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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ý **ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2009

or

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

For the transition period from to
Commission file number 000-52609

LPL Investment Holdings Inc.

(Exact name of registrant as specified in its charter)

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

One Beacon Street, Boston, MA 02108
(Address of principal executive offices including zip code)

617-423-3644
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $0.001 per share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ý

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes o No ý

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o (Registrant is not subject to the requirements of Rule 405 of Regulation S-T at this time).

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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 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 ý (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of June 30, 2009, the last business day of the registrant's most recently completed second fiscal quarter, there was no established public trading market for the common stock of the registrant and therefore, an aggregate market value of the registrant's common stock is not determinable.

The number of shares of common stock, par value $0.001 per share, outstanding as of March 5, 2010 was 94,235,089.90.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to stockholders in connection with the Annual Meeting of Stockholders are incorporated by reference into Part III.

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Where You Can Find More Information

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

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

Special Note Regarding Forward-Looking Statements

Item 7 "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other sections of this Annual Report on Form 10-K contain forward-looking statements (regarding economic conditions, management expectations, strategic objectives, business prospects, anticipated expense savings, financial results, and other similar matters) that involve risks and uncertainties. Forward-looking statements can be identified by words such as "anticipates," "expects," "believes," "plans," "predicts," and similar terms. Forward-looking statements are not guarantees of future performance and our actual results may differ significantly from the results discussed in the forward-looking statements. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements including, but not limited to, changes in general economic and financial market conditions, fluctuations in the value of assets under management, effects of competition in the financial services industry, changes in the number of our financial advisors and institutions and their ability to effectively market financial products and services, the effect of current, pending and future legislation and regulation and regulatory actions. In particular, you should consider the numerous risks outlined in Part I, Item 1A "Risk Factors".

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

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PART I

ITEM 1. BUSINESS

General Corporate Overview

We are a leading provider of technology, brokerage and investment advisory services through business relationships with independent financial advisors, financial advisors employed by financial institutions, registered investment advisors ("RIAs"), and financial institutions (collectively, our "customers"). Through our proprietary technology, custody and clearing platforms, we offer our customers access to a broad array of financial products and services that enable them to more effectively provide financial advice and brokerage services to retail investors (their "clients"). We partner with over 4,800 businesses consisting of independent advisor practices, banks, credit unions and insurance companies. Through these relationships we support approximately 16,000 financial professionals of which approximately 12,000 are licensed with our broker-dealer subsidiaries, and 3.9 million client accounts with $279.4 billion in client assets as of December 31, 2009. With $2.7 billion in net revenue in 2009, we are a leading national broker-dealer and have been the largest independent broker-dealer as reported in *Financial Planning* magazine 1996-2009, based on total revenues.

In 2005, we sold an approximately 61% ownership stake in our firm to two private equity partners, Hellman & Friedman LLC and TPG. We were formed in 1989 through the merger of two brokerage firms, Linsco Financial Group, Inc. (established in 1968) and Private Ledger Financial Services, Incorporated (established in 1973). We have our primary corporate offices in Boston, San Diego, and Charlotte. Our customers operate in all 50 states, Washington D.C. and Puerto Rico.

Our Business

Our business philosophy is to support our customers in providing their clients with high quality independent advice and investment solutions through our open architecture product platform and to support them in managing the complexity of running their business. Through our technology and service offerings, we establish lasting relationships with our customers that enable their growth. Unlike many traditional brokerage firms, we do not manufacture products, provide investment banking services, conduct market-making activity, or compete with our customers by offering investment services directly to retail investors. The size of our organization and scalability of our solution allows us to continually reinvest in our technology and clearing platforms, tailor our services to the needs of our customers, and provide them with an attractive value proposition. As a result, we have successfully grown our customer base from 5,843 financial advisors licensed with our broker-dealer subsidiaries in 2004 to 11,950 as of December 31, 2009.

Our revenues are derived primarily from commissions and fees from products and advisory services offered by our customers to their clients, a substantial portion of which we pay out to our customers. We also generate asset-based fees from our product sponsor relationships, our cash sweep programs, and sub-transfer agency and networking services. Under our self-clearing platform, we custody the majority of client assets invested in these products, which includes providing statements, transaction processing and ongoing account management for which we receive a fee.

Our Customers

Our customers are leaders within their communities. Serving retail investors in communities across the nation, they build long-term relationships with their clients by guiding them through the complexities of investment decisions, retirement solutions, financial planning and wealth management. By providing a comprehensive and flexible platform, we distinguish ourselves by our ability to attract advisors from other independent broker-dealers, regional and wirehouse firms, as well as RIAs and financial institutions. Our flexible business platform allows our customers to choose the most appropriate business model to support their clients, whether they conduct brokerage business, offer brokerage and fee-based services through our corporate RIA, or provide fee-based services through their own RIA. We support the evolution of our customers' businesses over time and provide a range of solutions as their needs change.

Our customers are dedicated to fulfilling the needs of retail investors in both the growing mass affluent and high net worth markets. Typically, financial advisors affiliated with more traditional brokerage firms are focused primarily on high net worth individuals. As a result, we believe the mass affluent market, defined as households with investable assets between $100,000 and $1,000,000, is currently under-served. We believe that our independent financial advisors are well positioned to capitalize on the opportunities in both the mass affluent and high net worth markets, particularly as the baby boomer generation approaches retirement and increasingly seeks financial advice.

Our independent financial advisors and RIAs are entrepreneurial independent contractors who maintain their own offices and general support staff. These financial advisors generally have many years of industry experience and typically join us from other brokerage institutions including wirehouses, regional broker-dealers, banks, insurance companies and other independent broker-dealers. They are primarily located in rural and suburban areas and as such are viewed as local providers of independent advice.

We also partner with financial institutions seeking to provide a broad array of services for their clients. For banks, credit unions and insurance companies, whose core capabilities may not include investment and financial planning services, or who find the technology, infrastructure and regulatory requirements to be cost-prohibitive, we provide their financial representatives with the services they need to be successful. Our custom clearing platform offers a technology, custody and clearing solution to insurance companies to support over 4,000 of their financial professionals who are affiliated and licensed with them. Financial institutions are drawn to our services because we allow them to focus their energy and capital on their core businesses. The institutions are able to efficiently provide a breadth of service to their client base, while enjoying the benefits of scale and reinvestment we dedicate to their financial representatives. Our goal is to work directly with the financial institutions to form a closely knit partnership that is efficient and profitable for all sides.

Our Value Proposition

We believe one of the primary factors in our success is our dedication to meeting the evolving needs of our customers and providing the platform and tools to run a more profitable practice. This dedication is embodied in the firm's Commitment Creed, which reflects our singular focus on the financial advisors and institutions we serve. Our customers experience the Commitment Creed through their individual interactions with our employees and through the support we provide to help them manage their businesses successfully and profitably. Our support for our customers is built upon four pillars: enabling technology, comprehensive clearing and compliance services, practice management and training programs, and independent research. These pillars help us deliver what we believe is an exceptional customer experience and are key to our success, representing the breadth and sophistication of our value proposition. The comprehensive and automated nature of our offering enables our customers to focus on their clients while successfully and efficiently managing the complexities of running their own practice.

Enabling Technology

We offer a proprietary, web-based technology platform that allows customers to manage critical aspects of their business while remaining highly efficient and responsive to their clients' needs. Time-consuming processes such as account opening and management, document imaging, transaction execution, and account rebalancing are automated to improve efficiency and accuracy. Through our

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technology platform, our customers have direct access to a fully-integrated array of tools and support systems, including:

- Sophisticated business processing and client-management tools
- Resources for client presentations and communications
- Product and market research
- Customizable marketing programs to attract and retain clients

Many customers also subscribe to premium features, such as performance reporting, financial planning, and customized websites. Select third-party resources have been integrated into our technology software, enabling seamless access to important tools, broadening our range of offerings and reducing duplicate operational functions.

The interface for our technology and our self-clearing platform is BranchNet, our proprietary financial advisor workstation. BranchNet is a diverse and comprehensive technology that provides for the seamless flow of information between our employees and our customers. We believe BranchNet allows our customers to transact and monitor their business more efficiently, lowering operating costs for their business. In addition to the account management capabilities of BranchNet, the Resource Center, embedded within BranchNet, provides customers with access to our research, training and compliance services and the ability to review products and develop marketing materials.

Comprehensive Clearing and Compliance Services

We custody and clear the majority of our customers' transactions, providing an enhanced customer experience and expedited processing capabilities. Because we are a self-clearing firm, we can address all facets of securities transaction processing, including:

- Order routing, trading support, execution and clearing, and position keeping
- Regulatory and tax compliance and reporting
- Investment accounting and recordkeeping

All of these services are backed by our service center and operations organizations focused on providing timely, accurate, and consistent support, with each employee committed to delivering best in class service. This shared commitment allows us to meet our customers' needs so they can best serve their clients.

Furthermore, over the years, we have made sizeable investments in our compliance offering. By integrating compliance functionality into our technology and our financial advisors' practices, we enable many of their procedures to be fully automated. We work closely with our customers and act proactively on their behalf so they can run a fully compliant practice. At the same time, approximately 300 employees assist our financial advisors through our supervisory platform through a broad array of compliance support, including:

- Training on new products and new Financial Industry Regulatory Authority ("FINRA") guidelines
- Review and approval of advertising materials

Technology-enabled surveillance of trading activities and sales practices

Oversight and monitoring of registered investment advisory activities

Securities registration, advisory and insurance licensing of financial advisors

Audits of branch offices

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Practice Management Programs and Training

We consistently seek ways to help our customers increase their productivity. Our experience, combined with the size and diversity of our customer base, gives us the ability to benchmark the best practices of successful financial advisors and financial institution-based investment programs. Not only do we understand what makes an investment advice practice successful, but we also recognize the unique attributes of our customers' businesses, allowing us to develop customized recommendations to meet the specific needs of their markets. In addition, because of our scale, we are able to dedicate an experienced and diverse set of professionals to work with customers, helping them to build and manage their business and client relationships through one-on-one consulting and group training.

The following represents a sample of the practice management and training services we offer:

- Business consulting support that helps financial advisors, banks, and credit unions enhance the value and operational efficiency of their business

- Advisory and brokerage consulting to support customers in growing their business with our broad product and fee-based offering, as well as wealth management services to assist financial advisors serving high-net-worth clients with comprehensive estate, tax, philanthropic, and financial planning processes

- Marketing campaigns and consultation to enable financial advisors to build awareness of their services and capitalize on opportunities in their local markets

- Transition services to help financial advisors establish independent practices and migrate client accounts to our firm

Independent Research

With a focus on performance, service, and transparency, our research team delivers timely perspectives on the ever-changing economic marketplace and products, enabling financial advisors to help their clients understand and adjust to the latest developments. In addition, research provides recommendations on mutual funds, separately managed accounts, and investment products, complemented by an array of asset allocation models and portfolio construction capabilities, to assist advisors. Through their objective recommendations and portfolio management, the research group helps financial advisors to meet a broad range of investor needs effectively. Our research enables financial advisors to:

- Keep abreast of changes in markets and the global economy

- Proactively respond to emerging trends

- Leverage the expertise and experience of our research team in building individual investment portfolios that are fully integrated in our technology platform

The key to our ability to deliver independent advice is the fact that we have no proprietary products, investment banking business, or any other conflicts that hinder the delivery of unbiased and objective recommendations.

Our Product Access

We provide open-architecture access to a wide variety of commission, fee-based, and money-market products and services. This distribution includes access to over 7,500 investment products, including mutual funds, annuities and insurance, offered through over 400 product sponsors. The sales and administration of these products are facilitated through BranchNet and the Resource Center, which allow financial advisors to access client accounts, product information, asset allocation models, investment recommendations, and economic insight as well as perform trade execution.

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Commission-Based Products

Commission-based products are those for which we and our customers receive an up front commission and, for certain products, a trailing commission. Our brokerage offerings include variable and fixed annuities, mutual funds, general securities, alternative investments, retirement and 529 education savings plans, fixed income and insurance. Our insurance offering is provided through LPL Insurance Associates, Inc. ("LPLIA"), a brokerage general agency which provides personalized advance case design, point-of-sale service and product support for a broad range of life, disability and long-term care products. As of December 31, 2009, the total assets in our commission-based products exceeded $183.6 billion.

Fee-Based Advisory Platforms and Support

We have been an innovator in fee-based solutions since our introduction of our Strategic Asset Management platform in 1991. Today we have five fee-based advisory platforms that provide centrally managed or customized solutions financial advisors can choose from to meet the investment needs of their mass affluent and high net worth clients. The fee structure aligns the interests of our financial advisors with their clients, while establishing a valuable recurring revenue stream for the financial advisor and for us. Our fee-based platforms provide access to no-load/load-waived mutual funds, exchange-traded funds, stocks, bonds, conservative option strategies, unit investment trusts and no-load, institutional money managers, and multi-manager variable annuities. Our research department provides model portfolio allocations, mutual fund and fixed income recommendations and access to third-party equity research. As of December 31, 2009, the total assets in these platforms exceeded $77.2 billion.

Cash Sweep Programs

We assist our customers in managing their clients' cash balances through two primary cash sweep programs depending on account type: money market sweep vehicles involving multiple money market fund providers and an insured bank deposit sweep vehicle. Our insured bank deposit sweep vehicle allocates client cash balances across multiple non-affiliated banks to provide customers with up to $1.5 million ($3.0 million joint) of insurance through the Federal Deposit Insurance Corporation ("FDIC"). As of December 31, 2009, the total assets in our cash sweep programs exceeded $18.6 billion.

Competition

We compete with a variety of financial institutions to attract and retain experienced and productive financial advisors. The retail advisor market is divided broadly into six channels, as defined by Cerulli Associates. As the largest broker-dealer in the independent channel, we not only compete with other independent firms to support financial advisors, but with the four employee model channels as well, which include insurance, wirehouse, regional and bank broker-dealers. In addition to independent advisors, we support RIAs, which represents the sixth of Cerulli Associates' channels, and compete with other custodians and technology providers to service their business.

