared to 51.0% for 2008, as well as a decline in pre-tax income. In addition, our current effective tax rate reflects a benefit of approximately 8% from a newly enacted change to California s income sourcing rules that are scheduled to take effect on January 1, 2011. This change requires us to revalue our deferred tax liabilities to the rate that will be in effect when the tax liabilities are utilized.

Our provision for income taxes increased by $0.5 million, or 1.1%, between 2007 and 2008. The increase was primarily the result of an increase in the effective income tax rate under GAAP, which was 51.0% for 2008 as compared to 43.4% for 2007, offset largely by a decline in pre-tax income. Changes in our effective tax rates reflect additional expenses and/or changes in our estimates for expenses that cannot be deducted for income tax purposes, namely a change in our estimates for certain state income tax rates and the impact of that change on our deferred tax liabilities. Additional increases in our effective tax rates relate to increases in items such as meals and entertainment and compensation for incentive stock options.

Quarterly Results of Operations

The following table sets forth our unaudited consolidated operating results for each of the eleven quarters in the prior two-year period plus the interim quarters ended March 31, 2010, June 30, 2010 and September 30, 2010. This information is derived from our unaudited financial statements, which in the opinion of management contain all adjustments consisting of only normal recurring adjustments, that we consider necessary for a fair statement of such financial data. Operating results for these periods are not necessarily indicative of the operating results for a full year. Historical results are not necessarily indicative of the results to be expected in future periods. You should read this data together with our consolidated financial statements and the related notes included elsewhere in this prospectus.

	For the Three Months Ended									
	September 30, 2010	**June 30, 2010**	**March 31, 2010**	**December 31, 2009**	**September 30, 2009**	**June 30, 2009**	**March 31, 2009**	**December 31, 2008**	**September 30, 2008**	**Jun 20**
	(unaudited) (in thousands, except per share data)									
	$ 759,964	$ 790,161	$ 743,406	$ 734,884	$ 702,326	$ 669,317	$ 642,978	$ 703,839	$ 799,341	$ 81
	$ 234,336	$ 233,623	$ 230,204	$ 218,006	$ 221,144	$ 205,329	$ 200,447	$ 211,844	$ 251,788	$ 24
	$ 26,144	$ 8,000	$ 25,554	$ 18,598	$ (1,456)	$ 15,581	$ 14,797	$ 2,360	$ 17,168	$ 1
	$ 0.30	$ 0.09	$ 0.29	$ 0.21	$ (0.02)	$ 0.18	$ 0.17	$ 0.03	$ 0.20	$
	$ 0.26	$ 0.08	$ 0.25	$ 0.19	$ (0.02)	$ 0.16	$ 0.15	$ 0.02	$ 0.17	$
	$ 26,144	$ 8,000	$ 25,554	$ 18,598	$ (1,456)	$ 15,581	$ 14,797	$ 2,360	$ 17,168	$ 1
	19,511	27,683	24,336	24,323	24,626	26,032	25,941	29,332	27,205	2
	19,868	628	19,162	1,521	(5,029)	16,567	11,988	5,285	17,249	1
)	9,352	10,938	14,111	14,416	14,915	15,123	15,123	16,405	15,266	1
	10,420	11,172	11,479	12,284	12,009	12,154	12,272	11,878	9,520	
	85,295	58,421	94,642	71,142	45,065	85,457	80,121	65,260	86,408	8
s:										
	2,853	2,239	2,536	2,525	1,640	1,047	1,225	887	1,409	
	6,268	3,377	140	648	728	839	822	1,500	2,324	
	4,153	7,306	7,979	20,497	42,135	2,285	(259)	15,122		
7)	28	38,484	121							
	36	37	39	37						