# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION
**WASHINGTON, D.C. 20549**

# FORM 10-K/A

**(Amendment No. 1)**

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

**For the fiscal year ended December 31, 2008**

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

**One Beacon Street, Floor 22, 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:
**Bonus Credits to Purchase 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 ☒

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 ☒

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

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 ☒<br>(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 ☒

The aggregate market value of the registrant's voting stock held by non-affiliates is zero.

The number of shares of common stock, par value $0.001 per share, outstanding as of December 31, 2008 was 93,967,966.90.

**DOCUMENTS INCORPORATED BY REFERENCE**
None.

**Explanatory Note**

On March 24, 2009, LPL Investment Holdings Inc. ("LPLIH" or the "Company") filed its Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

This Form 10-K/A filing is made solely for the purpose of correcting the inadvertent omission of our auditor's signature on its Report of Independent Registered Public Accounting Firm in Item 8. At the time of filing of the original 10-K, we had on-hand a manually signed and dated Report of Independent Registered Public Accounting Firm. There are no other changes to LPLIH's 2008 Form 10-K.

## 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/A. See the Index to Consolidated Financial Statements and Supplementary Data on page F-1.

**PART IV**

## ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) Financial Statements

Our financial statements appearing on pages F-1 through F-41 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) |
| 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) |

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| 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) |
| 21.1 | List of Subsidiaries of LPL Investment Holdings Inc.(10) |
| 23.1 | Independent Registered Public Accounting Firm's Consent(10) |
| 23.2 | Independent Registered Public Accounting Firm's Consent |
| 31.1 | Certification of the Chief Executive Officer pursuant to Rule 13a-14(a)(10) |
| 31.2 | Certification of the Chief Financial Officer pursuant to Rule 13a-14(a)(10) |
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| 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(10) |
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(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 Annual Report on Form 10-K filed on March 24, 2009.

## 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/A 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: April 3, 2009

# EXHIBIT INDEX

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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:

## 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, 2008 and 2007, and the related consolidated statements of income, stockholders' equity, and cash flows for the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2008 and 2007, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Costa Mesa, California

March 20, 2009

**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION**

**AS OF DECEMBER 31, 2008 AND 2007**

**(Dollars in thousands, except par value)**

| | 2008 | 2007 |
|---|---|---|
| **ASSETS** | | |
| Cash and cash equivalents | $ 219,239 | $ 188,003 |
| Cash and securities segregated under federal and other regulations | 341,575 | 195,811 |
| Receivables from: | | |
| Clients, net of allowance of $972 at December 31, 2008 and $529 at December 31, 2007 | 295,797 | 411,073 |
| Product sponsors, broker-dealers and clearing organizations | 231,400 | 160,153 |
| Others, net of allowances of $4,076 at December 31, 2008 and $5,266 at December 31, 2007 | 93,771 | 97,222 |
| Securities owned: | | |
| Marketable securities(1)—at market value | 10,911 | 15,105 |
| Other securities—at amortized cost | 10,793 | 10,632 |
| Securities borrowed | 604 | 9,038 |
| Fixed assets, net of accumulated depreciation and amortization of $185,537 at December 31, 2008 and $130,011 at December 31, 2007 | 161,760 | 156,797 |
| Debt issuance costs, net of accumulated amortization of $11,981 at December 31, 2008 and $8,239 at December 31, 2007 | 19,927 | 23,669 |
| Goodwill | 1,293,366 | 1,287,756 |
| Intangible assets, net of accumulated amortization of $106,563 at December 31, 2008 and $66,297 at December 31, 2007 | 654,703 | 684,123 |
| Other assets | 47,933 | 47,967 |
| Total assets | $ 3,381,779 | $ 3,287,349 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| LIABILITIES: | | |
| Revolving line of credit | $ 90,000 | $ 65,000 |
| Drafts payable | 154,431 | 127,144 |
| Payable to clients | 463,011 | 406,677 |
| Payables to broker-dealers and clearing organizations | 21,734 | 47,925 |
| Accrued commissions and advisory fees payable | 100,327 | 126,584 |
| Accounts payable and accrued liabilities | 120,882 | 88,662 |
| Income taxes payable | 12,281 | 10,648 |
| Unearned revenue | 36,658 | 40,897 |
| Interest rate swaps | 25,417 | 10,835 |
| Securities sold but not yet purchased—at market value | 3,910 | 12,837 |
| Senior credit facilities and subordinated notes | 1,377,647 | 1,386,071 |
| Deferred income taxes—net | 185,169 | 216,903 |
| Total liabilities | 2,591,467 | 2,540,183 |
| COMMITMENTS AND CONTINGENCIES (Notes 14 and 19) | | |
| STOCKHOLDERS' EQUITY: | | |
| Common stock, $.001 par value; 200,000,000 shares authorized; 93,967,967 shares issued and outstanding at December 31, 2008 of which 7,423,973 are restricted (see Note 15), and 86,249,612 shares issued and outstanding at December 31, 2007 | 87 | 86 |
| Additional paid-in capital | 670,897 | 664,568 |
| Stockholder loans | (936) | (1,242) |
| Accumulated other comprehensive loss | (15,498) | (6,512) |
| Retained earnings | 135,762 | 90,266 |
| Total stockholders' equity | 790,312 | 747,166 |
| Total liabilities and stockholders' equity | $ 3,381,779 | $ 3,287,349 |

(1) Includes $2,819 and $2,769 pledged to clearing organizations at December 31, 2008 and December 31, 2007, respectively.

See accompanying notes to consolidated financial statements.

**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME**

**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

**(Dollars in thousands)**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| REVENUES: | | | |
| Commissions | $ 1,640,218 | $ 1,470,285 | $ 890,489 |
| Advisory fees | 830,555 | 738,938 | 521,058 |
| Asset-based fees | 352,293 | 260,935 | 147,364 |
| Transaction and other fees | 240,486 | 184,604 | 134,496 |
| Interest income | 34,465 | 36,708 | 28,402 |
| Other | 19,113 | 26,135 | 18,127 |
| Total revenues | 3,117,130 | 2,717,605 | 1,739,936 |
| EXPENSES: | | | |
| Commissions and advisory fees | 2,132,050 | 1,908,666 | 1,213,603 |
| Compensation and benefits | 343,171 | 257,200 | 137,401 |
| Depreciation and amortization | 100,462 | 78,748 | 65,348 |
| Promotional | 99,707 | 64,302 | 36,060 |
| Occupancy and equipment | 58,752 | 43,419 | 26,212 |
| Communications and data processing | 39,967 | 27,822 | 21,423 |
| Professional services | 31,492 | 31,478 | 14,884 |
| Brokerage, clearing and exchange | 30,998 | 26,806 | 17,502 |
| Regulatory fees and expenses | 21,747 | 17,939 | 15,176 |
| Restructuring charges | 14,966 | — | — |
| Travel and entertainment | 14,782 | 14,935 | 7,136 |
| Other | 17,558 | 13,931 | 4,921 |
| Total noninterest expenses | 2,905,652 | 2,485,246 | 1,559,666 |
| Interest expense from senior credit facilities, subordinated notes and revolving line of credit | 115,558 | 122,817 | 125,103 |
| Interest expense from brokerage operations and mortgage lending | 781 | 1,031 | 301 |
| Loss on equity investment | 2,374 | 678 | — |
| Total expenses | 3,024,365 | 2,609,772 | 1,685,070 |
| INCOME BEFORE PROVISION FOR INCOME TAXES | 92,765 | 107,833 | 54,866 |
| PROVISION FOR INCOME TAXES | 47,269 | 46,764 | 21,224 |
| NET INCOME | $ 45,496 | $ 61,069 | $ 33,642 |

See accompanying notes to consolidated financial statements.

# LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

# CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

# FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

## (Dollars in thousands)

| | Common Stock | Additional Paid-In Capital | Stockholder Loans | Accumulated Other Comprehensive Income (Loss) | Retained Earnings | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| BALANCE—December 31, 2005 | $ 83 | $ 588,341 | $ — | $ — | $ — | $ 588,424 |
| Comprehensive income: | | | | | | |
| Net income | | | | | 33,642 | 33,642 |
| Change in unrealized gains on interest rate swaps, net of tax expense of $1,250 | | | | 1,938 | | 1,938 |
| Total comprehensive income | | | | | | 35,580 |
| Share-based compensation | | 2,878 | | | | 2,878 |
| Exercise of stock options | | 35 | | | | 35 |
| BALANCE—December 31, 2006 | $ 83 | $ 591,254 | $ — | $ 1,938 | $ 33,642 | $ 626,917 |
| Comprehensive income: | | | | | | |
| Net income | | | | | 61,069 | 61,069 |
| Change in unrealized losses 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 FIN 48, net of tax benefit of $2,101 (Notes 2 and 11) | | | | | (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 (Note 4) | 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 |
| Change in unrealized losses on interest rate swaps, net of tax benefit of $5,596 (Note 11) | | | | (8,986) | | (8,986) |
| Total comprehensive income | | | | | | 36,510 |
| Stockholder loans (Note 17) | | | 306 | | | 306 |
| Exercise of stock options | 1 | 585 | | | | 586 |
| Tax benefit from stock options exercised | | 668 | | | | 668 |
| 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 |

See accompanying notes to consolidated financial statements.

## LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

## FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

**(Dollars in thousands)**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | | |
| Net income | $ 45,496 | $ 61,069 | $ 33,642 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Noncash items: | | | |
| Benefits received from retention plans (Note 16) | 4,347 | 8,293 | — |
| Depreciation and amortization | 100,462 | 78,748 | 65,348 |
| Amortization of debt issuance costs | 3,742 | 3,675 | 4,514 |
| Loss on disposal of fixed assets | 47 | 129 | 154 |
| Share-based compensation | 4,859 | 2,160 | 2,878 |
| Provision for bad debts | 3,471 | 3,142 | 475 |
| Deferred income tax provision | (26,138) | (21,320) | (19,404) |
| Loss on equity investment | 2,374 | 678 | — |
| Other | 1,815 | 561 | (539) |
| Mortgage loans held for sale: | | | |
| Originations of loans | — | (114,755) | (68,878) |
| Proceeds from sale of loans | — | 120,193 | 65,947 |
| Gain on sale of loans | — | (1,061) | (636) |
| Changes in operating assets and liabilities: | | | |
| Cash and securities segregated under federal and other regulations | (145,764) | (143,633) | (31,258) |
| Receivable from clients | 114,833 | (85,024) | (76,799) |
| Receivables from product sponsors, broker-dealers and clearing organizations | (71,247) | (52,508) | 4,528 |
| Receivable from others | 423 | (37,109) | (18,442) |
| Securities owned | 2,542 | (3,771) | (743) |
| Securities borrowed | 8,434 | 3,648 | (6,247) |
| Other assets | (6,687) | (6,103) | (2,329) |
| Drafts payable | 27,287 | 22,257 | 16,114 |
| Payable to clients | 56,334 | 112,103 | 99,468 |
| Payables to broker-dealers and clearing organizations | (26,191) | 17,570 | 11,666 |
| Accrued commissions and advisory fees payable | (26,257) | 16,442 | 15,753 |
| Accounts payable and accrued liabilities | 26,628 | 13,750 | (19,109) |
| Income taxes payable/receivable | 1,633 | 475 | 51,611 |
| Unearned revenue | (4,239) | 8,432 | 5,594 |
| Securities sold but not yet purchased | (8,927) | 2,031 | 5,918 |
| Net cash provided by operating activities | 89,277 | 10,072 | 139,226 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | | |
| Acquisitions, net of existing cash balance | (13,258) | (88,689) | — |
| Capital expenditures | (62,812) | (71,294) | (23,038) |
| Proceeds from disposal of fixed assets | — | 41 | 9 |
| Purchase of other securities classified as held-to-maturity | (7,732) | (5,493) | (38,490) |
| Proceeds from maturity of other securities classified as held-to-maturity | 7,600 | 5,604 | 31,114 |
| Purchase of equity investment | — | (5,000) | — |
| Purchase of intangible assets | — | (3,444) | — |
| Net cash used in investing activities | (76,202) | (168,275) | (30,405) |

(Continued)

**LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)**

**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

**(Dollars in thousands)**

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| CASH FLOWS FROM FINANCING ACTIVITIES: | | | |
| Net proceeds from revolving line of credit | $ 25,000 | $ 65,000 | $ — |
| Repayment of senior credit facilities | (8,424) | (8,304) | (50,625) |
| Proceeds from senior credit facilities | — | 50,000 | 50,000 |
| Payment of debt issuance costs | — | (936) | (584) |
| Tax benefit related to stock options exercised | 668 | 191 | — |
| Loans to stockholders | — | (1,242) | — |
| Repayment of stockholder loans | 114 | — | — |
| Proceeds from stock options exercised | 586 | 52 | 35 |
| Issuance of common stock | 4,000 | — | — |
| Repurchase of common stock | (3,783) | — | — |
| Proceeds from warehouse lines of credit | — | 114,781 | 68,862 |
| Repayment of warehouse lines of credit | — | (118,499) | (65,938) |
| Net cash provided by financing activities | 18,161 | 101,043 | 1,750 |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 31,236 | (57,160) | 110,571 |
| CASH AND CASH EQUIVALENTS—Beginning of year | 188,003 | 245,163 | 134,592 |
| CASH AND CASH EQUIVALENTS—End of year | $ 219,239 | $ 188,003 | $ 245,163 |
| SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION: | | | |
| Interest paid | $ 116,581 | $ 124,382 | $ 123,390 |
| Income taxes paid | $ 71,487 | $ 66,079 | $ 10,578 |
| NONCASH DISCLOSURE: | | | |
| Capital expenditures purchased through short-term credit | $ 1,294 | | |
| (Decrease) increase in unrealized (loss) gain on interest rate swaps, net of tax (benefit) expense of ($5,596) and ($5,573) for the years ended December 31, 2008 and 2007, respectively (Note 11) | $ (8,986) | $ (8,450) | $ 1,938 |
| Income taxes payable recorded as a cumulative effect of change in accounting principle upon the adoption of FIN 48 net of tax benefit of $2,101 | | $ (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 (Note 4) | | $ 1,244 | |
| Purchase accounting adjustment to goodwill | | | $ 3,395 |

(Concluded)

See accompanying notes to consolidated financial statements

## 1. ORGANIZATION AND DESCRIPTION OF THE COMPANY

LPL Investment Holdings Inc. ("LPLIH"), a Delaware holding corporation, together with its consolidated subsidiaries (collectively, the "Company") is a provider of technology, brokerage and investment advisory services supporting a broad range of independent financial advisors, registered investment advisors and financial institutions (collectively "customers"), in the United States of America. Through its proprietary technology, custody and clearing platforms, the Company provides access to diversified financial products and services enabling its customers to offer independent financial advice and brokerage services to retail investors (their "clients").

On December 28, 2005, LPL Holdings, Inc. ("LPLH"), and its subsidiaries were acquired through a merger transaction with BD Acquisition Inc., a wholly owned subsidiary of LPLIH (previously named BD Investment Holdings, Inc.). LPLIH was formed by investment funds affiliated with TPG Partners IV, L.P., and Hellman & Friedman Capital Partners V, L.P. (collectively, the "Majority Holders"). The acquisition was accomplished through the merger of BD Acquisition, Inc. with and into LPLH, with LPLH being the surviving entity (the "Acquisition"). The Acquisition was financed by a combination of borrowings under the Company's senior credit facilities, the issuance of senior unsecured subordinated notes and direct and indirect equity investments from the Majority Holders, co-investors, management and the Company's financial advisors.

***Description of Our Subsidiaries***—LPLH, a Massachusetts holding corporation, owns 100% of the issued and outstanding common stock of LPL Financial Corporation ("LPL Financial"), UVEST Financial Services Group, Inc. ("UVEST"), LPL Independent Advisor Services Group LLC ("IASG"), Independent Advisers Group Corporation ("IAG") and LPL Insurance Associates, Inc. ("LPLIA"). LPLH is also the majority stockholder in The Private Trust Company Holdings, Inc. ("PTCH"), and owns 100% of the issued and outstanding voting common stock. As required by the Office of the Comptroller of the Currency, members of the Board of Directors of PTCH own shares of nonvoting common stock in PTCH.

LPL Financial, headquartered in Boston and San Diego, is a clearing broker-dealer registered with the Financial Industry Regulatory Authority ("FINRA") and the Securities and Exchange Commission ("SEC") pursuant to the Securities Exchange Act of 1934 and an investment adviser registered with the SEC pursuant to the Investment Advisers Act of 1940. LPL Financial is also registered as a Futures Commission Merchant with the Commodity Futures Trading Commission ("CFTC") and is a member of the National Futures Association. Additionally, LPL Financial is a Transfer Agent. LPL Financial principally transacts business as an agent for its customers on behalf of their clients in mutual funds, stocks, fixed income instruments, commodities, options, private and public partnerships, variable annuities, real estate investment trusts and other investment products. LPL Financial is licensed to operate in all 50 states, Washington D.C. and Puerto Rico.

The Company acquired all of the outstanding capital stock of UVEST on January 2, 2007 (see Note 4). UVEST, a North Carolina corporation, is an introducing broker-dealer registered with FINRA and the SEC pursuant to the Securities Exchange Act of 1934 and an investment adviser registered with the SEC pursuant to the Investment Advisers Act of 1940. UVEST provides independent, nonproprietary third-party brokerage services to banks, credit unions and other financial institutions. UVEST is licensed to operate in all 50 states and Washington D.C.

On June 20, 2007, the Company acquired from Pacific Life Insurance Company ("Pacific Life") all the outstanding membership interests of Pacific Select Group, LLC, which the Company subsequently renamed IASG (see Note 4). IASG, a Delaware limited liability company, is a holding company for

Mutual Service Corporation ("MSC"), Associated Financial Group, Inc. ("AFG"), Associated Securities Corp., Inc. ("ASC"), Associated Planners Investment Advisory, Inc. ("APIA") and Waterstone Financial Group, Inc. ("WFG"). MSC, a Michigan corporation, is an introducing broker-dealer registered with the SEC and FINRA. AFG, a California corporation, is a holding company of wholly owned subsidiaries; ASC, an introducing broker-dealer and APIA, an investment adviser registered with the SEC pursuant to the Investment Advisers Act of 1940. WFG, an Illinois corporation, is an introducing broker-dealer registered with the SEC and FINRA. The IASG entities engage primarily in introducing brokerage and advisory transactions for mutual funds, stocks, fixed income instruments, variable annuities and other insurance products to third-party clearing broker-dealers.

On November 7, 2007, the Company acquired all of the outstanding capital stock of Independent Financial Marketing Group, Inc. and IFMG Securities, Inc. (collectively "IFMG") from Sun Life Financial Inc. and Sun Life Financial (U.S.) Holdings, Inc. (collectively "Sun Life") (see Note 4). Through IFMG Securities, Inc., a broker-dealer registered with FINRA and the SEC pursuant to the Securities Exchange Act of 1934 and an investment adviser registered with the SEC pursuant to the Investment Advisers Act of 1940, and its affiliated insurance agencies, IFMG provides financial institutions with brokerage and advisory services for mutual funds, securities, fixed and variable annuities and other insurance products. The Company shutdown IFMG (the "Shutdown Plan") during the third quarter of 2008 and transitioned its customer relationships to LPL Financial and UVEST. See Note 4 for additional disclosure of the Company's acquisition and divesture of IFMG.

IAG is an investment adviser registered with the SEC pursuant to the Investment Advisers Act of 1940, which offers an investment advisory platform for clients of financial advisors working for other financial institutions.

LPLIA operates as a brokerage general agency for fixed insurance sales and services.

PTCH is a holding company for The Private Trust Company, N.A. ("PTC"). PTC is chartered as a non-depository limited purpose national bank, providing a wide range of trust, investment management and custodial services for estates and families. PTC also provides Individual Retirement Account custodial services for its affiliates.

Innovex Mortgage, Inc. ("Innovex"), which conducted real estate mortgage banking and brokerage activities, ceased operations on December 31, 2007. Innovex originated residential mortgage loans for clients of financial advisors licensed with LPL Financial. Innovex performed underwriting, loan origination and funding for a variety of mortgage and home equity loan products to suit the needs of borrowers. Innovex's revenues were derived from the referral of loans to lenders and the origination and sale of residential real estate loans for placement in the secondary market. Innovex was a Housing and Urban Development ("HUD") approved Title II nonsupervised mortgagee.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Basis of Presentation***—These consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"), which require the Company to make estimates and assumptions regarding the valuation of certain financial instruments, intangible assets, allowance for doubtful accounts, valuation of stock compensation, accruals for liabilities and income taxes, revenue and expense accruals, and other matters that affect the consolidated financial statements and related disclosures. Actual results could differ materially from those estimates.