Our competitors include not only broker-dealers, but also clearing firms and financial services companies that provide technology and research. Our financial advisors compete for clients with brokerage firms, banks, insurance companies, asset management and investment advisory firms. In addition, they also compete with a number of firms offering on-line financial services and discount brokerage services.

Typically the principal factors considered by customers when choosing a broker-dealer are reputation, customer service, pay-out, technology, advisory platforms, and depth and breadth of products and services. We believe our unique culture, independent business model and innovative and scalable technology offer a competitive advantage and enhance our strategic position to recruit and successfully retain customers.

Our Competitive Strengths

Our Singular Focus

We have a singular focus on our customers' needs with no competing agendas or conflicts of interest. While traditional brokerage firms divert significant resources to support their efforts in product manufacturing, investment banking, discount brokerage, or proprietary trading, we dedicate our resources to the success of our customers and their clients. This focus on our customers contributes to our strong customer retention and growth.

Leveraging Our Scale to Create the Best Economics for our Customers

Fundamental to our industry leadership position is our core commitment to creating the best possible economics for our customers in growing their business or investment practice. Supported by our scale we are able to provide an attractive payout structure which results in our customers earning more income per dollar of commissions and fees than most of their peers. Our technology and service offering allows our customers to outsource many of the complexities of running their business to us, enabling them to operate more cost effectively and focus on growing their practice. In addition, our independent financial advisors can build substantial equity in their own practices providing an additional incentive for growth.

Established Leader in Growing Market

The rising consumer demand for objective investment advice, coupled with the desire of financial advisors for greater autonomy in directing their practices, has resulted in an increasing number of financial advisors choosing to go independent, whether affiliating with an independent broker-dealer or as an RIA. According to Cerulli Associates in their Advisor Metrics 2009 report, from 2004 through 2008, the regional and wirehouse employee-based channels each declined 2.6% while the RIA channel grew 10.3%. As the largest provider of independent, conflict-free advice, we believe we are well positioned to continue to capitalize on this increasing demand.

Comprehensive Solution Supports Diversity of Business Development Sources

Our comprehensive business solutions, compared to many of our competitors, enable us to recruit from a broader variety of channels, including wirehouses, regional and other independent broker-dealers, as well as banks and insurance companies, and we do so across a national geographic footprint. We also support a broader range of financial advisor production than our competitors and are able to do so profitably. In addition, our platform attracts a diverse range of financial advisors with varied business models. This diversity speaks to the breadth of our business development success and the sustainability of our growth.

Industry Leader in Advisory Platforms

We were a pioneer in the development of fee-based platforms and continue to be an industry leader in creating a wide range of advisory programs to meet the varying needs of financial advisors and their clients. According to Cerulli Associates, we are the third largest mutual fund wrap program in the country. With $77.2 billion in fee-based assets under management, our leadership extends beyond simply providing these platforms and includes training and consulting to support our financial advisors in making advisory services a larger part of their business. This training differentiates us from our competitors and our ability to assist financial advisors in building valuable recurring revenue streams is one reason many of them move to our firm.

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Quality of Revenue

Recurring Revenue

Our recurring revenues include trailing commissions, advisory fees, asset-based fees, technology and service fees, and interest earned on margin accounts. Although the level of these revenue sources can be impacted by external market conditions, their recurring nature provides a level of business stability. The proportion of our net revenue that is recurring has grown significantly from approximately 52.4% for the year ended December 31, 2004 to 57.3% for the year ended December 31, 2009.

Diversified Revenue

For the year ended December 31, 2009, no single business relationship with our 4,800 independent advisor practices, banks, credit unions, and insurance companies accounted for more than 3% of our revenues. Within our customer base, no financial advisor relationship accounted for more than 1% of our revenues. In addition, we have a geographically diverse national presence with our customers in all 50 states, Washington D.C. and Puerto Rico.

Management Team

We believe that we have cultivated a diverse set of expertise in our senior management throughout our organization. Our senior management team draws upon a broad range of prior experiences throughout the financial services industry, but also exhibits the benefits of tenure within our company, averaging nine years experience at our firm and 26 years experience in our industry.

Our Growth Strategies

Continued development of new customers

We believe there is a large pool of financial advisors who are attracted to the growing appeal of the independent advice model. Although we are the largest independent broker-dealer in the industry and the sixth largest overall as measured by number of financial advisors, we currently have only 4% market share, based upon Cerulli Associates' estimate of 309,694 financial advisors across the industry. We seek to capitalize on this market opportunity by leveraging our strong reputation, economic advantage and business development infrastructure to continue to add experienced and productive financial advisors to our firm. We seek to attract financial advisors who are business leaders with strong industry experience and a track record of regulatory compliance. To execute this strategy, we have developed what we believe is one of the largest and most capable business development staffs in the industry.

In particular, based on the 10.3% industry growth the RIA channel experienced between 2004 and 2008, we believe the RIA sub-segment of the independent advisor model continues to be an attractive growth opportunity that we are uniquely positioned to capture. We offer the only conflict-free, fully integrated brokerage and fee-based solution in the industry. We have leveraged our scale to tailor a solution for this market to drive our growth.

We also believe that we have one of the most capable business development forces in the industry focused on financial institutions. We seek to partner with financial institutions nationally, whether through supporting the growth of financial institutions with an existing investment program or providing services to start-up programs. In addition to attracting entire financial institutions, we work with existing financial institution customers to help them locate and recruit qualified financial advisors to serve their clients.

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Additional custom clearing customers represents another opportunity for organic growth. Potential customers include large insurance company-owned broker/dealers where the insurance firm either elects to outsource most of their broker-dealer functions to us or utilize our advisory platform in order to better focus upon their core businesses.

Investment in services, platforms, and technology to support the growth of our existing customers

Through consistent reinvestment in our platform we contribute to the growth of our existing customers. We continue to improve our ability to assist them in managing the complexities of their businesses, enabling them to have more time and resources to deepen their relationships with existing clients and to manage new clients.

Leverage our scale to add incremental profitability

Driven by revenue growth derived from new customers and increased productivity of existing customers, we seek to add incremental profitability by leveraging the scalability of our technology and services. We will continue to invest in our infrastructure to maintain our scalability and competitive advantages.

Focus on our Customers

Historically, our independent business model and singular focus on our customers have been the drivers of our growth. We believe our success, especially in light of recent economic challenges, has validated this strategy, and we remain committed to delivering this unique value proposition in the future. This focus translates into enduring customer relationships, leading to strong retention of our existing customers. For the year ended December 31, 2009, we retained over 92% of our existing business, which is inclusive of the attrition we experienced during the integration of the operations of certain of our broker-dealer subsidiaries. Excluding the attrition from this integration, our retention was over 96%, in line with our historical performance.

Employees

As of December 31, 2009, we had approximately 2,400 full-time employees. None of our employees are subject to collective bargaining agreements governing their employment with us. Our continued growth is dependent, in part, on our ability to recruit and retain skilled technical sales and professional personnel. We believe that our relationship with our employees is strong.

Our Corporate Structure

LPL Investment Holdings Inc. is the parent company of our collective businesses. Our original broker-dealer, LPL Financial Corporation ("LPL Financial"), was formed in 1989.

In recent years we have grown our business through a number of opportunistic acquisitions. We strengthened our position as a leading independent broker-dealer through our acquisition of Pacific Select Group, LLC (renamed LPL Investment Advisory 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") (MSC, Associated, AFG, APIA and WFG are collectively referred to herein as the "Affiliated Entities"). In September of 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 completion of these transfer activities, the registered representatives and client accounts that transferred are now associated with LPL Financial.

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Our acquisitions of UVEST Financial Services Group, Inc. ("UVEST"), and IFMG Securities, Inc., Independent Financial Marketing Group, Inc. and LSC Insurance Agency of Arizona, Inc. (collectively "IFMG") further expanded our reach in offering financial services through banks, savings and loan institutions and credit unions nationwide.

Our subsidiary, Independent Advisers Group Corporation ("IAG"), offers an investment advisory solution to insurance companies to support their financial advisors who are licensed with them. Our subsidiary, LPLIA, operates as a brokerage general agency which offers life, long-term care and disability insurance sales and services. Through our subsidiary, The Private Trust Company, N.A. ("PTC"), we offer trust, investment management and custodial services for estates and families.

Regulation

The financial services industry is subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges and by non-U.S. government agencies or regulatory bodies and securities exchanges. We take an active leadership role in the development of the rules and regulations that govern our industry. Given the recent turmoil in the financial services space, we anticipate continued heightened scrutiny and significant modifications in these rules and regulations. We strive to be at the forefront of influencing this change. Throughout our history we have also invested heavily, with the benefit of our scale, in our compliance functions to monitor our compliance with the numerous legal and regulatory requirements applicable to our business.

Broker-Dealer Regulation

LPL Financial is a registered broker-dealer with the Securities and Exchange Commission ("SEC"), a member of FINRA, a member of various self-regulatory organizations, and a participant of various clearing organizations including The Depository Trust Company, the National Securities Clearing Corporation and the Options Clearing Corporation, and conducts business as a broker-dealer in all 50 states, Washington D.C. and Puerto Rico.

UVEST, MSC, Associated and WFG are also registered broker-dealers with the SEC, and are members of FINRA. Similar to LPL Financial, UVEST conducts business on a national basis; however it acts as an introducing firm, using a third-party firm for securities clearing and custody functions. Prior to the consolidation of the Affiliated Entities, each broker-dealer also conducted business on a national basis as an introducing firm, using a third-party firm for securities clearing and custody functions.

Broker-dealers are subject to regulations covering all aspects of the securities business, including sales and trading practices, public offerings, publication of research reports, use and safekeeping of clients' funds and securities, capital structure, record-keeping and the conduct of directors, managers, officers and employees. Broker-dealers are also regulated by securities administrators in those states where they do business. Compliance with many of the regulations applicable to us involves a number of risks because regulations are subject to varying interpretations. Regulators make periodic examinations and review annual, monthly and other reports on our operations, track record and financial condition. Violations of regulations governing a broker-dealer's actions could result in censure, fine, the issuance of cease-and-desist orders, the suspension or expulsion from the securities industry of such broker-dealer or its officers or employees, or other similar consequences. The rules of the Municipal Securities Rulemaking Board, which are enforced by FINRA, apply to the municipal securities activities of LPL Financial, UVEST, MSC, Associated and WFG.

Our margin lending is regulated by the Federal Reserve Board's restrictions on lending in connection with client purchases and short sales of securities, and FINRA rules also require such subsidiaries to impose maintenance requirements on the value of securities contained in margin accounts. In many cases, our margin policies are more stringent than these rules.

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Investment Adviser Regulation

As investment advisers registered with the SEC, our subsidiaries LPL Financial, UVEST, the Affiliated Entities, and IAG are subject to the requirements of the Investment Advisers Act of 1940 and the SEC's regulations thereunder, as well as to examination by the SEC's staff. Such requirements relate to, among other things, fiduciary duties to clients, performance fees, maintaining an effective compliance program, solicitation arrangements, conflicts of interest, advertising, limitations on agency cross and principal transactions between a financial advisor and advisory clients, recordkeeping and reporting requirements, disclosure requirements and general anti-fraud provisions. In addition, certain of our subsidiaries are subject to the Employee Retirement Income Security Act of 1974 ("ERISA"), as amended, and to regulations promulgated thereunder, insofar as they are a "fiduciary" under ERISA with respect to benefit plan clients. ERISA and applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), impose certain duties on persons who are fiduciaries under ERISA, prohibit certain transactions involving ERISA plan clients and provide monetary penalties for violations of these prohibitions.

Commodities and Futures Regulation

LPL Financial is licensed as a futures commission merchant ("FCM") and commodity pool operator with the Commodities Future Trading Commission ("CFTC") and is a member of the National Futures Association ("NFA"). Although licensed as a FCM and a commodity pool operator, LPL Financial's futures activities are limited to conducting business as a guaranteed introducing broker. LPL Financial is regulated by the CFTC and NFA. Violations of the rules of the CFTC and the NFA could result in remedial actions including fines, registration terminations or revocations of exchange memberships. As a guaranteed introducing broker, LPL Financial clears commodities and futures products through ADM Investor Services International Limited ("ADM"), and all commodities accounts and related client positions are held by ADM.

Trust Regulation

PTC is chartered as a non-depository national banking association. As a limited purpose national bank, PTC is regulated and regularly examined by the Office of the Comptroller of the Currency ("OCC"). PTC files reports with the OCC within 30 days after the conclusion of each calendar quarter. Because the powers of PTC are limited to providing fiduciary services and investment advice, it does not have the power or authority to accept deposits or make loans. For this reason, trust assets under PTC's management are not insured by the FDIC.

As PTC is not a "bank" as defined under the Bank Holding Company Act of 1956, neither its parent, PTC Holdings, Inc. nor PTC is regulated by the Board of Governors of the Federal Reserve System as a bank holding company.

Regulatory Capital

The SEC, FINRA, OCC, CFTC and the NFA have stringent rules and regulations with respect to the maintenance of specific levels of net capital by regulated entities. Generally, a broker-dealer's capital is net worth plus qualified subordinated debt less deductions for certain types of assets. The net capital rule under the Exchange Act requires that at least a minimum part of a broker-dealer's assets be maintained in a relatively liquid form. Since we are a guaranteed introducing broker for commodities and futures that is also a registered broker-dealer, CFTC rules require us to comply with higher net capital requirements of the net capital rule under the Exchange Act.

The SEC, FINRA and CFTC impose rules that require notification when net capital falls below certain predefined criteria. These rules also dictate the ratio of debt to equity in the regulatory capital composition of a broker-dealer, and constrain the ability of a broker-dealer to expand its business under certain circumstances. If a broker-dealer fails to maintain the required net capital, it may be subject to suspension or revocation of registration by the applicable regulatory agency, and suspension or expulsion by these regulators ultimately could lead to the broker-dealer's liquidation. Additionally, the net capital rule and certain FINRA rules impose requirements that may have the effect of prohibiting a broker-dealer from distributing or withdrawing capital, and that require prior notice to the SEC and FINRA for certain capital withdrawals. All of our subsidiaries that are subject to net capital rules have been, and currently are, in compliance with those rules and have net capital in excess of the minimum requirements.

Anti-Money Laundering

The USA PATRIOT Act of 2001 (the "PATRIOT Act") contains anti-money laundering and financial transparency laws and mandates the implementation of various regulations applicable to broker-dealers, FCMs and other financial services companies. Financial institutions subject to the PATRIOT Act generally must have anti-money laundering procedures in place, implement specialized employee training programs, designate an anti-money laundering compliance officer and are audited periodically by an independent party to test the effectiveness of compliance. We have established policies, procedures and systems designed to comply with these regulations.

Privacy

Regulatory activity in the areas of privacy and data protection continues to grow worldwide and is generally being driven by the growth of technology and related concerns about the rapid and widespread dissemination and use of information. We must comply with these information-related regulations, including, but not limited to, the 1999 Gramm-Leach-Bliley Act, SEC Regulation S-P, the Fair Credit Reporting Act of 1970, as amended, and the 2003 Fair and Accurate Credit Transactions Act, to the extent they are applicable to us.

Sources of Revenues

For revenue information by source for the three years ended December 31, 2009, see "Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Results of Operations Revenues."

ITEM 1A. RISK FACTORS

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

Our ability to attract and retain experienced and productive financial advisors and financial institutions has contributed significantly to our growth and success, and our strategic plan is premised upon continued growth in the number of our financial advisors. If we fail to attract new financial advisors and financial institutions or to retain and motivate our current financial advisors and financial institutions, our business may suffer.

The market for experienced and productive financial advisors is highly competitive. In attracting financial advisors, we compete directly with a variety of financial institutions such as wirehouses, regional broker-dealers, banks, insurance companies and other independent broker-dealers. There can be no assurance that we will be successful in our efforts to recruit the financial advisors needed to achieve our growth objectives.

Financial advisors licensed with us may leave us at any time to pursue other opportunities. We devote considerable resources to encouraging our financial advisors and financial institutions to remain with us and can give no assurances that our efforts will succeed.

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Our business is exposed to market risk.

Our financial results are influenced by the willingness or ability of customers to maintain or increase their investment activities in the financial products distributed by us. As a result, 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 assets under management, thereby reducing asset-based fee income; and
- motivate clients to withdraw funds from their accounts, reducing assets under management, advisory fee revenue, and asset-based fee income.

In addition, a decline in interest rates could have an adverse effect upon our cash sweep programs and our business in general.

We face intense competition in our industry.

Our competitors may have greater financial resources than we have. This may allow them to respond more quickly to new technologies and changes in market demand, to devote greater resources to developing and promoting their services, to create pricing pressures and to make more attractive offers to potential financial advisors.

Poor service or performance of the investment products that we offer or competitive pressures on pricing of such service or products may cause retail investors to withdraw their assets on short notice.

Retail investors control the aggregate amount of their assets under management with us. Poor service or performance of the investment products that we offer or competitive pressures on pricing of such service or products may result in the loss of accounts. The decrease in revenue that could result from such an event could have a material adverse effect on our business.

Regulatory developments and our failure to comply with regulations could adversely affect our business.

Our business is subject to extensive United States regulation and supervision, including securities and investment advisory services. The SEC, FINRA, CFTC, 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 existing regulations will not change or that federal, state or foreign 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 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.

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We also are subject to various laws, regulations, and rules setting forth requirements regarding privacy and data protection. If our policies, procedures and systems are found to not comply with these requirements, we could be subject to regulatory actions or litigation that could have a material adverse effect on our business, results of operations, cash flows or financial condition.

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 and CFTC have extensive rules and regulations with respect to capital requirements. The net capital rule under the Exchange Act requires that at least a minimum part of a broker-dealer's assets be maintained in a relatively liquid form. Our ability to withdraw capital from LPL Financial could be restricted, which in turn could limit our ability to fund operations, 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.

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

We are subject to ERISA, and to regulations promulgated thereunder, insofar as we act as a "fiduciary" under ERISA with respect to 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 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).

Our business is subject to risks related to litigation, arbitration actions and governmental and self regulatory organization investigations.

We are subject to legal proceedings arising out of our business operations, including lawsuits, arbitration claims, regulatory, governmental or self regulatory organization 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 financial advisors to act in the best interests of our financial advisors' clients. We may face liabilities for actual or alleged breaches of these fiduciary duties. 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. The outcome of any such actions cannot be predicted, and although we believe we have adequate insurance coverage for these matters (see "Our insurance coverage may be inadequate or expensive"), no assurance can be given that such legal proceedings would not have a material adverse effect on our business, results of operations, cash flows or financial condition.

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 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 risks, including, among other things, establishing our Governance, Risk & Compliance group with an internal audit function. 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 financial 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, our business could be materially adversely affected.

Misconduct and errors by our employees and our customers could harm our business.

Misconduct and errors by our employees and our customers could result in violations of law by us, regulatory sanctions and/or serious reputational or financial harm. We cannot always deter misconduct and errors by our employees and our customers, and the precautions we take to prevent and detect this activity may not be effective in all cases. Prevention and detection among our customers, who are not our 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 customers will not lead to a material adverse effect on our business.

The securities settlement process exposes us to risks that may impact our liquidity and profitability.

LPL Financial provides clearing services and trade processing for our financial 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 financial advisors' clients and others. Any unsettled securities transactions or wrongly executed transactions may expose our financial 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. Our application service provider systems maintain and process confidential data on behalf of financial advisors and their clients, some of which is critical to financial 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, customers 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, customers 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. Persons who circumvent security measures could wrongfully use our confidential information or our clients' confidential information or cause interruptions or malfunctions in our operations. We may be required to expend significant additional resources to protect against the threat of security breaches or to alleviate problems caused by any breaches. We may not be able to implement security measures that will protect against all security risks.

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 believe that our technology platform, particularly our BranchNet system, is one of our competitive strengths. 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 financial advisors. In particular, 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 increase the probability that we will 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 financial advisors and financial institutions. Our failure to adequately update and expand our systems and networks could have a material adverse effect on our business. In addition, system degradations, outages or failures could have a material adverse effect on our business.

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 employees or facilities, or an indirect impact on us by adversely affecting our clients, 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 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.

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A loss of our marketing relationships with a variety of leading manufacturers of investment products could harm our business.

We operate on an open architecture product platform with no proprietary investment products. To help our financial advisors meet their clients' needs with suitable options, we have relationships with most of the industry leading providers of investment 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 business may be materially and adversely affected.

We rely on outsourced service providers to perform key functions.

We rely on service providers to perform certain key technology, processing and support functions. Any significant failures by them 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.

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 the risks commonly encountered in an acquisition of a business. 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 customers 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.

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. A compromise to our 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, unforeseen cash or capital requirements, adverse legal settlements or judgments (including, among others, risks associated with auction rate securities).

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

At December 31, 2009, 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.

Furthermore, if an event of default were to occur with respect to our credit agreement or other indebtedness, our creditors could, among other things, accelerate the maturity of our indebtedness.

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. 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 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.

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 our common shares.

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 indebtednesses 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 who are not subject to such restrictions.

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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. 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.

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

We use derivative instruments to hedge several business risks. If our counterparties fail to honor their obligations under the derivative instruments, our hedges of the related 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.

The Majority Holders control us and may have conflicts of interest with us.

Investment funds affiliated with TPG and Hellman & Friedman LLC (collectively, the "Majority Holders"), own approximately 57.1% of our capital stock, on a fully-diluted basis, as of December 31, 2009. Although certain members of our executive team have the contractual ability to terminate their employment agreements and receive certain payments if the Majority Holders enter into a transaction our executive team does not approve, 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.

Anti-takeover provisions of our certificate of incorporation and bylaws may reduce the likelihood of any potential change of control or unsolicited acquisition proposal that might be considered favorable.

Provisions of our certificate of incorporation and bylaws could deter, delay or prevent a third-party from acquiring us, even if doing so would benefit our stockholders. These provisions include a fixed number of board of directors, limitations on who may call special meetings of stockholders and a requirement that vacancies and newly created directorships may only be filled by those directors that are in office.

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

Some of the products distributed by our financial advisors enjoy favorable treatment under current U.S. federal income tax law. Changes in U.S. federal income tax law 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Boston, Massachusetts where we lease approximately 36,000 square feet of space under a lease agreement that expires on June 30, 2012, and approximately 21,000 square feet of space under a lease agreement that expires on May 31, 2013, in San Diego, California where we lease approximately 407,000 square feet of space under lease agreements that

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expire starting on May 31, 2012, and Charlotte, North Carolina where we lease a total of approximately 238,000 square feet of space under lease agreements expiring on November 30, 2016 and February 28, 2017.

Our subsidiary PTC, located in Cleveland, Ohio, leases approximately 6,000 square feet of space under a lease agreement that expires on March 31, 2012.

Our subsidiary UVEST, located in Charlotte, North Carolina, leases approximately 42,000 square feet of space under a lease agreement that expires on December 31, 2013, all of which has been vacated. In 2009, UVEST moved into our corporate headquarters in Charlotte, North Carolina.

Our subsidiary MSC leases approximately 38,000 square feet of space in West Palm Beach, Florida under a lease agreement that expires February 28, 2018, included in this amount is approximately 25,000 square feet of vacated space.

Our subsidiary WFG leases approximately 17,000 square feet of space in Itasca, Illinois under a lease agreement that expires June 30, 2016.

Our subsidiary AFG leases approximately 24,000 square feet of space in El Segundo, California under a lease agreement that expires February 14, 2012, included in this amount is approximately 22,000 square feet of vacated space.

We own approximately 4.5 acres of land in San Diego. We believe that our existing properties are adequate for the current operating requirements of our business and that additional space will be available as needed.

ITEM 3. LEGAL PROCEEDINGS

We are presently and regularly involved in legal proceedings in the ordinary course of our business, including lawsuits, arbitration claims, regulatory and/or governmental subpoenas, investigations and actions, and other claims. Many of our legal proceedings are initiated by our customers' clients and involve the purchase or sale of investment securities.

In connection with various acquisitions, and pursuant to the purchase and sale agreements, we have received third-party indemnification for certain legal proceedings and claims. These matters have been defended and paid directly by the indemnifying party. On October 1, 2009, our subsidiary, LPL Holdings, Inc. ("LPLH"), received written notice from a third-party indemnitor under a certain purchase and sale agreement asserting that it is no longer obligated to indemnify the Company for certain claims under the provisions of the purchase and sale agreement. We believe that this assertion is without merit and we have commenced litigation to enforce our indemnity rights.

We believe, based on the information available at this time, after consultation with counsel, consideration of insurance, if any, and the indemnifications provided by the third-party indemnitors, notwithstanding the assertions by an indemnifying party noted in the preceding paragraph, that the outcome of such matters will not have a material adverse impact on our business, results of operations, cash flows or financial condition.

We cannot predict at this time the effect that any future legal proceeding will have on our business. Given the current regulatory environment and our business operations throughout the country, it is likely that we will become subject to further legal proceedings. Our ultimate liability, if any, in connection with any future such matters is uncertain and is subject to contingencies not yet known.

ITEM 4. RESERVED

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PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

There is no established trading market for our common equity.

Stock Split

We affected a ten-for-one stock split as of January 1, 2008. All per share amounts, average shares and options outstanding, and shares and options outstanding have been adjusted retroactively to reflect the stock split.

Holders

As of December 31, 2009, we have 75 holders of 86,790,789 shares our common stock as well as 1,070 holders of 7,423,973 shares of our restricted common stock.

Dividends

No dividends have been paid during the past four fiscal years nor do we anticipate paying dividends in the foreseeable future.

For a description of restrictions on our ability to pay dividends on the common equity, see "Management's Discussion and Analysis of Financial Condition and Results of Operations Indebtedness."

Equity Compensation Plan Information

The table below sets forth as of December 31, 2009 information on compensation plans under which our equity securities are authorized for issuance:

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	22,661,951	$ 6.96	(1)
Equity compensation plans not approved by security holders	10,287,943	0.09	(1)
Total	32,949,894	$ 4.82	(1)

(1) Our 2008 Stock Option Plan, Advisor Incentive Plan and Financial Institution Incentive Plan provide for an aggregate allocation of up to 2.5% of the outstanding stock determined at January 1 on a fully diluted basis, adjusted for forfeited awards. On January 1, 2010, there were 3,074,033 securities remaining available for future issuance under such plans.

Issuance Under Fifth Amended and Restated LPL Investment Holdings Inc. 2000 Stock Bonus Plan

As of December 31, 2009, we issued and had outstanding 7,423,973 shares of restricted common stock under our Fifth Amended and Restated LPL Investment Holdings Inc. 2000 Stock Bonus Plan. Each holder of restricted stock has full voting rights over his or her shares. The shares of restricted stock shall become fully vested shares of our common stock upon (i) a sale of all or substantially all of

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the business or assets of our subsidiary, LPLH or LPLIH that also constitutes a change in control event under Section 409A of the Code or the regulations thereunder, or (ii) an initial public offering of our common stock. These restricted stock shares may not be sold, assigned or transferred and are not entitled to receive dividends or non-cash distributions until either a sale of LPLIH that constitutes a change in control or an initial public offering. The plan relating to the shares of restricted stock shares has not been approved by security holders. The intent of the plan was to aid us in attracting, motivating and retaining financial advisors of outstanding ability by offering such financial advisors an opportunity to receive grants of stock-based awards, thereby increasing their personal interest in our growth and success.