***Consolidation***—The Company consolidates all subsidiaries for which it has a controlling interest as defined by and in accordance with Accounting Research Bulletin ("ARB") No. 51, *Consolidated Financial Statements* ("ARB 51"). The consolidated financial statements of the Company include all of the accounts of LPLIH and its subsidiaries, as described above. All intercompany balances and transactions have been eliminated in consolidation. The Company accounts for the ownership of non-voting common stock in PTCH as a minority interest.

***Reclassifications***—Certain reclassifications were made to previously reported amounts in the consolidated financial statements and notes thereto to make them consistent with the current period presentation. The Company has reclassified $0.68 million of other expenses in 2007 more appropriately as loss on equity investment, to conform to the 2008 presentation.

***Comprehensive Income (Loss)***—The Company's comprehensive income (loss) is composed of net income and the effective portion of the unrealized gains (losses) on financial derivatives in cash flow hedge relationships, net of related tax effects.

***Cash and Cash Equivalents***—Cash and cash equivalents are composed of interest and noninterest-bearing deposits, money market funds and U.S. government obligations that meet the definition of a cash equivalent. Cash equivalents are highly liquid investments, with original maturities of less than 90 days that are not required to be segregated under federal or other regulations.

***Cash and Securities Segregated Under Federal and Other Regulations***—Certain subsidiaries of the Company are subject to requirements related to maintaining cash or qualified securities in a segregated reserve account for the exclusive benefit of its customers in accordance with SEC Rule 15c3-3 and other regulations.

***Receivable From and Payable to Clients***—Receivable from and payable to clients includes amounts due on cash and margin transactions. The Company extends credit to its clients to finance their purchases of securities on margin. The Company receives income from interest charged on such extensions of credit. The Company pays interest on certain client free credit balances held pending investment. Loans to clients are generally fully collateralized by client securities, which are not included in the accompanying consolidated statements of financial condition.

To the extent that margin loans and other receivables from clients are not fully collateralized by client securities, management establishes an allowance that it believes is sufficient to cover any probable losses. When establishing this allowance, management considers a number of factors, including its ability to collect from the client and/or the client's financial advisor and the Company's historical experience in collecting on such transactions.

The following schedule reflects the Company's activity in providing for an allowance for uncollectible amounts due from clients for the years ended December 31, 2008 and 2007 (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Beginning balance—January 1 | $529 | $202 |
| Provision | 443 | 327 |
| Ending balance—December 31 | $972 | $529 |

***Receivables From Product Sponsors, Broker-Dealers and Clearing Organizations***—Receivables from product sponsors, broker-dealers and clearing organizations primarily consists of commission and transaction-related receivables.

***Receivable From Others***—Receivable from others primarily consists of other accrued fees from product sponsors and financial advisors. The Company periodically extends credit to its financial advisors in the form of recruiting loans, commission advances, and other loans. The decisions to extend credit to financial advisors are generally based on either the financial advisors credit history, their ability to generate future commissions, or both. Management maintains an allowance for uncollectible amounts using an aging analysis that takes into account the financial advisors registration status and the specific type of receivable. The aging thresholds and specific percentages used represent management's best estimates of probable losses. Management monitors the adequacy of these estimates through periodic evaluations against actual trends experienced.

The following schedule reflects the Company's activity in providing for an allowance for uncollectible amounts due from others for the years ended December 31, 2008 and 2007 (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Beginning balance—January 1 | $ 5,266 | $2,590 |
| Provision | 3,028 | 2,815 |
| Charge-offs—net of recoveries | (4,218) | (139) |
| Ending balance—December 31 | $ 4,076 | $5,266 |

***Securities Owned and Sold But Not Yet Purchased***—Securities owned and securities sold but not yet purchased are reflected on a trade-date basis at market value with realized and unrealized gains and losses being recorded in other revenue in the consolidated statements of income. Clients' securities transactions are recorded on a settlement-date basis, with related commission income and expense reported on a trade-date basis.

U.S. government notes, held by PTCH, are classified as held-to-maturity, as PTCH has both the intent and ability to hold them to maturity. PTCH also invests in stock held in the Federal Reserve Bank, which is a nonmarketable security. U.S. government notes are carried at amortized cost, and stock held in the Federal Reserve Bank is carried at cost.

Interest income is accrued as earned and dividends are recorded on the ex-dividend date. Premiums and discounts are amortized, using a method that approximates the effective yield method, over the term of the security and recorded as an adjustment to the investment yield.

***Securities Borrowed and Loaned***—Securities borrowed and securities loaned are accounted for as collateralized financings and are recorded at the amount of the cash provided for securities borrowed transactions and cash received for securities loaned (generally in excess of market values). The adequacy of the collateral deposited for securities borrowed is continuously monitored and adjusted when considered necessary to minimize the risk associated with this activity. At December 31, 2008 and December 31, 2007, the Company had $0.60 million and $9.04 million, respectively, in securities borrowed. The collateral received for securities loaned is generally cash and is adjusted daily through the Depository Trust Company's ("DTC") net settlement process, and securities loaned is included in payable to broker-dealers and clearing organizations in the consolidated statements of financial condition. Securities loaned generally represent client securities that can be pledged under standard margin loan agreements. At December 31, 2008 and December 31, 2007, the Company had $5.25 million and $23.32 million, respectively, of pledged securities loaned under the DTC Stock Borrow Program.

***Equity Investment***—The Company's equity investment is accounted for under the equity method when it exerts significant influence and ownership does not exceed 50% of the common stock. In accordance with Accounting Principles Board ("APB") Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock* ("APB 18"), the Company records the investment at cost in the consolidated statements of financial condition and adjusts the carrying amount of the investment to recognize its share of earnings or losses while recording such earnings or losses within the consolidated statements of income. The Company has a commercial relationship with its investee in the normal course of business, and made payments for services rendered of $0.27 million and $1.18 million respectively, during the years ended December 31, 2008 and 2007.

***Mortgage Loans Held for Sale***—Through its mortgage affiliate, Innovex, the Company originated residential mortgage loans through a warehouse line of credit facility or as a broker for other banks. The Company ceased the operations of Innovex on December 31, 2007.

Prior to this date, mortgage loans held for sale were carried at the lower of aggregate cost or fair value and were sold on a nonrecourse basis with certain representations and warranties. Fair value was determined by outstanding commitments from investors. The Company evaluated the need for market valuation reserves on mortgage loans held for sale based on a number of quantitative and qualitative factors, primarily changes in interest rates and collateral values. The Company sold all mortgage loans that it originated.

The Company had an agreement with certain third-party financial institutions for them to purchase loans originated by the Company, as long as such loans met certain criteria, generally within 30 days from funding. Loan origination and processing fees and certain direct origination costs were deferred until the related loan was sold.

***Fixed Assets***—Furniture, equipment, computers, purchased software, capitalized software and leasehold improvements are recorded at historical cost, net of accumulated depreciation and amortization. Depreciation is recognized using the straight-line method over the estimated useful lives of the assets. Furniture, equipment, computers and purchased software are depreciated over period of three to seven years. Automobiles have depreciable lives of five years. Leasehold improvements are amortized over the lesser of their useful lives or the terms of the underlying leases, ranging up to 12 years. Management reviews fixed assets for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable.

***Software Development Costs***—Software development costs are charged to operations as incurred. Software development costs include costs incurred in the development and enhancement of software used in connection with services provided by the Company that do not otherwise qualify for capitalization under the American Institute of Certified Public Accountants Statement of Position 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use* ("SOP 98-1").

The costs of internally developed software that qualify for capitalization under SOP 98-1 are capitalized as fixed assets and subsequently amortized over the estimated useful life of the software, which is generally three years. The costs of internally developed software are included in fixed assets at the point at which the conceptual formulation, design and testing of possible software project alternatives are complete and management authorizes and commits to funding the project. The

Company does not capitalize pilot projects and projects where it believes that the future economic benefits are less than probable. The value assigned to internally developed software in connection with certain acquisitions is amortized over an expected weighted-average economic useful life of approximately 4.3 years.

***Deferred Loan Issuance Costs***—Debt issuance costs incurred in connection with the issuance of the senior secured credit facilities and the senior unsecured subordinated notes have been capitalized and are being amortized as additional interest expense over the expected terms of the related debt agreements using the effective interest method.

***Goodwill, Intangible Assets and Trademarks and Trade Names***—In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets*, the Company classifies intangible assets into three categories: (1) intangible assets with definite lives subject to amortization, (2) intangible assets with indefinite lives not subject to amortization and (3) goodwill.

Intangible assets with definite lives include relationships with financial advisors, financial institutions, product sponsors, trust clients and trademarks and trade names of certain acquired subsidiaries. The Company tests these assets for impairment if conditions exist that indicate the carrying value may not be recoverable, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*. The Company records an impairment charge when the carrying value of the definite-lived intangible asset is not recoverable by the cash flows generated from the use of the asset. No impairment occurred for the years ended December 31, 2008, 2007 and 2006.

Intangible assets with indefinite lives, such as trademark and trade name, and goodwill are not amortized. The Company tests intangible assets and goodwill for impairment at least annually or more frequently if events or circumstances indicate that such intangible assets or goodwill might be impaired. When the fair value is less than the carrying value of the intangible assets or the reporting unit, the Company records an impairment charge to reduce the carrying value of the assets to fair value.

The Company completed its annual goodwill impairment test as of December 31, 2007 and 2006 and concluded that no impairment charges were required as of those dates. During the third quarter of 2008, the Company elected to change the timing of its annual goodwill impairment test from December 31 to October 1. The selection of October 1 as the annual testing date for the impairment of goodwill is intended to move the testing to a time period outside of the Company's annual financial reporting process to allow the Company additional time to complete the analysis. The Company believes that this change in accounting principle is preferable under the circumstances, and that this change does not accelerate, delay or avoid an impairment charge. The Company has also determined that a change in the annual testing date did not result in adjustments to the consolidated financial statements when applied retrospectively. In addition, during the third quarter of 2008, the Company also changed the date of its annual indefinite-lived intangible testing from December 31 to October 1. Accordingly, impairment tests of goodwill and indefinite-lived intangibles were performed as of October 1, 2008, which did not result in any impairment.