Issuance Under 2008 Nonqualified Deferred Compensation Plan

As of December 31, 2009, we issued and had outstanding 2,823,452 restricted stock units under our 2008 Nonqualified Deferred Compensation Plan (the "Deferred Compensation Plan"). The purpose of the Deferred Compensation Plan is to permit employees and former employees of the Company and its subsidiaries that held stock options issued under the 2005 Option Plans that were to expire in 2009 or 2010 to receive stock units under the Deferred Compensation Plan that are paid out at a later date in the form of shares of our common stock. The Deferred Compensation Plan is administered by the Board, or such other committee as may be appointed by the Board to administer the Deferred Compensation Plan (the "Administrator"). The Administrator has all powers necessary to administer the Deferred Compensation Plan, including discretionary authority to determine eligibility for benefits and to decide claims under the Deferred Compensation Plan.

Current and former employees of LPLIH and its subsidiaries that held stock options under the 2005 Option Plans that were scheduled to expire in 2009 or 2010 (the "Expiring Options") were able to make a one-time election to participate in the Deferred Compensation Plan. Participants elected to cancel their Expiring Options and receive stock units held in an account under the Deferred Compensation Plan. Each stock unit is a bookkeeping entry of which one stock unit is the economic equivalent of one share of our common stock. The Administrator created an account on each participant's behalf to which the participant's initial balance was credited, which will then be converted into stock units. A participant's initial balance was an amount equal to the fair market value on December 31, 2008 of the shares underlying the stock options the participant elected to defer, less the aggregate exercise price of these options. The initial number of stock units in a participant's account equals his or her initial balance divided by the fair market value of a share of our common stock on December 31, 2008.

A participant's account will be adjusted if cash dividends are paid on our common stock while the participant is a current employee of LPLIH or its subsidiaries by crediting the account with an amount equal to the cash dividend paid, multiplied by the number of stock units in the account on the day the cash dividend is paid. The amount credited to the account will then be converted into stock units, calculated by dividing the aggregate amount credited to the account by the fair market value of a share of our common stock on the date the dividend is paid. Fair market value is determined by the Board in good faith.

A participant's election to cancel his or her Expiring Options and receive deferred compensation is not revocable and cannot be modified. In addition, for those participants that have made an election, they cannot exercise the Expiring Options with respect to which the election was made.

A participant's account balance will be distributed at the earliest to occur of: (a) the participant's death; (b) the participant's disability; (c) a change in control of LPLIH, or (d) a date in 2012 to be determined by the Board. A "change in control" will occur if, for example, a person (or persons acting as a group) acquires more than 50% of the stock of LPLIH or substantially all of LPLIH's assets are sold. A "change in control" does not include an initial public offering of common stock of LPLIH.

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With respect to payments made under (a), (b) and (c) above, the payments will be made within 90 days of the event that triggers distribution. With respect to payments made under (d) above, the payments will be made by December 31, 2012. Distributions will be made in the form of whole shares of common stock equal to the number of stock units allocated to the participant's account (rounded to the nearest whole number).

Participants are 100% vested in their accounts. However, if a participant is terminated for cause, the participant's entire account will be forfeited.

The Administrator can amend or terminate the Deferred Compensation Plan for any purpose, at any time, provided that the Administrator obtains the consent of participants for any amendments to the Deferred Compensation Plan that materially and adversely affect the rights of the participants under the Deferred Compensation Plan.

Issuance Under 2008 LPL Investment Holdings Inc. Financial Institution Incentive Plan

As of December 31, 2009, we issued and had outstanding 40,518 warrants to purchase common stock under our 2008 LPL Investment Holdings Inc. Financial Institution Incentive Plan (the "Financial Institution Incentive Plan"). Eligible participants under this plan include financial institutions in a position to make a significant contribution to the success of our firm. The plan is administered by the Board or such other committee as may be appointed by the Board to administer the plan. Subject to the approval of our compensation committee, the Financial Institution Incentive Plan, together with our 2008 Stock Option Plan and our Advisor Incentive Plan, provides for an allocation of up to 2% of the outstanding stock (determined at January 1st on a fully diluted basis), with an additional 2% available on the first anniversary, and an additional 2.5% available on the second and third anniversaries. The exercise price of warrants is equal to the fair market value on the grant date. Warrant awards vest in equal increments of 20.0% over a five-year period and expire on the 10th anniversary following the date of grant. The Financial Institution Incentive Plan has not been approved by security holders.

Recent Sales of Unregistered Securities

The following information relates to all securities issued or sold by us during the fiscal year ended December 31, 2009 that have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), excluding those already disclosed in previous Quarterly Reports on Form 10-Q.

On November 4, 2009, we issued warrants to financial institutions to purchase up to an aggregate total of 18,763 shares of our common stock at an exercise price per share of $23.02, pursuant to our Financial Institution Incentive Plan. No consideration was paid by any recipient of any of the foregoing warrants for the grant of stock. The warrants vest in equal increments of 20.0% over a five-year period and expire on the 10th anniversary following the date of grant. The transactions were conducted in reliance upon the available exemptions from the registration requirements of the Securities Act, including those contained in Section 4(2).

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ITEM 6. SELECTED FINANCIAL DATA

The following table sets forth our selected historical financial information for the past five fiscal years. The selected historical financial information presented below should be read in conjunction with the information included under the heading "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our historical consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K.

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 company 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 Year Ended December 31,				
					Predecessor(2)
	2009(1)	2008(1)	2007(1)	2006	2005
	(in thousands)				
Consolidated statements of income data:					
Net revenues	$ 2,749,505	$ 3,116,349	$ 2,716,574	$ 1,739,635	$ 1,406,320
Total expenses	2,676,938	3,023,584	2,608,741	1,684,769	1,290,570
Income from continuing operations before provision for income taxes	72,567	92,765	107,833	54,866	115,750
Provision for income taxes	25,047	47,269	46,764	21,224	46,461
Discontinued operations					(26,200)
Net income	47,520	45,496	61,069	33,642	43,089
Cash dividends per common share	n/a	n/a	n/a	n/a	n/a
Cash dividends per common share Class A & C (Predecessor)	n/a	n/a	n/a	n/a	$ 6.36
Cash dividends per common share Class B (Predecessor)	n/a	n/a	n/a	n/a	$ 1.47

	As of December 31,				
					Predecessor(2)
	2009(1)	2008(1)	2007(1)	2006	2005
	(in thousands)				
Consolidated statements of financial condition data:					
Total assets	$ 3,336,936	$ 3,381,779	$ 3,287,349	$ 2,797,544	$ 2,638,486
Long-term obligations	1,369,223	1,467,647	1,451,071	1,344,375	1,345,000

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	As of and For the Year Ended December 31,				
					Predecessor(2)
	2009(1)	2008(1)	2007(1)	2006	2005
Other financial and operating data:					
Gross margin(3) (in thousands)	844,926	953,301	781,102	508,530	407,019
Gross margin as a % of net revenue(3)	30.7%	30.6%	28.8%	29.2%	28.9%
Number of financial advisors(4)	11,950	11,920	11,089	7,006	6,481
Full-time employees	2,409	2,760	2,621	1,423	1,145
AUM(5) (in billions)	$ 279.4	$ 233.9	$ 283.2	$ 164.7	$ 105.4
Total funded client accounts(6) (in thousands)	3,923	3,454	3,276	2,444	2,046

(1) Financial results as of and for the years ended December 31, 2009, 2008 and 2007 include the acquisitions of UVEST (acquired on January 2, 2007), the Affiliated Entities (acquired on June 20, 2007) and IFMG (acquired on November 7, 2007). Consequently, the results of operations for 2009, 2008 and 2007 may not be directly comparable to prior years.

(2) On December 28, 2005, we sold approximately 61% ownership stake in our firm through a merger transaction to two private equity partners, Hellman & Friedman LLC and TPG. Activities as of December 28, 2005 and periods prior are those of the Predecessor.

(3) Gross margin is calculated as net revenues less production expenses. Production expenses consist of commissions and advisory fees as well as brokerage, clearing and exchange fees.

(4) Number of financial advisors is defined as those investment professionals who are licensed to do business with our broker-dealer subsidiaries.

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

(6) Represents custodied, networked and non-networked client accounts that have been funded. In the third quarter of 2009, we enhanced our methodology for calculating client accounts to include networked variable annuities that were not previously available. This change resulted in an increase of 0.6 million client accounts.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the consolidated financial statements and accompanying notes thereto included in Item 8 of this Form 10-K.

Overview

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

Our revenues are derived primarily from fees and commissions from products and advisory services offered by our customers to their clients, a substantial portion of which we pay out to our customers, as well as fees we receive from our customers for use of our technology, custody and clearing platforms. We also generate asset management-based fees through a distribution of financial products for a broad

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range of product manufacturers. Under our self-clearing platform, we custody the majority of client assets invested in these products, which includes providing statements, transaction processing and ongoing account management. In return for these services, mutual funds, insurance companies, banks and other product manufacturers pay us fees based on asset levels or accounts managed. We also earn fees for margin lending to our customers' clients.

How We Evaluate Growth

We focus on several key financial and non-financial metrics in evaluating the success of our business relationships and our resulting financial position and operating performance. Our key metrics as of and for the years ended December 31, 2009, 2008, and 2007 are as follows:

	2009	2008	2007
Non-Financial Metrics			
Financial advisors(1)	11,950	11,920	11,089
Total funded client accounts (in millions)	3.9	3.5	3.3
AUM(3) (in billions)	$ 279.4	$ 233.9	$ 283.2
Financial Metrics			
Revenue growth from prior year	(11.8)%	14.7%	56.2%
Recurring revenue as a % of net revenue(4)	57.3%	58.5%	57.1%
Gross margin(5) (in thousands)	844,926	953,301	781,102
Gross margin as a % of net revenue(5)	30.7%	30.6%	28.8%
Adjusted EBITDA (in millions)	$ 356.1	$ 350.2	$ 329.1

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

(2) Represents custodied, networked and non-networked client accounts that have been funded. In the third quarter of 2009, we enhanced our methodology for calculating client accounts to include networked variable annuities that were not previously available. This change resulted in an increase of 0.6 million client accounts.

(3) AUM is comprised of custodied, networked and non-networked brokerage and advisory assets and reflect market movement in addition to new assets, inclusive of recruiting and net of attrition.

(4) Revenue is derived from recurring sources such as advisory fees, asset-based fees, trailing commission fees, fees related to our cash sweep programs, interest earned on margin accounts and technology and service fees. 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, which include commissions and advisory fees as well as brokerage, clearing and exchange fees.

EBITDA and Adjusted EBITDA

EBITDA is defined as net income plus interest expense, income tax expense, depreciation and amortization. Adjusted EBITDA, as we use it, is EBITDA adjusted to exclude certain non-cash charges, infrequent or unusual items and other adjustments set forth below. We believe that the presentation of EBITDA and Adjusted EBITDA is appropriate to provide additional information to investors about the calculation of, and compliance with, certain financial covenants in our senior credit facilities.

Our senior secured credit facilities and the indenture governing the senior unsecured subordinated notes contain various covenants that limit our ability to engage in specified types of transactions. The achievement of certain financial ratio targets increases our ability to engage in certain activities such as incurring indebtedness, making investments and paying dividends. Adjusted EBITDA is a material component of these covenants.

We also present EBITDA and Adjusted EBITDA because we consider them an important supplemental measure of our performance and believe they are frequently used by security analysts, investors and other interested parties in the evaluation of high-yield issuers, many of which present EBITDA and Adjusted EBITDA when reporting their results. EBITDA and Adjusted EBITDA are useful financial metrics in assessing our operating performance from period to period by excluding certain items that we believe are not representative of our core business, such as certain material non-cash items and infrequent or unusual items that we do not expect to continue in the future and are outside the control of operating management.

EBITDA and Adjusted EBITDA are non-GAAP measures as defined by Regulation G under the Securities Act and do not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. The terms EBITDA and Adjusted EBITDA are not defined under GAAP, and EBITDA and Adjusted EBITDA are not measures of net income, operating income or any other performance measure derived in accordance with GAAP, and are subject to important limitations.

EBITDA and 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, EBITDA and Adjusted EBITDA should not be considered as measures of discretionary cash available to us to invest in our business. We compensate for these limitations by relying primarily on the GAAP results and using EBITDA and Adjusted EBITDA as supplemental information.

Set forth below is a reconciliation from our net income to EBITDA and Adjusted EBITDA for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
		(in thousands)	
Net income	$ 47,520	$ 45,496	$ 61,069
Interest expense(a)	100,922	115,558	122,817
Income tax expense	25,047	47,269	46,764
Depreciation and amortization	108,296	100,462	78,748
EBITDA(f)	281,785	308,785	309,398
Non-cash items(b)	23,978	11,751	11,457
Infrequent items(c)	46,369	15,627	6,157
Other adjustment items(d)	3,936	14,008	2,067
Adjusted EBITDA(f)	356,068	350,171	329,079
Pro-forma adjustments(e)		9,829	13,354
Adjusted EBITDA as defined under the Credit Agreement(f)	$ 356,068	$ 360,000	$ 342,433

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

(b) Represents asset impairment charges related to organizational restructuring, share-based compensation expense for our employee stock option awards and compensation benefits realized pursuant to the purchase and sale agreements of certain acquisitions, as defined under the terms of our credit agreement.

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(c) Represents organizational restructuring charges, employment tax withholding related to a non-qualified deferred compensation plan, and regulatory fines and related costs, as permitted under the terms of our credit agreement.

(d) Represents acquisition and integration related expenses including legal and other professional service fees and retention payments, as defined under the terms of our credit agreement.

(e) Includes pro-forma adjustments for general and administrative expenditures from our acquisition and resulting shutdown of IFMG, as defined under the terms of our credit agreement.