The Company determines the useful lives of identifiable intangible assets after considering the specific facts and circumstances related to each intangible asset. Factors considered when determining useful lives include the contractual term of any agreement, the history of the asset, the Company's long-term strategy for the use of the asset, any laws or other local regulations which could impact the useful life of the asset, and other economic factors, including competition and specific market conditions. Intangible assets that are deemed to have definite lives are amortized, on a straight-line basis, over their useful lives, generally ranging from 18 months to 20 years.

***Classification and Valuation of Certain Investments***—The classification of an investment determines its accounting treatment. The Company generally classifies its investments in debt and equity instruments (including mutual funds, annuities, corporate bonds, government bonds and municipal bonds) as trading securities, except for government bonds held by PTCH, which are classified as held-to-maturity based on management's intent. The Company has not classified any investments as available-for-sale. Investment classifications are subject to ongoing review and can change. Securities classified as trading are carried at fair value, while securities classified as held-to-maturity are carried at cost or amortized cost. When possible, the fair value of securities is determined by obtaining quoted market prices. The Company also makes estimates about the fair value of investments and the timing for recognizing losses based on market conditions and other factors. If its estimates change, the Company may recognize additional losses. Both unrealized and realized gains and losses on trading securities are recognized in other revenue on a net basis in the consolidated statements of income.

***Derivative Instruments and Hedging Activities***—The Company uses interest rate swap agreements to protect itself against changing interest rates and the related impact to the Company's cash flows. The Company also evaluates its contracts and commitments for terms that qualify as embedded derivatives. All derivatives are reported at their corresponding fair value in the Company's 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, the Company reassesses the effectiveness of the hedge to determine whether or not it can continue to use hedge accounting. Under hedge accounting, the Company records the increase or decrease in fair value of the derivative, net of tax impact, as other comprehensive income or loss. If the hedge is not determined to be a perfect hedge, yet is still considered highly effective, the Company 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 (loss) are reclassified into earnings in the same period or periods during which the hedged forecasted transaction affects earnings.

***Drafts Payable***—Drafts payable represent customer checks drawn against the Company that have not yet cleared through the bank.

***Legal Reserves***—The Company records reserves for legal proceedings in accounts payable and accrued liabilities in the accompanying consolidated statements of financial condition. The determination of these reserve amounts requires significant judgment on the part of management. Management considers many factors, including, but not limited to, the amount of the claim, the amount of the loss in the customer's account, the basis and validity of the claim, the possibility of wrongdoing on the part of a client, 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 the accompanying consolidated statements of income.

***Revenue Recognition Policies:***

*Commission*—The Company records 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 earned 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 clients 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 on a number of factors, but primarily on the volume of similar transactions for the same period for which cash has been received. Because the Company records commissions payable based upon standard payout ratios for each product as it accrues for commission revenue, any adjustment between actual and estimated commission revenue will be offset in part by the corresponding adjustment to commission expense.

*Advisory and Asset-Based Fees*—The Company charges investment advisory fees based on a customer's portfolio value, generally at the beginning of each quarter. Advisory fees collected in advance are recorded as unearned revenue and are recognized ratably over the period in which such fees are earned. Advisory fees collected in arrears are recorded as earned. Asset-based fees are primarily derived from the Company's marketing, sub-transfer agency agreements, and customer cash sweep products and are recorded and recognized ratably over the period in which services are provided.

*Transaction and Other Fees*—The Company charges transaction fees for executing noncommissionable transactions on customer accounts. Transaction related charges are recognized on a trade-date basis. Other fees relate to services provided and other account charges generally outlined in the Company's agreements with its clients and customers. Such fees are recognized as services are performed or as earned, as applicable. In addition, the Company offers various software-related products, for which fees are charged on a subscription basis and are recognized over the subscription period.

*Interest Income*—The Company earns interest income from its cash equivalents and customer margin balances. On December 31, 2007, the Company ceased the operations of its mortgage affiliate Innovex. Prior to this date, the Company also earned interest income on its mortgage loans held for sale.

*Gain on Sale of Mortgage Loans Held for Sale*—The Company, through its mortgage affiliate Innovex, recognized gains on the sale of mortgage loans held for sale on the date of settlement. On December 31, 2007, Innovex ceased operations. Prior to this date, a gain was recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold, including deferred loan origination fees and certain direct origination costs. All loans were sold on a servicing-released basis (i.e. the Company did not service the loans after they were sold, and all loans were sold before the first payment was made). Loans were accounted for as sold when control of the mortgage loans was surrendered. Control over mortgage loans was deemed to be surrendered when (i) the mortgage loans were isolated from the Company, (ii) the buyer had the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the loans, and (iii) the Company did not maintain effective control of the mortgage loans through either (a) an agreement that entitled and obligated the Company to repurchase or redeem the mortgage loans before maturity or (b) the ability to unilaterally cause the buyer to return specific mortgage loans.

***Compensation and Benefits***—The Company records compensation and benefits for all cash and deferred compensation, benefits and related taxes as earned by its employees. Compensation and benefits expense also includes fees earned by temporary employees and contractors who perform similar services to those performed by the Company's employees, primarily software development and project management activities. Temporary employee and contractor services of $36.90 million, $25.44 million, and $14.57 million were incurred during the years ended December 31, 2008, 2007, and 2006, respectively.

***Share-Based Compensation***—On January 1, 2006, the Company adopted SFAS No. 123R (Revised), *Share-Based Payment* ("SFAS 123R"). SFAS 123R requires the recognition of the fair value of share-based compensation in net income. The Company recognizes share-based compensation expense for its employee stock option awards over the requisite service period of the individual grants, which generally equals the vesting period. Prior to January 1, 2006, the Company accounted for employee equity awards using APB No. 25, *Accounting for Stock Issues to Employees* ("APB 25"), and related interpretations in accounting for share-based compensation. The Company accounts for non-employee stock option awards under the provisions of Emerging Issues Task Force ("EITF") Issue No. 96-18, *Accounting for Equity Instruments That Are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services* ("EITF 96-18"), which requires expense recognition to be re-measured at fair value at each of its interim reporting periods.

***Stock Split***—The Company affected a ten-for-one stock split as of January 1, 2008, with all fractional shares being rounded down to the nearest whole share. In accordance with SFAS No. 128, *Earnings per Share*, and the SEC's Staff Accounting Bulletin ("SAB") Topic 4C, all per share amounts, average shares and options outstanding, and shares and options outstanding have been adjusted retroactively to reflect the stock split.

***Income Taxes***—In preparing the consolidated financial statements, the Company estimates income tax expense based on various jurisdictions where it conducts business. The Company 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 the Company establishes a valuation allowance or modifies the existing allowance in a certain reporting period, the Company generally records a corresponding increase or decrease to tax expense in the consolidated statements of income. Management makes 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 the Company had previously taken certain tax positions and newly enacted statutory, judicial and regulatory guidance. These changes could have a material affect on the Company's consolidated statements of financial condition, income, or cash flows in the period or periods in which they occur.

Additionally, the Company adopted Financial Accounting Standards Board ("FASB") Interpretation No. 48, *Accounting for Uncertainty in Income Taxes—an interpretation of FASB Statement No. 109* ("FIN 48") at the beginning of fiscal year 2007, which clarifies the accounting uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. FIN 48 requires the Company to recognize in the financial statements the tax effects of a position only if it is "more likely than-not" to be sustained based solely on its technical merits, otherwise no benefits of the position are to be recognized. The more-likely-than-not threshold must continue to be met in each reporting period to support continued recognition of a benefit. Moreover, FIN 48 requires that each tax position meeting the recognition threshold be measured as the largest amount that is greater than 50 percent likely to be realized upon ultimate settlement with a taxing authority that has full knowledge of all relevant information. See Note 11 for additional detail regarding the Company's uncertain tax positions.

***Fair Value of Financial Instruments***—The Company's financial assets and liabilities are carried at fair value or at amounts that, because of their short-term nature, approximate current fair value, with the exception of its indebtedness. The Company carries its indebtedness at amortized cost, in accordance with GAAP. As of December 31, 2008, the carrying amounts and fair values were approximately $1,468 million and $1,057 million, respectively. As of December 31, 2007, these carrying amounts and fair values were approximately $1,451 million and $1,378 million, respectively. See Note 6 for additional detail regarding the Company's fair value measurements.

***Commitments and Contingencies***—The Company recognizes liabilities for contingencies when analysis indicates it is both probable that a liability has been incurred and the amount of loss can be reasonably estimated. When a range of probable loss can be estimated, the Company accrues the most likely amount.

Management evaluates all available evidence about asserted and unsettled income tax contingencies and unasserted income tax contingencies caused by uncertain income tax positions taken in the Company's income tax returns filed with the Internal Revenue Service ("IRS") and state and local tax authorities. Contingencies that management believes are estimable and probable of payment, if successfully challenged by such tax authorities, are accrued for under the provisions of FIN 48.

***Reportable Segments***—In January 2008, the Company reorganized its internal reporting into three service channels; Independent Advisor Services, Institution Services, and Custom Clearing Services. These service channels were designed to enhance the services provided to the Company's customers and to support future growth. The service channels qualify as individual operating segments under SFAS No. 131, *Disclosure about Segments of an Enterprise and Related Information*, but are aggregated and viewed as one single reportable segment due to quantitative thresholds and their similar economic characteristics, products and services, production and distribution process and regulatory environment.

***Recently Issued Accounting Pronouncements***—In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS 157"), which the Company adopted on January 1, 2008. However, in February 2008, the FASB released FASB Staff Position ("FSP") FAS 157-2, *Effective Date of FASB Statement No. 157* ("FAS 157-2"), which delayed the effective date of SFAS 157 for all nonfinancial assets and liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). The adoption of SFAS 157 for financial assets and liabilities did not have a material impact on the financial statements. The adoption of SFAS 157 for nonfinancial assets and liabilities, effective January 1, 2009, did not have a material impact on the Company's consolidated statements of financial condition, income or cash flows. See Note 6 for additional detail on fair value measurements.