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

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

Economic Overview and Impact of Financial Market Events

During 2009, equity and fixed income markets experienced a steep fall during the first quarter, continuing a trend from the market turbulence that characterized the latter half of 2008. From the market lows that occurred in March 2009, the equity and fixed income markets recovered steadily over the last nine months of the year. The market's decline and recovery is reflected in the S&P 500 which began 2009 at 903, dropped to 667 on March 6, 2009, and recovered to end the year at 1115, an increase of 23.5% from the onset of 2009. The recovery in the equity market positively influenced our AUM and improved those revenue sources which are directly driven by asset-based pricing over the last nine months of 2009. Despite the market's partial recovery, overall economic activity including consumer discretionary income, employment and consumer confidence remained weak. These economic factors limited the impact of the market's recovery on our transactional commission revenues.

Despite the equity market recovery, average market indices for 2009 remained well below prior year levels. The average daily S&P 500 index was 948 during 2009, down 22.3% from 2008. During the fourth quarter of 2009, the average daily S&P 500 index was 1089, up 19.4% from the daily average of 912 for the comparable period of 2008. In response to the market turbulence and economic slowdown, the central banks including the Federal Reserve, have maintained historically low interest rates. The average effective rate for federal funds was 0.16% in 2009, compared to 1.92% for 2008. The effective rate for federal funds averaged 0.12% during the fourth quarter of 2009, a decline of 39 basis points or 76.5% from the comparable period of 2008. The low rate environment negatively impacted our revenues from client assets in our cash sweep programs.

In response to the lower levels of revenues that result from these volatile conditions, we persist in our efforts to reduce costs and control our expenditures. In the fourth quarter of 2008, we initiated a series of cost reduction measures through a strategic business review. Those efforts included the December 31, 2008 decision to reduce our workforce by approximately 250 employees, or

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approximately 10%, which resulted in additional expenditures during the fourth quarter of 2008, reduced compensation and benefits expense by approximately $27.0 million during 2009 in comparison to 2008. In the third quarter of 2009, we furthered our restructuring plans by consolidating the operations of the Affiliated Entities with those of LPL Financial. While we expect to incur one-time charges of approximately $74.2 million for severance and termination benefits, asset impairments, contract termination fees and other conversion costs, we anticipate that the consolidation will result in annual cost savings of $29.8 million. We estimate that this restructuring initiative provided cost savings of $6.9 million in 2009.

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

Recent Acquisitions and Divestitures

From time to time we perform 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 June 20, 2007, we acquired the Affiliated Entities, which increased the number of our financial 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 credit facility, and the issuance of 2,645,400 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 against 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 financial advisors.

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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 completion of these transfer activities, the registered representatives and client accounts that transferred are now associated with LPL Financial. The consolidation of the Affiliated Entities was affected to enhance service offerings to customers while also generating efficiencies.

While our acquisitions of the Affiliated Entities and IFMG have contributed to the overall growth of our customer base 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.

Results of Operations

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	2007	'09 vs. '08	'08 vs. '07
		(in thousands)			
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%	N/M
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)%

N/M Not meaningful.

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Revenues

Commissions

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

The following table sets forth our commission revenue, by product category included in our 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. Transaction-based commissions decreased as a result of market turbulence and volatility that dampened client demand for purchases of new investment 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. Trail commissions reflect the effects of the market declines offset by growth in assets eligible for trail payment.

Commission revenue increased by $169.9 million, or 11.6%, in 2008 from 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 customer base 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 fee revenues represent fees charged by us and our customers to clients based on the value of assets under management.

Advisory fees decreased by $126.4 million, or 15.2%, for 2009 compared to 2008. The decrease is primarily due to the effect of the declining market on the value of our client assets in advisory programs, 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, in addition to a trend amongst our customer relationships (including customers of acquired subsidiaries) to provide a higher percentage of fee-based advisory services to their clients, which are recurring revenue streams.

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Consequently our recurring revenues as a percentage of net revenue remained relatively unchanged through the unfavorable market conditions in 2008.

Asset-based fees

Asset-based fees are comprised of fees from cash sweep vehicles, our product manufacturer sponsorship programs, and sub-transfer agency and networking services. Pursuant to contractual arrangements, uninvested cash balances in client accounts are swept into either 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 product manufacturers in connection with programs that support our marketing and sales-force education and training efforts. We also earn fees on mutual fund assets for which we provide administrative and recordkeeping services as a sub-transfer agent. Our networking fees represent fees paid to us by mutual fund and annuity product manufacturers in exchange for administrative and recordkeeping services that we provide to clients of our financial advisors. Networking fees are correlated to the number of positions we administer, not the value of assets under administration.

Asset-based fees decreased $79.4 million, or 22.5%, for 2009 compared to 2008. This decrease was primarily driven 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 $18.8 billion for the years ended December 31, 2009 and 2008, respectively.

Asset-based fees increased $91.4 million, or 35.0%, from 2007 to 2008. Fees from our cash sweep vehicles 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. For 2008, the increase associated with this trend is partially offset by the negative interest rate environment and its influence on the margins associated with these products.

Transaction and other fees

Revenues earned from transaction and other fees primarily consist of transaction fees and ticket charges, subscription fees, IRA custodian fees, contract and license fees, conference fees and small/inactive account fees. We charge fees to our customers and their clients for executing transactions in brokerage and fee-based advisory accounts. We earn subscription fees for the software and technology services provided to our customers and on IRA custodial services that we provide for their client accounts. We charge monthly administrative fees to our customers, as well as regulatory licensing fees. We charge fees to product manufacturers for participating in our training and marketing conferences and fees to our customers and clients for accounts that fail to meet certain specified thresholds of size or activity.

Transaction and other fees increased $15.1 million, or 6.3%, for 2009 compared to 2008. This increase is primarily attributed to fees associated with increases in our number of customers and their client accounts. We also had increases of $6.6 million in charges to customers for insurance programs and $5.3 million in IRA custodial fees, offset by a $4.4 million decline in conference related revenues.

Transaction and other fees increased $55.9 million, or 30.3%, in 2008 from 2007. The increase is attributed primarily to an increase in trade volume. Specifically, our trade volume increased by 4.8 million, or 59.3%, in 2008, which is primarily attributable to an increase in the number of underlying client accounts opened through our acquisitions of the Affiliated Entities and IFMG.

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Other revenue

Other revenue includes marketing re-allowances from certain product manufacturers as well as interest income from client margin accounts and cash equivalents, net of operating interest expense. Prior to our dissolution of our mortgage subsidiary, Innovex, other revenue also consisted of gains on the sale of mortgage loans held for sale.

Other revenue decreased $13.6 million, or 25.7%, for 2009 compared to 2008. The decrease in the current year is 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.

Other revenue decreased $9.0 million, or 14.6%, in 2008 from 2007. 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 consist of commissions and advisory fees as well as brokerage, clearing and exchange fees. We pay out the majority of commissions and advisory fees received from sales or services provided by our customers. Substantially all of these pay-outs are variable and correlated to the revenues generated by each customer.

Production expenses decreased $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 customers. Our production payout averaged 85.8% in 2009 and 86.3% in 2008.

Production expenses increased $227.6 million, or 11.8%, in 2008 from 2007. The increase in production expenses is highly correlated with our increase in commission and advisory revenues, which increased by $261.6 million, or 11.8%, in 2008 from 2007. Our production pay-out averaged 86.3% in 2008 and 86.4% in 2007.

Compensation and benefits

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.

Compensation and benefits decreased $72.7 million, or 21.2%, for 2009 compared to 2008. The decrease is primarily attributed to our ongoing strategic business review and resulting cost management initiatives. As a result of attrition, retirements and our reduction in workforce implemented in the fourth quarter of 2008, our average number of full-time employees has declined by 383, or 13.6%, to 2,430 for 2009, compared to 2,813 for 2008.

Compensation and benefits increased $86.0 million, or 33.4%, in 2008 from 2007. The increase is 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.

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General and administrative expenses

General and administrative expenses include promotional fees, occupancy and equipment, communications and data processing, regulatory fees, travel and entertainment, and professional services.

General and administrative expenses decreased by $48.0 million, or 18.0%, for 2009 compared to 2008. The decrease is 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%, from 2008 to 2007. The increase was primarily attributable to increases of $35.4 million in promotional fees and recruiting, $15.3 million in occupancy and equipment and $12.2 million in communication and data processing. The increase in these expenditures was primarily due to our acquisitions of the Affiliated Entities and IFMG, and resulting integration efforts to support our overall growth.

Depreciation and amortization

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.

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

Depreciation and amortization expense increased by $21.7 million, or 27.6%, from 2008 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 represent expenses incurred as a result of our 2008 strategic business review and our 2009 consolidation of the Affiliated Entities.

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 customers and their client accounts from the Affiliated Entities 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 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 include bank fees, other taxes, bad debt expense and other miscellaneous expenses.

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Other expenses decreased by $2.3 million, or 12.9%, from 2008 to 2009. The decrease is 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 customer write-off activity. The remaining increase was due to storage services, which grew by $1.1 million in 2008.

Interest expense

Interest expense includes non-operating interest expense for our senior secured term loan, senior unsecured subordinated notes and revolving line of credit facility.

Interest expense decreased by $14.6 million, or 12.7%, for the year ended December 31, 2009 compared with the year ended December 31, 2008. The decline reflects lower average interest rates on our borrowings due in part to a credit rating upgrade received in the third quarter of 2008. This trend is partially offset by an increase in the average principal amount of debt outstanding due primarily to borrowings on our revolving credit facility. Our average outstanding borrowing activity in the revolving and uncommitted line of credit facilities have increased by $7.8 million from $48.7 million for 2008 compared 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, offset by an increase in the principal amount of debt outstanding.

Loss on equity method investment

Loss on equity method investment represents our share of losses related to our 2007 investment in a privately held technology company.

Loss on equity investment was $0.3 million for 2009 compared to $2.4 million for 2008. The decrease of $2.1 million in the current year is attributed to a $1.7 million other than temporary impairment charge incurred during the second quarter of 2008.

Loss on equity method investment increased $1.7 million from 2007 to 2008, due to the $1.7 million other than temporary impairment 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 in income tax expense is 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 is 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 in income tax expense 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.

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Liquidity and Capital Resources

Senior management establishes our liquidity and capital policies. These policies include senior management's review of short- and long-term cash flow forecasts, review of monthly capital expenditures and daily monitoring of liquidity for our subsidiaries. Decisions on the allocation of capital include projected profitability and cash flow, risks of the business, regulatory capital requirements and future liquidity needs for strategic activities. Our Treasury Department assists in evaluating, monitoring and controlling the business activities that impact our financial condition, liquidity and capital structure and maintains relationships with various lenders. The objectives of these policies are to support the executive business strategies while ensuring ongoing and sufficient liquidity.

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

	December 31,		
	2009	**2008**	**2007**
Net cash flows provided by (used in):			
Operating activities	$ 271,157	$ 89,277	$ 10,072
Investing activities	(13,724)	(76,202)	(168,275)
Financing activities	(98,078)	18,161	101,043
Net increase (decrease) in cash and cash equivalents	159,355	31,236	(57,160)
Cash and cash equivalents beginning of year	219,239	188,003	245,163
Cash and cash equivalents end of year	$ 378,594	$ 219,239	$ 188,003

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

Net cash provided by operating activities for 2009, 2008 and 2007 totaled $271.2 million, $89.3 million and $10.1 million, respectively. Net cash provided by operating activities includes net income adjusted for non-cash expenses such as depreciation and amortization, share-based compensation, deferred income tax provision and changes in operating assets and liabilities. Operating assets and liabilities include balances related to settlement and funding of client transactions, receivables from product sponsors and accrued commissions and advisory fees due to our customers. Those operating assets and liabilities which arise from the settlement and funding of client transactions can fluctuate significantly from period to period depending on overall trends and client behaviors.

Net cash used in investing activities for 2009, 2008 and 2007, totaled $13.7 million, $76.2 million and $168.3 million, respectively. The decrease in 2009 as compared to 2008 is principally due to a decrease in capital expenditures and acquisition activity. The decrease in 2008 as compared to 2007 is principally due to our 2007 acquisitions of UVEST, the Affiliated Entities and IFMG.

Net cash used in financing activities for 2009 was $98.1 million, compared to net cash provided by financing activities for 2008 and 2007, which was $18.2 million and $101.0 million, respectively. The decrease in 2009 as compared to 2008 is primarily related to a $90.0 million pay down on our revolving line of credit, which occurred in 2009. The decrease in 2008 as compared to 2007 is primarily related to borrowings under our senior secured credit facilities, which did not recur at the same level in fiscal year 2008. These borrowings were principally related to our 2007 acquisitions of UVEST, the Affiliated Entities and IFMG.

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

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Operating Capital Requirements

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

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

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

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

Liquidity Assessment

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

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

Indebtedness

As of December 31, 2009, we had outstanding $819.2 million of borrowings under our senior secured credit facilities and $550.0 million of senior unsecured subordinated notes. The senior secured credit facilities also include a $100.0 million revolving credit facility, $10.0 million of which is currently being utilized to support the issuance of an irrevocable letter of credit issued for the benefit of PTC.

On January 25, 2010, we amended our senior secured credit facilities to increase our revolving credit facility from $100.0 million to $218.2 million. We also extended the maturity of a $163.5 million tranche of our revolving facility to June 28, 2013, with the remaining $54.7 million tranche maturing at the original maturity date of December 28, 2011. The tranche maturing in 2013 is priced at London Interbank Offered Rate ("LIBOR") + 3.50% with a commitment fee of 0.75%. The tranche maturing in 2011 maintains its current pricing of LIBOR + 2.00% with a commitment fee of 0.375%.

We also maintain uncommitted lines of credit, which have an unspecified limit, primarily dependent on our ability to provide sufficient collateral. Additionally, in an effort to mitigate interest rate risk, we maintain interest rate swap agreements to hedge the variability on $400.0 million of our floating rate senior secured credit facilities.