In December 2007, the FASB issued SFAS No. 141 Revised, *Business Combinations* ("SFAS 141R"). SFAS 141R establishes principles and requirements in a business combination for how the acquirer: recognizes and measures in the Company's financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree; recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS 141R applies to all transactions or other events in which the Company obtains control of one or more businesses, including those sometimes referred to as "true mergers" or "mergers of equals" and combinations achieved without the transfer of consideration (e.g., by contract alone or through the lapse of minority veto rights). SFAS 141R applies prospectively to business combinations for which the acquisition date occurs on or after January 1, 2009. The adoption of SFAS 141R will not have an impact on the Company's consolidated statements of financial condition, income or cash flows.

In January 2008, the Company adopted SFAS 159, *The Fair Value Option for Financial Assets and Financial Liabilities—Including an amendment of FASB Statement No. 115* ("SFAS 159"), which provides entities the option to measure many financial instruments and certain other items at fair value. Entities that choose the fair value option will recognize unrealized gains and losses on items for which the fair value option was elected in earnings at each subsequent reporting date. The Company chose not to elect the fair value option under SFAS 159 for any items that are not already required to be measured at fair value in accordance with GAAP.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* ("SFAS 161"). SFAS 161 requires companies with derivative instruments to disclose information that should enable financial-statement users to understand how and why a company uses derivative instruments, how derivative instruments and related hedged items are accounted for under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*, and how derivative instruments and related hedged items affect a company's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008. The adoption of SFAS 161 will not have an impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FSP 142-3, *Determination of the Useful Life of Intangible Assets* ("FSP 142-3"). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, *Goodwill and Other Intangible Assets* ("SFAS 142"). FSP 142-3 must be applied prospectively to all intangible assets acquired as of and subsequent to fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The implementation of this standard will not have a material impact on the Company's consolidated statements of financial condition, income or cash flows.

In October 2008, the FASB issued FSP FAS 157-3, *Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active* ("FAS 157-3"). FAS 157-3 clarifies the application of SFAS 157, in an inactive market and illustrates how an entity would determine fair value when the market for a financial asset is not active. The FSP is effective immediately and applies to prior periods for which financial statements have not been issued, including interim or annual periods ending on or before September 30, 2008. The implementation of FAS 157-3 did not have a material impact on the Company's consolidated statements of financial condition, income or cash flows.

## 3. RESTRUCTURING

On December 29, 2008, the Company committed to and implemented an organizational restructuring plan intended to reduce the cost structure and improve operating efficiencies, which resulted in a reduction in its overall workforce. The Company has recorded $14.97 million associated with the restructuring, in accordance with SFAS No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*. These charges consist of employee severance and other personnel-related expenses, which are accrued in accounts payable and accrued liabilities within the accompanying consolidated statements of financial condition. The Company expects to complete a majority of the activities associated with the restructuring during the first quarter of 2009.

## 4. ACQUISITIONS AND DIVESTURES

*UVEST*

On January 2, 2007, the Company completed its acquisition of all of the outstanding capital stock of UVEST, augmenting the Company's position in providing services to banks, credit unions and other financial institutions. The purchase price totaled $89.45 million; $78.04 million in cash and the issuance of 603,660 shares of common stock at an estimated fair value of $18.90 per share. As part of the purchase price allocation, the Company recorded intangible assets for relationships with financial advisors and product sponsors. The value assigned to these relationships was $54.31 million, which is being amortized on a straight-line basis over the expected useful life of 20 years. Additionally, the Company assigned value to the trademark and trade name in the amount of $457,000. The trademark and trade name was determined to have an expected useful life of 18 months and therefore amortized over the same period, in accordance with SFAS 142. As of December 31, 2008, trademark and trade name has been fully amortized. Goodwill in the amount of $27.41 million was created for the excess purchase price over the value of assets and liabilities assumed.

Immediately following the acquisition, the Company satisfied certain obligations under a phantom stock plan for UVEST employees by issuing 65,820 shares of common stock at an estimated fair value of $18.90 per share.

*IASG*

On June 20, 2007, the Company acquired all the outstanding membership interests of IASG from Pacific Life. This acquisition increased the number of independent financial advisors and strengthened the Company's position as a leading independent broker-dealer in the United States. Through its subsidiaries, IASG engages primarily in introducing brokerage and advisory transactions for mutual funds, stocks, fixed income instruments, variable annuities and other insurance products to third-party clearing broker-dealers on behalf of independent financial advisors.

The total purchase price was approximately $120.48 million; $63.34 million in cash and the issuance of 2,645,500 shares of common stock with an estimated fair value of $21.60 per share. As part of the purchase price allocation, the Company estimated the value of intangible assets for relationships with financial advisors and product sponsors to be $67.10 million, which will be amortized on a straight-line basis over their expected useful lives ranging from 10 to 20 years. Additionally, the Company estimated the value of trademarks and trade names in the amount of $2.30 million. The trademarks and trade names were determined to have an expected useful life of three to five years and therefore amortized over the same period, in accordance with SFAS 142. Goodwill in the amount of $11.30 million was also recorded as part of the acquisition.

Subsequent to the purchase, the Company settled an outstanding state tax audit. This settlement, which was favorable to the Company, resulted in a $113,000 reduction to goodwill.

*IFMG*

On November 7, 2007, the Company completed its acquisition of IFMG. The purpose of this acquisition was to transfer IFMG's relationships with financial institution clients to other broker-dealer subsidiaries of the Company. In conjunction with its acquisition of IFMG, the Company announced a Shutdown Plan, which offered relocation and employment to certain employees and terminated the remaining operations of IFMG within twelve months following the acquisition.

The total purchase price was $38.95 million, including initial purchase consideration of $25.69 million, as well as $7.14 million in post-closing payments made through 2008 based on the successful recruitment and retention of certain institutional relationships. As part of the purchase price allocation, the Company estimated the value of intangible assets for relationships with financial institutions and product sponsors to be $25.58 million, which will be amortized on a straight-line basis over their expected useful lives of 10 years. Additionally, the value of certain technology and non-compete agreements has been estimated at $1.10 million and $0.60 million, respectively, both of which are being amortized over 3 years.

In conjunction with the acquisition, the Company made retention payments to financial institutions doing business through IFMG as an incentive to convert to one of the Company's other technology and clearing platforms. As of December 31, 2008, the Company has paid $6.12 million in retention payments, which are capitalized as other assets in the accompanying consolidated statements of financial condition, and are being amortized over the life of the contractual agreements, ranging from six months to six years. An additional $0.35 million was paid in January 2009 and the Company expects to make additional payments of $0.50 million in the first quarter of 2009.

As part of the Shutdown Plan, the Company evaluated whether or not it will utilize certain long term contractual relationships with vendors of IFMG. Consequently, the Company cancelled various contracts resulting in $2.27 million cancellation charges. Cancellation fees and any estimated losses attributable to vendor and or lease contracts have been recorded as additional purchase price consideration in accordance with EITF Issue No. 95-3, *Recognition of Liabilities in Connection with a Purchase Business Combination*.

The final purchase price of IFMG was allocated as follows (in thousands):

| | |
|---|---|
| Assets purchased and liabilities assumed: | |
| Cash | $ 26,015 |
| Receivables | 10,950 |
| Fixed assets | 1,813 |
| Goodwill | 5,610 |
| Intangibles | 26,180 |
| Other assets | 2,885 |
| Accounts payable and accrued liabilities | (34,502) |
| Total purchase price | $ 38,951 |

## 5. EQUITY INVESTMENT

On May 11, 2007, the Company acquired for $5.00 million, an approximate 22.6% ownership interest in a privately held technology company (the "investee"). This investment provides the Company with a strategic ownership interest in one of its vendors that provides technology for variable annuity order entry and monitoring. The Company follows the equity method of accounting in accordance with APB Opinion No. 18, *The Equity Method of Accounting for Investments in Common Stock*, as it has the ability to exercise significant influence over operating and financial policies, primarily through a representation on the Board of Directors. The Company has classified its equity investment within other assets in the accompanying consolidated statements of financial condition, and has recognized its share of earnings or losses in the accompanying consolidated statements of income in loss on equity investment. Such losses were $0.64 million and $0.68 million for the years ended December 31, 2008 and 2007, respectively.

In June 2008, the Company determined that an other than temporary impairment existed due to the recapitalization of the investee by an outside investor. Accordingly, the Company recognized an impairment loss of $1.73 million, representing the difference in the carrying value of its investment compared with the per share value implied by the transaction. Such loss is included in the accompanying consolidated statements of income in loss on equity investment. The Company has retained a 13.9% ownership interest and a seat on the Board of Directors.

## 6. FAIR VALUE MEASUREMENTS

Effective January 1, 2008, the Company adopted SFAS 157, which defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. SFAS 157 establishes a three-level fair value hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

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

- Level 2—Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The Company's fair value measurements are evaluated within the fair value hierarchy, based on the nature of inputs used to determine the fair value at the measurement date. At December 31, 2008, the Company had the following financial assets and liabilities that are measured at fair value on a recurring basis:

***Cash Equivalents***—The Company's cash equivalents include money market funds, which are short term in nature with readily determinable values derived from active markets.

***Securities Owned and Securities Sold But Not Yet Purchased***—The Company's marketable securities consist of house account model portfolios for the purpose of benchmarking the performance of its fee based advisory platforms, and temporary positions resulting from the processing of customer transactions. The Company's marketable securities are comprised as follows:

- *Money market and US Treasury investments*—Money market funds and U.S. treasury securities are short term in nature with readily determinable values derived from quoted prices in active markets.

- *Equity securities*—Equity securities include investments in common and preferred stock that are actively traded with values that are typically based on last sale or bid values in active markets.

- *Mutual funds*—Mutual funds have active markets and are priced based on net asset values.

- *Variable annuities*—Variable annuities have readily determinable values derived from quoted prices in active markets.

- *Debt securities*—Debt securities represent bonds that are valued using a matrix system or market driven pricing models that derive their inputs from similar assets in active markets.

- *Certificates of deposit*—Certificates of deposit are timed investments that are valued based on third-party quotations of similar assets in active markets.

***Deferred Compensation***—Deferred compensation assets are invested in money market funds and mutual funds that actively traded and are valued based on quoted market prices in active markets.

***Interest Rate Swaps***—The Company's interest rate swap agreements are not traded on a market exchange; therefore, the fair values are determined using externally developed valuation models which include assumptions about the London Interbank Offered Rate ("LIBOR") yield curve at interim reporting dates as well as counterparty credit risk and the Company's own non-performance risk.