Interest Rate and Fees

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

In addition to paying interest on outstanding principal under the senior secured credit facilities, we are required to pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder. The commitment fee rate at December 31, 2009 is 0.375% per annum, but is subject to changes depending on our leverage ratio. We must also pay customary letter of credit fees.

Prepayments

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

- 50% (percentage will be reduced to 25% if our total leverage ratio is 5.00x or less and to 0% if our total leverage ratio is 4.00x or less) of our annual excess cash flow (as defined under our credit agreement) adjusted for, among other things, changes in our net working capital;

- 100% of the net cash proceeds of all nonordinary course asset sales or other dispositions of property, if we do not reinvest or commit to reinvest those proceeds in assets to be used in our

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business or to make certain other permitted investments within 15 months as long as such reinvestment is completed within 180 days; and

100% of the net cash proceeds of any incurrence of debt, other than proceeds from debt permitted under the senior secured credit facilities.

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

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

Amortization

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

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

Guarantee and Security

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

Certain Covenants and Events of Default

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

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

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

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

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

At December 31, 2009, we were in compliance with all covenants under our senior secured credit facilities.

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Interest Rate Swaps

An interest rate swap is a financial derivative instrument whereby two parties enter into a contractual agreement to exchange payments based on underlying interest rates. We use interest rate swap agreements to hedge the variability on our floating rate for $400.0 million of our term loan under our senior secured credit facility. We are required to pay the counterparty to the agreement fixed interest payments on a notional balance and in turn receive variable interest payments on that notional balance. Payments are settled quarterly on a net basis. As of December 31, 2009, we assessed our interest rate swaps as being highly effective and we expect them to continue to be highly effective. While approximately $419.2 million of our term loan remains unhedged as of December 31, 2009, the risk of variability on our floating interest rate is partially mitigated by our client margin loans on which we carry floating interest rates. At December 31, 2009, our receivables from clients for margin loan activity were approximately $227.9 million.

Senior Unsecured Subordinated Notes

Our senior unsecured subordinated notes are due in 2015 and bear interest at 10.75% per annum. Interest payments are payable semi-annually in arrears. We are not required to make mandatory redemption or sinking fund payments with respect to the notes and at December 31, 2009, $550.0 million was still outstanding. We may voluntarily repurchase our senior unsecured subordinated notes at any time, pursuant to certain prepayment penalties.

Covenant Compliance

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

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

Off-Balance Sheet Arrangements and Contractual Obligations

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

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

We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our financial advisors' clients. These arrangements include firm commitments to extend credit. For information on these arrangements, see Notes 14 and 19 to our consolidated financial statements.

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The following table provides information with respect to our commitments and obligations as of December 31, 2009:

	Payments due by period (in thousands)				
	Total	<1 year	1-3 years	4-5 years	>5 years
Leases and Other Obligations(1)	112,952	27,543	47,940	21,145	16,324
Senior Secured Credit Facilities and Senior Unsecured Subordinated Notes(2)(3)	1,369,223	8,424	16,848	793,951	550,000
Fixed Interest Payments	352,286	59,125	118,250	118,250	56,661
Variable Interest Payments(2)(3)	96,716	18,274	62,160	16,282	
Interest Rate Swap Agreements(2)(3)	22,457	14,227	8,230		
Total contractual cash obligations	$ 1,953,634	$ 127,593	$ 253,428	$ 949,628	$ 622,985

(1) Note 14 of our consolidated financial statements provides further detail on operating lease obligations and obligations under non-cancelable service contracts.

(2) Notes 12 and 13 of our consolidated financial statements provide further detail on these debt obligations.

(3) Our senior credit facilities bear interest at floating rates. Of the $819.2 million outstanding at December 31, 2009, we have hedged the variable rate cash flows using interest rate swaps of $400.0 million of principle (see Notes 12 and 13 of our consolidated financial statements). Variable interest payments are shown for the unhedged ($419.2 million) portion of the senior credit facilities assuming the one-month LIBOR at December 31, 2009 remains unchanged (see Note 12 of our consolidated financial statements for more information).

As of December 31, 2009, we reflect a liability for unrecognized tax benefits of $22.0 million, which we have included in income taxes payable on the consolidated statements of financial condition. This amount has been excluded from the contractual obligations table because we are unable to reasonably predict the ultimate amount or timing of future tax payments.

Fair Value of Financial Instruments

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

We use prices obtained from an independent third-party pricing service to measure the fair value of our trading securities. We validate prices received from the pricing service using various methods including, comparison to prices received from additional pricing services, comparison to available quotes market prices and review of other relevant market data including implied yields of major categories of securities. At December 31, 2009, we did not adjust prices received from the independent third-party pricing service. For certificates of deposit and treasury securities, we utilize market-based inputs including observable market interest rates that correspond to the remaining maturities or next interest reset dates.

Critical Accounting Policies

Our consolidated financial statements are prepared in accordance with GAAP, which require management to make estimates, judgments and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. We believe that of our critical accounting policies, the following are noteworthy because they require management to make estimates regarding

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matters that are uncertain and susceptible to change where such change may result in a material adverse impact on our financial position and reported financial results.

Revenue Recognition

We record commissions received from mutual funds, annuity, insurance, equity, fixed income, direct investment, option and commodity transactions on a trade-date basis. Commissions also include mutual fund and variable annuity trails, which are recognized as a percentage of assets under management over the period for which services are performed. Due to the significant volume of mutual fund and variable annuity purchases and sales transacted by financial advisers directly with product manufacturers, management must estimate a portion of its upfront commission and trail revenues for each accounting period for which the proceeds have not yet been received. These estimates are based primarily on the volume of transactions in previous periods as well as cash receipts in the current period. We record commissions payable based upon standard payout ratios for each product as it accrues for commission revenue.

Legal Reserves

We record reserves for legal proceedings in accounts payable and accrued liabilities in our consolidated statements of financial condition. The determination of these reserve amounts requires significant judgment on the part of management. We consider many factors including, but not limited to, the amount of the claim, the amount of the loss in the client's account, the basis and validity of the claim, the possibility of wrongdoing on the part of a financial advisor, likely insurance coverage, previous results in similar cases, and legal precedents and case law. Each legal proceeding is reviewed with counsel in each accounting period and the reserve is adjusted as deemed appropriate by management. Any change in the reserve amount is recorded as professional services in our consolidated statements of income.

Valuation of Goodwill and Other Intangibles

Goodwill is required to be tested for impairment at least annually, or whenever indications of impairment exist. An impairment exists when the carrying amount of goodwill exceeds its implied fair value, resulting in an impairment charge for the excess.

We have elected October 1 as our annual goodwill impairment testing date. In testing for a potential impairment of goodwill on October 1, 2009, we estimated the fair value of each of our reporting units (generally defined as businesses for which financial information is available and reviewed regularly by management) and compared this value to the carrying value of the reporting unit. The estimated fair value of each reporting unit was greater than its carrying value, and therefore we concluded that no amount of goodwill was impaired. The estimated fair value of the reporting units was established using a discounted cash flow model that includes significant assumptions about the future operating results and cash flows of each reporting unit. Adverse changes in our planned business operations such as unanticipated competition, a loss of key personnel, the sale of a reporting unit or a significant portion of a reporting unit, or other unforeseen developments could result in an impairment of our recorded goodwill.

We review our property, equipment, capitalized software and intangible assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Such events or changes may include a deterioration in the business climate or a significant adverse change in the extent or manner in which a long-lived asset is being used. If the total of projected future undiscounted cash flows is less than the carrying amount of an asset, we may need to record an impairment loss based on the excess of the carrying amount over the fair value of the assets.

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Income Taxes

We estimate income tax expense based on the various jurisdictions where we conduct business. We must then assess the likelihood that the deferred tax assets will be realized. A valuation allowance is established to the extent that it is more-likely-than-not that such deferred tax assets will not be realized. When we establish a valuation allowance or modify the existing allowance in a certain reporting period, we generally record a corresponding increase or decrease to tax expense in the consolidated statements of income. We make significant judgments in determining the provision for income taxes, the deferred tax assets and liabilities and any valuation allowances recorded against the deferred tax asset. Changes in the estimate of these taxes occur periodically due to changes in the tax rates, changes in the business operations, implementation of tax planning strategies, resolution with taxing authorities of issues where we have previously taken certain tax positions and newly enacted statutory, judicial and regulatory guidance. These changes, when they occur, affect accrued taxes and can be material to our operating results for any particular reporting period.

Additionally, we account for uncertain tax positions in accordance with GAAP. The application of income tax law is inherently complex. Laws and regulations in this area are voluminous and are often ambiguous. We are required to make many subjective assumptions and judgments regarding our income tax exposures. Interpretations of and guidance surrounding income tax laws and regulations change over time. As such, changes in our subjective assumptions and judgments can materially affect amounts recognized in our consolidated financial statements.

Valuation and Accounting for Financial Derivatives

We periodically use financial derivative instruments, such as interest rate swap agreements, to protect us against changing market prices or interest rates and the related impact to our assets, liabilities, or cash flows. We also evaluate our contracts and commitments for terms that qualify as embedded derivatives. All derivatives are reported at their corresponding fair value in our consolidated statements of financial condition.

Financial derivative instruments expected to be highly effective hedges against changes in cash flows are designated as such upon entering into the agreement. At each reporting date, we reassess the effectiveness of the hedge to determine whether or not it can continue to use hedge accounting. Under hedge accounting, we record the increase or decrease in fair value of the derivative, net of tax impact, as other comprehensive income or losses. If the hedge is not determined to be a perfect hedge, yet still considered highly effective, we will calculate the ineffective portion and record the related change in its fair value as additional interest income or expense in the consolidated statements of income. Amounts accumulated in other comprehensive income are generally reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

Share-Based Compensation

Share-based compensation cost is measured at the grant date based on the estimated fair value of the award and is recognized as expense over the requisite service period based on the number of awards for which the requisite service is expected to be rendered. As there are no observable market prices for identical or similar instruments, we estimate fair value using a Black-Scholes valuation model. We must make assumptions regarding the number of share-based awards that will be forfeited. The forfeiture assumption is ultimately adjusted to the actual forfeiture rate. Therefore, changes in the forfeiture assumptions do not impact the total amount of expense ultimately recognized over the vesting period. Rather, different forfeiture assumptions would only impact the timing of expense recognition over the vesting period.

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Recent Accounting Pronouncements

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

We bear some market risk on margin transactions affected for our financial advisors' clients. In margin transactions we extend credit to clients collateralized by cash and securities in the client's account. As our financial advisors execute margin transactions on behalf of their clients, we may incur losses if clients do not fulfill their obligations, the collateral in the client's account is insufficient to fully cover losses from such investments, and our financial advisors fail to reimburse us for such losses. The risk of default depends on the creditworthiness of the client. To minimize this risk we assess the creditworthiness of the clients and monitor the margin level daily. Clients are required to deposit additional collateral, or reduce positions, when necessary.

We also have market risk on the fees we earn that are based on the market value of assets in advisory AUM, assets on which trail commissions are paid and assets eligible for sponsor payments. We do not enter into derivatives or other similar financial instruments for trading or speculative purposes.

Interest Rate Risk

We are exposed to risk associated with changes in interest rates. As of December 31, 2009, all of the outstanding debt under our senior secured credit facilities, $819.2 million, was subject to floating interest rate risk. To provide some protection against potential rate increases associated with our floating senior secured credit facilities, we have entered into derivative instruments in the form of interest rate swap agreements covering a significant portion ($400.0 million) of our senior secured indebtedness. The interest rate swap agreements qualify for hedge accounting and have been designated as cash flow hedges against specific payments due on our senior secured term loan. Accordingly, any interest rate differential is reflected in an adjustment to interest expense over the lives of the interest rate swap agreements. While the unhedged portion of our senior secured debt is subject to increases in interest rates, we believe that this risk is offset with variable interest rates associated with client borrowings. At December 31, 2009, we had $419.2 million in unhedged senior secured borrowings, the variable cost of which is partially offset by variable interest income on $227.9 million of client margin receivables. Because of this relationship, and our expectation for outstanding balances in the future, we do not believe that a short-term change in interest rates would have a material impact on our income before taxes. For a discussion of such interest rate swap agreements, see Note 13 to our audited consolidated financial statements.

We offer our customers and their clients two primary cash sweep programs that are interest rate sensitive: our bank sweep programs and money market sweep vehicles involving multiple money market fund providers. Our bank sweep programs use multiple non-affiliated banks to provide up to $1.5 million ($3.0 million joint) of FDIC insurance for client deposits custodied at the banks. While clients earn interest for balances on deposit in the bank sweep programs, we earn a fee. Our fees from the bank sweep programs are not based on prevailing interest rates, but may be adjusted in a declining interest rate environment or for other reasons. Changes in interest rates and fees for the bank sweep programs are monitored by our Fee and Rate Setting Committee (the "FRS Committee"), which governs and approves any changes to our fees. By meeting promptly after interest rates change, or for other market or non-market reasons, the FRS Committee balances financial risk of the bank sweep programs with products that offer competitive client yields. However, as short-term interest rates hit lower levels, the FRS Committee may be compelled to lower fees. The average Federal Reserve effective federal funds rate for December 2009 was 0.12%. A change in short-term interest rates of

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10 basis points, if accompanied by a commensurate change in fees for our cash sweep programs, could result in an increase or decrease in income before income taxes of $11.6 million on an annual basis (assuming that client balances at December 31, 2009 did not change). Actual impacts may vary depending on interest rate levels, the significance of change, and the FRS Committee's strategy in responding to that change.

Operational Risk

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

Risk Management

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

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The Consolidated Financial Statements and Supplementary Data are included as an annex to this Annual Report on Form 10-K. See the Index to Consolidated Financial Statements and Supplementary Data on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

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ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Change in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the fourth quarter ended December 31, 2009, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over our financial reporting. Internal control over financial reporting is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act as the process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer, and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of our consolidated financial statements for external purposes in accordance with generally accepted accounting principles.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; provide reasonable assurances that transactions are recorded as necessary to permit preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on our consolidated financial statements.

As of December 31, 2009, management conducted an assessment of the effectiveness of our internal control over financial reporting based on the framework established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management has determined that our internal control over financial reporting as of December 31, 2009 was effective.

Deloitte & Touche LLP, our independent registered public accounting firm, has issued an audit report appearing on the following page on the effectiveness of our internal control over financial reporting as of December 31, 2009.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
LPL Investment Holdings Inc.
Boston, Massachusetts

We have audited the internal control over financial reporting of LPL Investment Holdings Inc. and subsidiaries (the "Company") as of December 31, 2009, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Annual Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2009 of the Company and our report dated March 9, 2010 expressed an unqualified opinion on those consolidated financial statements.

/s/ Deloitte & Touche LLP

Costa Mesa, California
March 9, 2010

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ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information relating to directors of LPLIH required to be furnished pursuant to this item is incorporated by reference to the Company's definitive proxy statement for the 2010 Annual Meeting of Stockholders. Such proxy statement will be filed with the SEC prior to April 30, 2010.

The following table provides certain information about each of the Company's current executive officers as of the date this Annual Report on Form 10-K has been filed with the SEC:

Name	Age	Position(1)
Mark S. Casady	49	Chief Executive Officer and Chairman of the Board
Esther M. Stearns	49	President and Chief Operating Officer
Robert J. Moore	48	Chief Financial Officer
William E. Dwyer	52	Managing Director, President, National Sales and Marketing
Denise Abood	48	Managing Director, Human Capital
Dan H. Arnold	45	Managing Director and Divisional President, Institution Services
Stephanie L. Brown	57	Managing Director, General Counsel
Jonathan Eaton	51	Managing Director, Custom Clearing Services
Christopher Feeney	54	Managing Director, Chief Information Officer
Mark Helliker	46	Managing Director, Broker-Dealer Support Services
John McDermott	53	Managing Director, Chief Risk Officer

Mark S. Casady Chairman and Chief Executive Officer

Mr. Casady has been our chairman and chief executive officer since December 2005. He joined us in May 2002 as chief operating officer, became our president in April 2003, and became our chief executive officer, president and chairman in December 2005. Before joining the firm, Mr. Casady was managing director, mutual fund group for Deutsche Asset Management, Americas formerly Scudder Investments. He joined Scudder in 1994 and held roles as managing director Americas; head of global mutual fund group and head of defined contribution services. He was also a member of the Scudder, Stevens and Clark Board of Directors and Management Committee. He is former chairman and a current board member of the Insured Retirement Institute and serves on the Financial Industry Regulatory Authority board of governors. Mr. Casady received his B.S. from Indiana University and his M.B.A. from DePaul University.

Esther M. Stearns President and Chief Operating Officer

Ms. Stearns has been our president since March 2007 and our chief operating officer since 2003. She joined us in July 1996 as chief information officer. Today, Ms. Stearns is responsible for oversight of our Broker/Dealer Support Services, Business Technology Services, and Custom Clearing Services business units, in addition to several Corporate Shared Services areas, such as Corporate Communication, Human Capital, Strategic Planning, and Sponsor Relations. Prior to joining us, she was vice president of information systems at Charles Schwab & Co., Inc., where she worked for 14 years in a variety of leadership roles. She received her B.A. from the University of Chicago.

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Robert J. Moore Chief Financial Officer

Mr. Moore joined us in September 2008 as chief financial officer. He is responsible for formulating financial policy and planning as well as ensuring the effectiveness of the financial functions within the firm. He also has oversight of our research and risk management functions. Prior to joining us, Mr. Moore served as chief executive officer and chief financial officer at ABN AMRO North America and LaSalle Bank Corporation. Before this role, Mr. Moore worked for Diageo PLC, Europe and Great Britain, in a number of finance management positions, ultimately serving as chief financial officer. Mr. Moore has a Bachelor of Business Administration in finance from the University of Texas, Austin and a Master of Management in finance, marketing, and international business from Northwestern University.

William E. Dwyer Managing Director, President, National Sales and Marketing

Mr. Dwyer has served as managing director and president of National Sales and Marketing since 2009. He joined us in July 1992 and became managing director, branch development in 2002, managing director, national sales in 2005, and managing director, president of Independent Advisor Services in 2007. Mr. Dwyer is responsible for the management, satisfaction, retention, and recruitment of our independent advisor and financial institution customers. Mr. Dwyer serves on the Private Client Services Executive Committee and as vice chair of the Financial Services Institute Board of Directors. He is also a member of the Boards of Directors for the Securities Industry and Financial Markets Association and the Financial Services Institute, Inc. He received his B.A. from Boston College.

Denise Abood Managing Director, Human Capital

Ms. Abood has served as managing director and the leader of our Human Capital group since 2007. In this role, she is responsible for several functions critical to the firm, including organizational development and training, human resources, employee recruiting, compensation and benefits, real estate and facilities, payroll, and mail services. Ms. Abood was formerly chief financial officer for UVEST Financial Services Group, Inc. where she also led the UVEST Mortgage Company. Prior to joining UVEST, she held two roles at Wachovia Bank, initially as the chief financial officer for capital markets services and then as head of the technology business office. Ms. Abood holds a B.A. in Business Administration from Wittenberg University in Springfield, Ohio.

Dan H. Arnold Managing Director and Divisional President, Institution Services

Mr. Arnold serves as managing director and divisional president of our Institution Services business. He is responsible for new business development and business consulting, as well as for Insurance Associates Incorporated, which provides insurance solutions for the firm. Mr. Arnold joined the firm in January 2007 following our acquisition of UVEST Financial Services Group, Inc. Prior to joining us, Mr. Arnold worked at UVEST Financial Services Group, Inc. for 13 years, serving most recently as president and chief operating officer. Mr. Arnold is a graduate of Auburn University and holds an MBA in finance from Georgia State University.

Stephanie L. Brown Managing Director, General Counsel

Ms. Brown joined us in August 1989 and has been responsible for the Legal Department throughout her tenure. From 1989 to 2004 Ms. Brown was also responsible for our Compliance organization. Prior to joining us, Ms. Brown was an associate attorney with the law firm of Kelley Drye & Warren in Washington, D.C., specializing in corporate and securities law. Ms. Brown received her B.A. *cum laude* from Bryn Mawr College and her J.D. from the Catholic University of America.

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Jonathan Eaton Managing Director, Custom Clearing Services

Mr. Eaton joined us in June 1997 and became managing director, Custom Clearing Services in 2007. He is also responsible for our Sponsor Relations Group and The Private Trust Company, N.A. Prior to this position, Mr. Eaton served as our executive vice president of product marketing. Before joining us, Mr. Eaton spent 14 years at MFS Investment Management. His positions at MFS included national account management, corporate marketing, product development, and market research. He holds a B.A. in journalism from the University of Maine.

Christopher Feeney Managing Director, Chief Information Officer

Mr. Feeney joined us in January 2008 as chief information officer and managing director for the Business Technology Services business unit. Mr. Feeney is responsible for enhancing the technology offerings and support we provide to our financial advisors and their clients. Prior to joining us, Mr. Feeney was global managing director of wealth management at Thomson Financial. Mr. Feeney was chief executive officer of Telerate, Inc., from July 2003 until its sale to Reuters in December 2004. He holds a B.A. in literature from the State University of New York, Oneonta, and completed the Securities Industry Institute at the Wharton School.

Mark Helliker Managing Director, Broker-Dealer Support Services

Mr. Helliker joined us in July 2008 as managing director of Broker/Dealer Support Services. He is responsible for the day-to-day management of customer-side operations and new-advisor transitions, as well as for enhancing the customer experience. Prior to joining us, Mr. Helliker worked at Charles Schwab for 10 years, most recently as senior vice president of Charles Schwab Institutional. Mr. Helliker has a B.A. in political science from the University of Portsmouth in England and an MBA in management from San Diego State University.

John McDermott Managing Director, Chief Risk Officer

Mr. McDermott joined us in July 2009 as managing director and chief risk officer. In this role, he is focused on optimizing resources dedicated to risk and compliance across the firm, building consistency, and continuing to strengthen all teams with a holistic and strategic approach. Prior to joining us, Mr. McDermott worked for 35 years at Merrill Lynch, where he held a series of leadership roles including global head of compliance and internal audit. Mr. McDermott has a B.A. from Wesleyan University and a J.D. from Rutgers University.

ITEMS 11, 12, 13 AND 14.

The information required by Items 11, 12, 13, and 14 is incorporated by reference to the Company's definitive proxy statement for the 2010 Annual Meeting of Stockholders. Such proxy statement will be filed with the SEC prior to April 30, 2010.

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PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Consolidated Financial Statements

Our consolidated financial statements appearing on pages F-1 through F-40 are incorporated herein by reference.

(b) Exhibits

Exhibit No.	Description of Exhibit
3.1	Certificate of Incorporation of LPL Investment Holdings Inc.(1)
3.2	Amendment to the Certificate of Incorporation of LPL Investment Holdings Inc., dated December 20, 2005.(1)
3.3	Amendment to the Certificate of Incorporation of LPL Investment Holdings Inc., dated March 10, 2006(1)
3.4	Certificate of Amendment of Certificate of Incorporation of LPL Investment Holdings Inc., dated December 26, 2007.(4)
3.5	Certificate of Correction of Certificate of Amendment of Certificate of Incorporation of LPL Investment Holdings Inc., dated March 31, 2008.(5)
3.6	Amended and Restated Bylaws of LPL Investment Holdings Inc.(6)
4.1	Indenture, dated December 28, 2005, between LPL Holdings, Inc., each of the Guarantors party thereto and Wells Fargo Bank, N.A., as trustee.(1)
4.2.	First Supplemental Indenture, dated as of May 10, 2006, among LPL Holdings, Inc., LPL Investment Holdings Inc., the other Guarantors party thereto and Wells Fargo Bank, N.A., as trustee.(1)
4.3	Form of Stock Bonus Agreement under the Fourth Amended and Restated LPL Investment Holdings Inc. 2000 Stock Bonus Plan.(1)
4.4	Fifth Amended and Restated LPL Investment Holdings Inc. 2000 Stock Bonus Plan.(9)
4.5	LPL Investment Holdings Inc. Advisor Incentive Plan.(7)
10.1	2005 Stock Option Plan for Incentive Stock Options.(1)
10.2	2005 Stock Option Plan for Non-Qualified Stock Options.(1)
10.3	Executive Employment Agreement between Mark S. Casady and LPL Holdings, Inc., dated December 28, 2005.(1)
10.4	Indemnification Agreement between LPLIH Investment Holdings Inc., LPL Holdings, Inc., and Mark S. Casady, dated December 28, 2005.(1)
10.5	Executive Employment Agreement between Esther M. Stearns and LPL Holdings, Inc., dated December 28, 2005.(1)
10.6	Indemnification Agreement between LPLIH Investment Holdings Inc., LPL Holdings, Inc., and Esther M. Stearns, dated December 28, 2005.(1)
10.7	Executive Employment Agreement between C. William Maher and LPL Holdings, Inc., dated December 28, 2005.(1)

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Exhibit No.	Description of Exhibit
10.8	Indemnification Agreement between LPLIH Investment Holdings Inc., LPL Holdings, Inc., and C. William Maher, dated December 28, 2005.(1)
10.9	Executive Employment Agreement between William E. Dwyer III and LPL Holdings, Inc., dated December 28, 2005.(1)
10.10	Indemnification Agreement between LPLIH Investment Holdings Inc., LPL Holdings, Inc., and William E. Dwyer III, dated December 28, 2005.(1)
10.11	Executive Employment Agreement between Steven M. Black and LPL Holdings, Inc., dated December 28, 2005.(1)
10.12	Indemnification Agreement between LPLIH Investment Holdings Inc., LPL Holdings, Inc., and Steven M. Black, dated December 28, 2005.(1)
10.13	Services Agreement between Linsco/Private Ledger Corp. and GPA Group, Inc., dated October 27, 2005.(2)
10.14	Stockholders' Agreement, dated December 28, 2005, among LPLIH Investment Holdings Inc., LPL Holdings, Inc. and other stockholders party thereto.(2)
10.15	LPL Investment Holdings Inc. 2008 Stock Option Plan.(3)
10.16	Second Amended and Restated Credit Agreement, dated as of June 18, 2007, by and among LPL Investment Holdings Inc., LPL Holdings, Inc., Goldman Sachs Credit Partners L.P., as sole lead arranger, sole bookrunner and syndication agent, and the several lenders from time to time party thereto, Morgan Stanley Senior Funding, Inc. as administrative agent, and Morgan Stanley & Co. as collateral agent.(1)
10.17	2008 Nonqualified Deferred Compensation Plan.(8)
10.18	LPL Investment Holdings Inc. and Affiliates 2009 Corporate Executive Bonus Plan, approved on March 31, 2009.(10)
10.19	Amendment No. 1 dated as of December 9, 2009 to the Second Amended and Restated Credit Agreement, dated as of June 18, 2007, among LPL Investment Holdings, Inc., a Delaware corporation, LPL Holdings, Inc., a Massachusetts corporation, the lending institutions from time to time parties thereto, Goldman Sachs Credit Partners L.P., as sole lead arranger, sole book runner and syndication agent, Morgan Stanley Senior Funding, Inc., as Administrative Agent, and Morgan Stanley & Co., as Collateral Agent.(11)
10.20	Incremental and Extension Agreement, dated as of January 25, 2010 among LPL Investment Holdings, Inc., a Delaware corporation, LPL Holdings, Inc., a Massachusetts corporation, the other Credit Parties signatory thereto, the Incremental Revolving Credit Commitment Increase Lenders signatory thereto, each 2013 Revolving Credit Lender signatory thereto, Morgan Stanley Senior Funding, Inc., as Administrative Agent, Letter of Credit Issuer and Swingline Lender, and Morgan Stanley & Co., as Collateral Agent.(12)
21.1	List of Subsidiaries of LPL Investment Holdings Inc.
23.1	Independent Registered Public Accounting Firm's Consent.
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a).