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

| | December 31, 2008 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Fair Value Measurements |
| **Assets** | | | | |
| Cash equivalents | $56,122 | $ — | $ — | $ 56,122 |
| Securities owned | 10,301 | 610 | — | 10,911 |
| Other assets(1) | 6,965 | — | — | 6,965 |
| Total assets at fair value | $73,388 | $ 610 | $ — | $ 73,998 |
| **Liabilities** | | | | |
| Securities sold but not yet purchased | $ 3,672 | $ 238 | $ — | $ 3,910 |
| Interest rate swaps | — | 25,417 | — | 25,417 |
| Total liabilities at fair value | $ 3,672 | $25,655 | $ — | $ 29,327 |

(1) Other assets recorded at fair value on a recurring basis include deferred compensation plan assets.

**7. RECEIVABLES FROM PRODUCT SPONSORS, BROKER-DEALERS AND CLEARING ORGANIZATIONS AND PAYABLES TO BROKER-DEALERS AND CLEARING ORGANIZATIONS**

Receivables from product sponsors, broker-dealers and clearing organizations and payables to broker-dealers and clearing organizations were as follows (in thousands):

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Receivables: | | |
| Receivable from clearing organizations | $ 88,722 | $ 38,594 |
| Commissions receivable from product sponsors and others | 87,078 | 103,009 |
| Receivable from broker-dealers | 45,630 | 12,872 |
| Securities failed-to-deliver | 9,970 | 5,678 |
| Total receivables | $231,400 | $160,153 |
| Payables: | | |
| Securities failed-to-receive | $ 9,227 | $ 11,247 |
| Securities loaned | 5,252 | 27,483 |
| Payable to broker-dealers | 4,079 | 224 |
| Payable to clearing organizations | 3,176 | 8,971 |
| Total payables | $ 21,734 | $ 47,925 |

Securities loaned represent amounts due to DTC for collateral received in participation with its Stock Borrow Program.

LPL Financial clears commodities transactions for its customers through another broker-dealer on a fully disclosed basis. The amount payable to broker-dealers relates to the aforementioned transactions and is collateralized by securities owned by LPL Financial.

## 8. SECURITIES OWNED AND SECURITIES SOLD BUT NOT YET PURCHASED

The components of securities owned and securities sold but not yet purchased were as follows (in thousands):

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Securities owned—market value: | | |
| Mutual funds | $ 6,502 | $ 9,510 |
| U.S. government obligations (pledged to clearing organizations) | 2,819 | 2,769 |
| Stocks | 585 | 621 |
| Municipal bonds | 375 | — |
| Variable annuities | 157 | 234 |
| Nonconvertible bonds | 135 | 1,817 |
| Money market funds | 238 | 154 |
| Certificates of deposit | 100 | — |
| Total securities owned—market value | $10,911 | $15,105 |
| Other securities: | | |
| U.S. government notes—at amortized cost | $10,404 | $10,242 |
| Federal Reserve stock—at cost | 389 | 390 |
| Total other securities | $10,793 | $10,632 |
| Securities sold but not yet purchased—market value: | | |
| Mutual funds | $ 3,585 | $12,470 |
| Non-convertible bonds | 238 | 13 |
| Stocks and warrants | 87 | 354 |
| Total securities sold but not yet purchased—market value | $ 3,910 | $12,837 |

The carrying values of the U.S. government notes classified as held-to-maturity approximates their market values. As of December 31, 2008, the components of U.S. government notes classified as held-to-maturity were as follows (in thousands):

| | Carrying Values | Interest Rate | Year of Maturity |
|---|---|---|---|
| U.S. Treasury notes | $ 3,703 | 3.00%-3.88% | 2009 |
| U.S. Treasury notes | 5,184 | 2.63%-4.13% | 2010 |
| U.S. Treasury notes | 1,517 | 1.75% | 2011 |
| Total U.S. Treasury notes | $10,404 | | |

## 9. FIXED ASSETS

The components of fixed assets are as follows (in thousands):

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Internally developed software | $ 190,949 | $ 165,201 |
| Computers and software | 87,113 | 73,414 |
| Leasehold improvements | 42,547 | 25,049 |
| Furniture and equipment | 20,116 | 16,572 |
| Property | 6,572 | 6,572 |
| Total fixed assets | 347,297 | 286,808 |
| Accumulated depreciation and amortization | (185,537) | (130,011) |
| Fixed assets—net | $ 161,760 | $ 156,797 |

Depreciation and amortization expense for fixed assets was $60.20 million, $43.69 million and $36.04 million for the years ended December 31, 2008, 2007 and 2006, respectively.

## 10. GOODWILL AND INTANGIBLE ASSETS

A summary of the activity in goodwill is presented below (in thousands):

| | |
|---|---|
| Balance at December 31, 2006 | $1,249,159 |
| Acquisition of UVEST (Note 4) | 27,406 |
| Acquisition of IASG (Note 4) | 11,304 |
| Adjustment related to IASG expiring tax statute (Note 4) | (113) |
| Balance at December 31, 2007 | 1,287,756 |
| IFMG purchase accounting adjustment(1) | 5,610 |
| Balance at December 31, 2008 | $1,293,366 |

(1) Adjustments were recorded to goodwill as a result of additional purchase price consideration for the acquisition of IFMG in accordance with the purchase and sale agreement, and the Company's review of the appraisal of related tangible and intangible assets, which was completed in 2008. See Note 4 for further discussion.

The components of intangible assets as of December 31, 2008 and 2007 are as follows (in thousands):

| | Gross carrying value | Accumulated amortization | Net carrying value |
|---|---|---|---|
| **At December 31, 2008:** | | | |
| Definite-lived intangible assets: | | | |
| Advisor relationships | $482,397 | $ (71,318) | $411,079 |
| Product sponsor relationships | 233,663 | (33,442) | 200,221 |
| Trust client relationships | 2,630 | (521) | 2,109 |
| Trademarks and trade names | 2,757 | (1,282) | 1,475 |
| Total definite-lived intangible assets | $721,447 | $ (106,563) | $614,884 |
| Indefinite-lived intangible assets: | | | |
| Trademark and trade name | | | 39,819 |
| Total intangible assets | | | $654,703 |
| **At December 31, 2007:** | | | |
| Definite-lived intangible assets: | | | |
| Advisor relationships | $471,551 | $ (43,650) | $427,901 |
| Product sponsor relationships | 233,663 | (21,668) | 211,995 |
| Trust client relationships | 2,630 | (389) | 2,241 |
| Trademarks and trade names | 2,757 | (590) | 2,167 |
| Total definite-lived intangible assets | $710,601 | $ (66,297) | $644,304 |
| Indefinite-lived intangible assets: | | | |
| Trademark and trade name | | | 39,819 |
| Total intangible assets | | | $684,123 |

Total amortization expense of intangible assets was $40.27 million, $35.06 million and $29.30 million for the years ended December 31, 2008, 2007 and 2006, respectively. Amortization expense for each of the fiscal years ended December 2009 through 2013 and thereafter is estimated as follows (in thousands):

| | |
|---|---|
| 2009 | $ 39,412 |
| 2010 | 38,454 |
| 2011 | 38,194 |
| 2012 | 37,723 |
| 2013 | 36,941 |
| Thereafter | 424,160 |
| Total | $614,884 |

## 11. INCOME TAXES

The Company's provision (benefit) for income taxes is as follows (in thousands):

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Current provision: | | | |
| Federal | $ 61,498 | $ 58,123 | $ 33,380 |
| State | 11,909 | 9,961 | 7,248 |
| Total current provision | 73,407 | 68,084 | 40,628 |
| Deferred benefit: | | | |
| Federal | (25,385) | (18,151) | (19,473) |
| State | (753) | (3,169) | 69 |
| Total deferred benefit | (26,138) | (21,320) | (19,404) |
| Provision for income taxes | $ 47,269 | $ 46,764 | $ 21,224 |

The principal items accounting for the differences in income taxes computed at the U.S. statutory rate (35%) and the effective income tax rate comprise the following (in thousands):

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Taxes computed at statutory rate | $32,468 | $37,742 | $19,203 |
| State income taxes—net of federal benefit | 7,261 | 4,415 | 4,755 |
| Nondeductible expenses | 1,512 | 1,404 | 488 |
| Research and development credits | (493) | (677) | (390) |
| Share-based compensation | 919 | 285 | 207 |
| Transaction costs | — | — | (823) |
| Tax contingencies | 3,363 | 3,941 | (2,160) |
| Other | 2,239 | (346) | (56) |
| Provision for income taxes | $47,269 | $46,764 | $21,224 |

The components of the net deferred tax liabilities included in the consolidated statements of financial condition were as follows (in thousands):

| | December 31, 2008 | December 31, 2007 |
|---|---|---|
| Deferred tax assets: | | |
| State taxes | $ 19,976 | $ 19,242 |
| Reserves for litigation, vacation, and bonuses | 19,003 | 6,794 |
| Unrealized loss on interest rate swaps | 9,920 | 4,323 |
| Deferred rent | 6,457 | 3,474 |
| Share-based compensation | 5,212 | 4,215 |
| Provision for bad debts | 2,041 | 2,428 |
| Net operating losses of acquired subsidiaries | 236 | 301 |
| Other | 2,777 | 2 |
| Subtotal | 65,622 | 40,779 |
| Valuation allowance | (1,290) | — |
| Total deferred tax assets | 64,332 | 40,779 |
| Deferred tax liabilities: | | |
| Amortization of intangible assets and trademarks and trade names | (228,163) | (244,407) |
| Depreciation of fixed assets | (21,338) | (13,200) |
| Other | — | (75) |
| Total deferred tax liabilities | (249,501) | (257,682) |
| Deferred income taxes—net | $ (185,169) | $ (216,903) |

At January 1, 2008 the Company had gross unrecognized tax benefits of $15.14 million. Of this total, $2.20 million represents amounts acquired during the Company's acquisition of IASG. The acquired unrecognized tax benefits will have no impact on the Company's annual effective tax rate as these are fully indemnified by the seller in accordance with the purchase and sale agreement. Of the remaining $12.94 million, $9.71 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

The following table reflects a reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits including interest and penalties (in thousands):

| | 2008 | 2007 |
|---|---|---|
| Balance—Beginning of year | $15,139 | $ 8,533 |
| Increases related to acquired tax positions | 969 | 2,725 |
| Increases related to current year tax positions | 6,480 | 5,657 |
| Reductions as a result of a lapse of the applicable statute of limitations related to acquired tax positions | (596) | (524) |
| Reductions as a result of a lapse of the applicable statute of limitations related to prior period tax positions | (1,734) | (1,252) |
| Balance—End of year | $20,258 | $15,139 |

At December 31, 2008, the Company had gross unrecognized tax benefits of $20.26 million. Of this total, $2.57 million represents amounts acquired due to the Company's acquisition of IASG. The acquired unrecognized tax benefits will have no impact on the Company's annual effective tax rate as these are fully indemnified by the seller in accordance with the purchase and sale agreement. At December 31, 2008, the Company has recorded a receivable from seller in the amount of $2.57 million, which is included in other assets in the accompanying consolidated statements of financial condition. Of the remaining $17.68 million, $13.07 million (net of the federal benefit on state issues) represents the amount of unrecognized tax benefits that, if recognized, would favorably affect the effective income tax rate in any future periods.

The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes within the consolidated statements of financial condition. At January 1, 2008, the Company had $913,000 accrued for interest and $2.03 million accrued for penalties. At December 31, 2008, the liability for unrecognized tax benefits included accrued interest of $1.26 million and penalties of $2.92 million. Tax expense for the year ended December 31, 2008 includes interest expense of $311,000 and penalties of $771,000.

The Company and its subsidiaries file income tax returns in the federal jurisdiction, as well as most state jurisdictions, and are subject to routine examinations by the respective taxing authorities. The Company has concluded all federal and state income tax matters for years through 2003, with the exception of California, which has concluded income tax matters for years through 2002.

The tax years of 2005 to 2008 remain open to examination by major taxing jurisdictions to which the Company is subject, with the exception of California discussed above. In the next 12 months, the Company expects a reduction in unrecognized tax benefits of $1.31 million primarily related to the statute of limitations expiration in various state jurisdictions.

## 12. INDEBTEDNESS

***Senior Secured Credit Facilities***—Borrowings under the Company's senior secured credit facilities bear interest at a base rate equal to either the one, two, three, six, nine or twelve-month LIBOR plus the applicable margin, or an alternative base rate ("ABR") plus the applicable margin. The ABR is equal to the greater of the prime rate or the federal funds effective rate plus $^{1}/_{2}$ of 1.00%. The applicable margin on the senior secured term credit facilities could change depending on the Company's credit rating. In September 2008, the Company's corporate credit rating was upgraded to Ba3 from B1, which has reduced the interest rate on its senior secured credit facilities from LIBOR plus 200 basis points to LIBOR plus 175 basis points. The senior secured credit facilities are subject to certain financial and nonfinancial covenants. As of December 31, 2008, the Company was in compliance with all such covenants.

***Senior Unsecured Subordinated Notes***—The Company also has $550.00 million of senior unsecured subordinated notes due December 15, 2015. The notes bear interest at 10.75% per annum and interest payments are payable semiannually in arrears. The Company is not required to make mandatory redemption or sinking-fund payments with respect to the notes. The indenture underlying the senior unsecured subordinated notes contain various restrictions with respect to the issuer, including one or more restrictions relating to limitations on liens, sale and leaseback arrangements, and funded debt of subsidiaries.

***Revolving Line of Credit***—The Company maintains a $100.00 million revolving line of credit facility, $10.00 million of which is being used to support the issuance of an irrevocable line of credit for PTC and $90.00 million of which was drawn for a combination of acquisition integration costs and credit preservation measures. The revolving credit facility carries a borrowing rate of one-month LIBOR plus an interest rate margin of an additional 2.00%. On December 31, 2008 and 2007, there was a $90.00 million and $65.00 million, respectively, outstanding borrowing balance against the revolving line of credit.

***Bank Loans Payable***—In April 2008, the Company entered into an uncommitted line of credit that has a $100.00 million limit and is primarily dependent on its ability to provide sufficient collateral. The Company also maintains an additional uncommitted line of credit, which has an unspecified limit and is also dependent on its ability to provide sufficient collateral. At December 31, 2008 and 2007, there were no outstanding balances on the Company's uncommitted lines of credit.

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

| | December 31, | | | | |
|---|---|---|---|---|---|
| | 2008 | | | 2007 | |
| | Maturity | Balance | Interest Rate | Balance | Interest Rate |
| Revolving line of credit | 12/28/2011 | $ 90,000 | 2.46%(4) | $ 65,000 | 7.87%(2) |
| Senior secured term loan: | | | | | |
| Unhedged | 6/28/2013 | 332,647 | 2.23%(5) | 341,071 | 6.83%(1) |
| Hedged with interest rate swaps | 6/28/2013 | 495,000 | 3.21%(3) | 495,000 | 6.83%(1) |
| Senior unsecured subordinated notes | 12/15/2015 | 550,000 | 10.75% | 550,000 | 10.75% |
| Total borrowings | | 1,467,647 | | 1,451,071 | |
| Less current borrowings (maturities within 12 months) | | 8,424 | | 73,424 | |
| Long-term borrowings—net of current portion | | $ 1,459,223 | | $ 1,377,647 | |

(1) As of December 31, 2007, the variable interest rate for the senior secured term loan is based on the three-month LIBOR of 4.83% plus the applicable interest rate margin of 2.00%.

(2) As of December 31, 2007, $25.00 million is based on the variable interest rate of the one-month LIBOR of 5.25% plus the applicable interest rate margin of 2.00% and $40.00 million is based on the variable interest rate of the prime rate of 7.25% plus the applicable interest rate margin of 1.00%.

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

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

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

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

| | Year ended December 31, 2008 | 2007 | 2006 |
|---|---|---|---|
| Average balance outstanding | $48,725 | $6,282 | $1,575 |
| Weighted-average interest rate | 4.74% | 6.93% | 6.62% |

The minimum calendar year principal payments and maturities of borrowings as of December 31, 2008, are as follows (in thousands):

| | Senior Secured | Revolving Line of Credit | Senior Unsecured | Total Amount |
|---|---|---|---|---|
| 2009 | $ 8,424 | $ | $ — | $ 8,424 |
| 2010 | 8,424 | — | — | 8,424 |
| 2011 | 8,424 | 90,000 | — | 98,424 |
| 2012 | 8,424 | — | — | 8,424 |
| 2013 | 793,951 | — | — | 793,951 |
| Thereafter | — | — | 550,000 | 550,000 |
| Total | $827,647 | $90,000 | $550,000 | $1,467,647 |

## 13. INTEREST RATE SWAPS

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

On January 30, 2006, the Company entered into five interest rate swap agreements with a total notional value of $495.00 million. Under the terms of the agreements, the Company paid a fixed rate of interest ranging from 3.43% to 4.85% and received a floating rate based on the three-month LIBOR rate. On June 30, 2008, one of the interest rate swap agreements matured. As a result, the Company entered into a new agreement with a notional value of $70.00 million, which swaps a variable rate based on a three-month LIBOR with a fixed interest rate of 3.43% and expires on June 30, 2010.

The following table summarizes information related to the Company's interest rate swaps as of December 31, 2008 (in thousands):

| Notional Balance | Fixed Pay Rate | Variable Receive Rate(1) | Fair Value | Maturity Date |
|---|---|---|---|---|
| $ 95,000 | 4.77% | 1.46% | $ (1,609) | June 30, 2009 |
| 70,000 | 3.43% | 1.46% | (2,042) | June 30, 2010 |
| 120,000 | 4.79% | 1.46% | (5,751) | June 30, 2010 |
| 145,000 | 4.83% | 1.46% | (10,278) | June 30, 2011 |
| 65,000 | 4.85% | 1.46% | (5,737) | June 30, 2012 |
| $495,000 | | | $(25,417) | |

(1) The variable receive rate reset on the last day of the year is based on the applicable three-month LIBOR. The effective rate from September 30, 2008 through December 31, 2008, was 3.76%. As of December 31, 2008, the effective rate was 1.46%.

Each of the interest rate swap agreements listed above have been designated as cash flow hedges against specific payments due on the Company's senior secured term loan. The interest rate swap agreements qualify for hedge accounting under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*. As of December 31, 2008, the Company assessed the interest rate swap agreements as being highly effective and expects them to continue to be highly effective. Accordingly, the changes in fair value of the interest rate swaps have been recorded as other comprehensive loss, with the fair value included as a liability on the Company's consolidated statements of financial condition. Based on current interest rate assumptions and assuming no additional interest rate swap agreements are entered into, the Company expects to reclassify $15.61 million or $7.65 million after tax, from other comprehensive loss as additional interest expense over the next 12 months.

## 14. COMMITMENTS AND CONTINGENCIES

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

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

Future minimum payments under leases, lease commitments and other noncancellable contractual obligations with remaining terms greater than one year as of December 31, 2008, are as follows (in thousands):

| Years ending December 31 | |
|---|---|
| 2009 | $ 25,646 |
| 2010 | 25,088 |
| 2011 | 21,457 |
| 2012 | 16,788 |
| 2013 | 11,908 |
| Thereafter | 18,327 |
| Total | $119,214 |

Total rental expense for all operating leases was approximately $22.05 million, $14.38 million and $9.75 million for the years ended December 31, 2008, 2007 and 2006, respectively.

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

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

***Loan Commitments***—From time to time, the Company makes loans to its financial advisors, primarily to new recruits to assist in the transition process. Due to timing differences, the Company may make commitments to issue such loans prior to actually funding them. These commitments are generally contingent upon certain events occurring, including but not limited to the financial advisor joining the Company, and may be forgivable. As of December 31, 2008, the Company estimates that it had made commitments for $1.89 million in transition loans that have not yet been funded.

At December 31, 2008, the Company had made $3.97 million in transition loans, which bear interest at the minimum federal rate per annum as published by the IRS and are forgivable on a prorated basis over five years, based upon the financial advisor's achievement of certain commission targets. Outstanding loan balances plus interest are payable in full if the financial advisor has not achieved 100-percent of the cumulative commission targets.