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Exhibit No.	Description of Exhibit
32.1	Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

(1) Included in Registration Statement on Form 10 of the Company filed on April 30, 2007.

(2) Included in Amendment No. 1 to Registration Statement on Form 10 of the Company filed on July 10, 2007.

(3) Included in Current Report on Form 8-K filed on February 21, 2008.

(4) Included in Current Report on Form 8-K filed on January 4, 2008.

(5) Included in Annual Report on Form 10-K filed on March 31, 2008.

(6) Included in Current Report on Form 8-K filed on June 3, 2008.

(7) Included in Registration Statement on Form S-8 filed on June 5, 2008.

(8) Included in Current Report on Form 8-K filed on November 25, 2008.

(9) Included in Current Report on Form 8-K filed on December 18, 2008.

(10) Included in Quarterly Report on Form 10-Q filed on May 14, 2009.

(11) Included in Current Report on Form 8-K filed on December 11, 2009.

(12) Included in Current Report on Form 8-K filed on January 27, 2010.

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SIGNATURE

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this Annual Report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

LPL INVESTMENT HOLDINGS INC.

By: /s/ MARK S. CASADY

Mark S. Casady
Chief Executive Officer and Chairman

Dated: March 9, 2010

Pursuant to the requirements of the Securities and Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ MARK S. CASADY Mark S. Casady	Chief Executive Officer and Chairman	March 9, 2010
/s/ ROBERT J. MOORE Robert J. Moore	Chief Financial Officer	March 9, 2010
/s/ THOMAS D. LUX Thomas D. Lux	Chief Accounting Officer	March 9, 2010
/s/ RICHARD W. BOYCE Richard W. Boyce	Director	March 9, 2010
/s/ JOHN J. BRENNAN John J. Brennan	Director	March 9, 2010
/s/ JAMES S. PUTNAM James S. Putnam	Director, Vice-Chairman	March 9, 2010
/s/ ERIK D. RAGATZ Erik D. Ragatz	Director	March 9, 2010

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Signature	Title	Date
/s/ JAMES S. RIEPE James S. Riepe	Director	March 9, 2010
/s/ RICHARD P. SCHIFTER Richard P. Schifter	Director	March 9, 2010
/s/ JEFFREY E. STIEFLER Jeffrey E. Stielfer	Director	March 9, 2010
/s/ ALLEN R. THORPE Allen R. Thorpe	Director	March 9, 2010

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LPL INVESTMENT HOLDINGS INC.
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The following consolidated financial statements of LPL Investment Holdings Inc. are included in response to Item 8:

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
LPL Investment Holdings Inc.
Boston, Massachusetts

We have audited the accompanying consolidated statements of financial condition of LPL Investment Holdings Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of LPL Investment Holdings Inc. and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 9, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Costa Mesa, California
March 9, 2010

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LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Dollars in thousands)

	2009	2008	2007
REVENUES:			
Commissions	$ 1,477,655	$ 1,640,218	$ 1,470,285
Advisory fees	704,139	830,555	738,938
Asset-based fees	272,893	352,293	260,935
Transaction and other fees	255,574	240,486	184,604
Interest income, net of interest expense	20,545	33,684	35,677
Other	18,699	19,113	26,135
Total net revenues	2,749,505	3,116,349	2,716,574
EXPENSES:			
Commissions and advisory fees	1,872,478	2,132,050	1,908,666
Compensation and benefits	270,436	343,171	257,200
Depreciation and amortization	108,296	100,462	78,748
Promotional	61,451	99,707	64,302
Restructuring charges	58,695	14,966	
Occupancy and equipment	50,475	58,752	43,419
Professional services	38,071	31,492	31,478
Communications and data processing	36,194	39,967	27,822
Brokerage, clearing and exchange	32,101	30,998	26,806
Regulatory fees and expenses	23,217	21,747	17,939
Travel and entertainment	9,008	14,782	14,935
Other	15,294	17,558	13,931
Total operating expenses	2,575,716	2,905,652	2,485,246
Interest expense from senior credit facilities, subordinated notes and revolving line of credit	100,922	115,558	122,817
Loss on equity method investment	300	2,374	678
Total expenses	2,676,938	3,023,584	2,608,741
INCOME BEFORE PROVISION FOR INCOME TAXES	72,567	92,765	107,833
PROVISION FOR INCOME TAXES	25,047	47,269	46,764
NET INCOME	$ 47,520	$ 45,496	$ 61,069

See notes to consolidated financial statements.

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LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

AS OF DECEMBER 31, 2009 AND 2008

(Dollars in thousands, except par value)

	2009	2008
ASSETS		
Cash and cash equivalents	$ 378,594	$ 219,239
Cash and securities segregated under federal and other regulations	288,608	341,575
Receivables from:		
Clients, net of allowance of $792 at December 31, 2009 and $972 at December 31, 2008	257,529	295,797
Product sponsors, broker-dealers and clearing organizations	171,900	231,400
Others, net of allowances of $6,159 at December 31, 2009 and $4,076 at December 31, 2008	139,317	93,771
Securities owned:		
Trading	15,361	10,811
Held-to-maturity	10,454	10,504
Securities borrowed	4,950	604
Fixed assets, net of accumulated depreciation and amortization of $239,868 at December 31, 2009 and $185,537 at December 31, 2008	101,584	161,760
Debt issuance costs, net of accumulated amortization of $15,724 at December 31, 2009 and $11,981 at December 31, 2008	16,542	19,927
Goodwill	1,293,366	1,293,366
Intangible assets, net of accumulated amortization of $136,177 at December 31, 2009 and $106,563 at December 31, 2008	597,083	654,703
Other assets	61,648	48,322
Total assets	$ 3,336,936	$ 3,381,779
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Drafts payable	$ 125,767	$ 154,431
Revolving line of credit		90,000
Payables to clients	493,943	463,011
Payables to broker-dealers and clearing organizations	18,217	21,734
Accrued commissions and advisory fees payable	110,040	100,327
Accounts payable and accrued liabilities	129,898	120,882
Income taxes payable	24,226	12,281
Unearned revenue	45,844	36,658
Interest rate swaps	17,292	25,417
Securities sold but not yet purchased at market value	4,003	3,910
Senior credit facilities and subordinated notes	1,369,223	1,377,647
Deferred income taxes net	147,608	185,169

Total liabilities	2,486,061	2,591,467
COMMITMENTS AND CONTINGENCIES (Notes 14 and 19)		
STOCKHOLDERS' EQUITY:		
Common stock, $.001 par value; 200,000,000 shares authorized; 94,214,762 shares issued and outstanding at December 31, 2009 of which 7,423,973 are restricted, and 93,967,967 shares issued and outstanding at December 31, 2008 of which 7,423,973 are restricted	87	87
Additional paid-in capital	679,277	670,897
Stockholder loans	(499)	(936)
Accumulated other comprehensive loss	(11,272)	(15,498)
Retained earnings	183,282	135,762
Total stockholders' equity	850,875	790,312
Total liabilities and stockholders' equity	$ 3,336,936	$ 3,381,779

See notes to consolidated financial statements.

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LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Dollars in thousands)

	Common Stock	Additional Paid-In Capital	Stockholder Loans	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
BALANCE December 31, 2006	$ 83	$ 591,254	$	$ 1,938	$ 33,642	$ 626,917
Comprehensive income:						
Net income					61,069	61,069
Unrealized loss on interest rate swaps, net of tax benefit of $5,573				(8,450)		(8,450)
Total comprehensive income						52,619
Cumulative effect of change in accounting principle upon adoption of new tax guidance, net of tax benefit of $2,101					(4,445)	(4,445)
Stockholder loans			(1,242)			(1,242)
Tax benefit from stock options exercised		191				191
Exercise of stock options		52				52
Share-based compensation		2,160				2,160
Issuance of common stock for acquisitions	3	70,911				70,914
BALANCE December 31, 2007	$ 86	$ 664,568	$ (1,242)	$ (6,512)	$ 90,266	$ 747,166
Comprehensive income:						
Net income					45,496	45,496
Unrealized loss on interest rate swaps, net of tax benefit of $5,596				(8,986)		(8,986)
Total comprehensive income						36,510
Stockholder loans			306			306
Tax benefit from stock options exercised		668				668
Exercise of stock options	1	585				586
Share-based compensation		4,859				4,859
Issuance of 143,884 shares of common stock		4,000				4,000
Repurchase of 136,470 shares of common stock		(3,783)				(3,783)
BALANCE December 31, 2008	$ 87	$ 670,897	$ (936)	$ (15,498)	$ 135,762	$ 790,312
Comprehensive income:						
Net income					47,520	47,520
Unrealized gain on interest rate swaps, net of tax expense of $3,899				4,226		4,226
Total comprehensive income						51,746
Stockholder loans			437			437
Exercise of stock options		290				290
Tax benefit from stock options exercised		147				147
Share-based compensation		8,124				8,124
Repurchase of 10,000 shares of common stock		(181)				(181)
BALANCE December 31, 2009	$ 87	$ 679,277	$ (499)	$ (11,272)	$ 183,282	$ 850,875

See notes to consolidated financial statements.

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LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Dollars in thousands)

	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 47,520	$ 45,496	$ 61,069
Adjustments to reconcile net income to net cash provided by operating activities:			
Noncash items:			
Benefits received from retention plans		4,347	8,293
Depreciation and amortization	108,296	100,462	78,748
Amortization of debt issuance costs	3,757	3,742	3,675
Impairment of fixed assets	1,288		
Loss on disposal of fixed assets	329	47	129
Share-based compensation	8,124	4,859	2,160
Provision for bad debts	3,319	3,471	3,142
Deferred income tax provision	(41,460)	(26,138)	(21,320)
Loss on equity method investment	300	2,374	678
Impairment of intangible assets	18,636		
Lease abandonment	6,612		
Loan forgiveness	2,072		
Other	(647)	1,815	561
Mortgage loans held for sale:			
Originations of loans			(114,755)
Proceeds from sale of loans			120,193
Gain on sale of loans			(1,061)
Changes in operating assets and liabilities:			
Cash and securities segregated under federal and other regulations	52,967	(145,764)	(143,633)
Receivables from clients	38,268	114,833	(85,024)
Receivables from product sponsors, broker-dealers and clearing organizations	59,500	(71,247)	(52,508)
Receivables from others	(50,937)	423	(37,109)
Securities owned	(3,832)	2,542	(3,771)
Securities borrowed	(4,346)	8,434	3,648
Other assets	(8,061)	(6,687)	(6,103)
Drafts payable	(28,664)	27,287	22,257
Payables to clients	30,932	56,334	112,103
Payables to broker-dealers and clearing organizations	(3,517)	(26,191)	17,570
Accrued commissions and advisory fees payable	9,713	(26,257)	16,442
Accounts payable and accrued liabilities	(236)	26,628	13,750
Income taxes payable	11,945	1,633	475
Unearned revenue	9,186	(4,239)	8,432
Securities sold but not yet purchased	93	(8,927)	2,031
Net cash provided by operating activities	271,157	89,277	10,072
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital expenditures	(8,313)	(62,812)	(71,294)
Proceeds from disposal of fixed assets	200		41
Purchase of securities classified as held-to-maturity	(3,746)	(7,732)	(5,493)
Proceeds from maturity of securities classified as held-to-maturity	3,700	7,600	5,604
Purchase of equity method investment			(5,000)
Proceeds from the sale of equity investment	31		
Deposits of restricted cash	(12,759)		
Release of restricted cash	7,163		

Purchase of intangible assets			(3,444)
Acquisitions, net of existing cash balance		(13,258)	(88,689)
Net cash used in investing activities	(13,724)	(76,202)	(168,275)

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LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

(Dollars in thousands)

	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net (repayment of) proceeds from revolving line of credit	$ (90,000)	$ 25,000	$ 65,000
Repayment of senior credit facilities	(8,424)	(8,424)	(8,304)
Proceeds from senior credit facilities			50,000
Payment of debt amendment costs	(372)		(936)
Excess tax benefit related to stock options exercised	147	668	191
Loans to stockholders			(1,242)
Repayment of stockholder loans	462	114	
Proceeds from stock options exercised	290	586	52
Issuance of common stock		4,000	
Repurchase of common stock	(181)	(3,783)	
Proceeds from warehouse lines of credit			114,781
Repayment of warehouse lines of credit			(118,499)
Net cash (used in) provided by financing activities	(98,078)	18,161	101,043
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	159,355	31,236	(57,160)
CASH AND CASH EQUIVALENTS Beginning of year	219,239	188,003	245,163
CASH AND CASH EQUIVALENTS End of year	$ 378,594	$ 219,239	$ 188,003
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest paid	$ 101,128	$ 116,581	$ 124,382
Income taxes paid	$ 54,919	$ 71,487	$ 66,079
NONCASH DISCLOSURES:			
Capital expenditures purchased through short-term credit	$ 2,640	$ 1,294	

Increase (decrease) in unrealized gain (loss) on interest rate swaps, net of tax expense (benefit)	$ 4,226	$ (8,986)	$ (8,450)
Income taxes payable recorded as a cumulative effect of change in accounting principle upon the adoption of new tax guidance, net of tax benefit			$ (4,445)
Acquisitions:			
Fair value of assets acquired		$ 17,556	$ 322,057
Cash paid for common stock acquired			(167,071)
Additional consideration for post-closing payments		(13,258)	
Common stock issued for acquisitions			(68,552)
Liabilities assumed		$ 4,298	$ 86,434
Common stock issued to acquire intangible assets			$ 1,118
Common stock issued to satisfy accrued liability			