***Litigation***—The Company has been named as a defendant in various legal actions, including arbitrations. In view of the inherent difficulty of predicting the outcome of such matters, particularly in cases in which claimants seek substantial or indeterminate damages, the Company cannot predict with certainty what the eventual loss or range of loss related to such matters will be. The Company believes, based on current knowledge, after consultation with counsel, and consideration of insurance, if any, that the outcome of such matters will not have a material adverse effect on its accompanying consolidated statements of financial condition, income, or cash flows.

The Company recognizes a liability for legal and defense costs when it believes it is probable a liability has occurred and the amount can be reasonably estimated. Legal and defense costs are expensed as incurred and classified as professional services within the accompanying consolidated statements of income. In 2008, and in accordance with the related purchase and sale agreements, the Company received $3.44 million from the sellers for the reimbursement of legal and defense costs for which it was indemnified at or prior to the date of acquisition. The Company has recorded the indemnifications as a reduction in professional services at the time such amounts were acknowledged by the sellers. At December 31, 2008, the Company has an indemnification receivable of $2.76 million, which is included in other assets in the accompanying consolidated statements of financial condition. The Company has not recorded any additional reserve for legal expenses as all known cases are covered by the indemnification.

In November 2005, MSC received a "Wells" notice from FINRA's Department of Enforcement. FINRA alleges that MSC had failed to maintain adequate supervisory procedures regarding certain variable annuity transactions, and failed to maintain accurate books and records related thereto. On July 23, 2007, the staff filed a complaint against MSC and certain of its employees in connection with this matter. On December 16, 2008, the matter was resolved and MSC was fined $1.54 million, which was paid directly by the seller in accordance with the Company's indemnification agreement.

***Other Commitments***—As of December 31, 2008, the Company had received collateral primarily in connection with customer margin loans with a market value of approximately $335.88 million, which it can sell or repledge. Of this amount, approximately $167.54 million has been pledged or sold as of December 31, 2008; $143.83 million was pledged to a bank in connection with an unutilized secured margin line of credit, $15.24 million was pledged to client-owned securities with the DTC, $3.22 million was pledged to client-owned securities with the Options Clearing Corporation, and $5.25 million was loaned to the DTC through participation in its Stock Borrow Program. As of December 31, 2007, the Company had received collateral primarily in connection with client margin loans with a market value of approximately $516.64 million, which it can sell or repledge. Of this amount, approximately $183.67 million has been pledged or sold as of December 31, 2007: $128.72 million was pledged to a bank in connection with an unutilized secured margin line of credit, $31.63 million was pledged to various clearing organizations, and $23.32 million was loaned to the DTC through participation in its Stock Borrow Program.

Innovex ceased operations on December 31, 2007. Prior to that date, Innovex sold its mortgage loans without recourse. Innovex was usually required by the buyers (investors) of these loans to make certain representations concerning credit information, loan documentation, and collateral. Innovex did not repurchase any loans during the year ended December 31, 2007.

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

## 15. SHARE-BASED COMPENSATION

*2005 Stock Option Plans*

Certain employees, officers and directors participate in the Company's 2005 Stock Option Plan for Incentive Stock Options and 2005 Stock Option Plan for Non-qualified Stock Options (collectively the "2005 Plans"). The 2005 Plans provide for the granting of 33,494,370 incentive stock options, 1,992,640 nonqualified stock options and an unspecified number of stock appreciation rights. The exercise price is equal to the fair market value on the grant date. Stock option awards vest in equal increments over a three- to five-year period and expire on the $10^{th}$ anniversary following the date of grant.

*2008 Stock Option Plan, Advisor Incentive Plan and Financial Institution Incentive Plan*

The Company adopted the 2008 Stock Option Plan effective January 1, 2008. Eligible participants include employees, officers, directors and consultants who make a significant contribution to the success of the Company. On April 25, 2008, the Company adopted the Financial Institution and Advisor Incentive Plan, which was subsequently amended on June 3, 2008 to create two separate plans—the Advisor Incentive Plan and the Financial Institution Incentive Plan. Eligible participants include financial advisors and financial institutions in a position to make a significant contribution to the success of the Company. The 2008 Stock Option Plan, the Advisor Incentive Plan and the Financial Institution Plan are referred to herein as the "2008 Plans".

Subject to the approval of the Company's compensation committee, the 2008 Plans provide 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 is equal to the fair market value on the grant date. Stock option awards vest in equal increments of 20% over a five-year period and expire on the $10^{th}$ anniversary following the date of grant.

Collectively, the 2005 Plans and the 2008 Plans are referred to herein as the "Stock Option Plans".

*Share-Based Compensation*

The Company recognized $1.40 million and $2.85 million of share based compensation for the years ended December 31, 2007 and 2006, respectively, under APB 25 related to the vesting of stock options awarded to employees prior to January 1, 2006. The Company also recognized $4.56 million, $0.76 million and $0.02 million of share-based compensation under SFAS 123R related to employee stock option awards during the years ended December 31, 2008, 2007 and 2006, respectively. As of December 31, 2008, total unrecognized compensation cost related to nonvested share-based compensation arrangements granted was $17.76 million, which is expected to be recognized over a weighted-average period of 3.54 years. Under SFAS 123R, the Company calculates the compensation cost for stock options based on its estimated fair value.

The Company recognized $0.30 million of share based compensation during the year ended December 31, 2008, related to the vesting of stock options awarded to non-employees. As of December 31, 2008, total unrecognized compensation cost related to nonvested share-based compensation arrangements granted was $1.71 million for non-employees, which is expected to be recognized over a weighted-average period of 4.36 years.

The following table presents the weighted-average assumptions used by the Company in calculating the fair value of its stock options with the Black-Scholes valuation model for the years ended December 31, 2008, 2007 and 2006:

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Expected life (in years) | 6.52 | 6.50 | 6.53 |
| Expected stock price volatility | 33.78% | 31.08% | 34.09% |
| Expected dividend yield | — | — | — |
| Annualized forfeiture rate | 1.51% | 1.00% | 0.27% |
| Fair value of options | $ 9.96 | $ 9.86 | $ 8.03 |
| Risk-free interest rate | 2.73% | 4.93% | 5.23% |

The risk-free interest rates are based on the implied yield available on U.S. Treasury constant maturities in effect at the time of the grant with remaining terms equivalent to the respective expected terms of the options. The dividend yield of zero is based on the fact that the Company has no present intention to pay cash dividends. In the future, as the Company gains historical data for volatility in its own stock and the actual term over which employees hold its options, expected volatility, and the expected term may change, which could substantially change the grant-date fair value of future awards of stock options and, ultimately, compensation recorded on future grants. The Company estimates the expected term for its employee option awards using the simplified method in accordance with SEC SAB 107, *Shared-Based Payment*, which was subsequently amended and replaced by SAB 110, *Certain Assumptions Used in Valuation Methods*. The simplified method is used because the Company does not have sufficient relevant historical information to develop reasonable expectations about future exercise patterns. The Company estimates the expected term for its non-employee option awards using the contractual term in accordance with EITF 96-18. Expected volatility is calculated based on companies of similar growth and maturity and the Company's peer group in the industry in which the Company does business because the Company does not have sufficient historical volatility data. The Company will continue to use peer group volatility information until historical volatility of the Company is relevant to measure expected volatility for future option grants.

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

The following table summarizes the Company's activity in its Stock Option Plans for the year ended December 31, 2008:

| | Number of Shares | Weighted-Average Exercise Price | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value (in thousands) |
|---|---|---|---|---|
| Options outstanding—December 31, 2007 | 21,748,080 | $ 2.46 | | |
| Granted | 1,936,206 | 27.55 | | |
| Exercised | (286,968) | 2.04 | | |
| Forfeited(1) | (3,319,035) | 2.59 | | |
| Options outstanding—December 31, 2008 | 20,078,283 | $ 4.87 | 5.15 | $ 285,797 |
| Options exercisable—December 31, 2008 | 17,684,698 | $ 1.93 | 4.62 | $ 285,665 |

(1) Approximately 3,006,730 forfeited shares were cancelled under the 2005 Plans in exchange for units under the Company's 2008 Nonqualified Deferred Compensation Plan, as indicated below.

The following table summarizes information about outstanding stock option awards:

| | Outstanding | | | Exercisable | |
|---|---|---|---|---|---|
| Range of Exercise Prices | Total Number of Shares | Weighted-Average Remaining Life (Years) | Weighted-Average Exercise Price | Number of Shares | Weighted-Average Exercise Price |
| At December 31, 2008: | | | | | |
| $ 1.07 – $ 2.38 | 17,501,710 | 4.58 | $ 1.73 | 17,501,710 | $ 1.73 |
| $10.30 – $18.89 | 148,010 | 7.86 | 16.07 | 55,410 | 14.20 |
| $21.60 – $27.80 | 2,428,563 | 9.07 | 26.78 | 127,578 | 24.16 |
| | 20,078,283 | 5.15 | $ 4.87 | 17,684,698 | $ 1.93 |

*2008 Nonqualified Deferred Compensation Plan*

On November 19, 2008, the Company established an unfunded, unsecured deferred compensation plan to permit employees and former employees that hold non-qualified stock options issued under the 2005 Plans, a one-time opportunity to exchange stock options expiring in 2009 and 2010, for stock units of the 2008 Nonqualified Deferred Compensation Plan. Stock units represent the right to receive one share of common stock. Distribution will occur at the earliest of (a) December 31, 2012; (b) a change in control of the Company; or (c) death or disability of the participant. The exchange of stock options for stock units is not taxable for federal and state income tax purposes until the participant receives a distribution under the deferred compensation plan. As of December 31, 2008, 3,006,730 options, having an average exercise price of $1.10, have been exchanged for 2,823,452 stock units. Stock options exchanged for stock units in the deferred compensation plan are considered cancelled under the provisions of the 2008 Nonqualified Deferred Compensation Plan.

*Stock Bonus Plan*

The Company's financial advisors participate in the fifth amended and restated 2000 Stock Bonus Plan (the "Stock Bonus Plan"), which provided for the grant and allocation of bonus credits. Each bonus credit represented the right to receive shares of common stock. Participation in the Stock Bonus Plan was dependent upon meeting certain eligibility criteria, and bonus credits were allocated to eligible participants based on certain performance metrics, including amount and type of commissions, as well as tenure with the firm. Bonus credits vested annual in equal increments over a three-year period and expired on the tenth anniversary following the date of grant. Unvested bonus credits held by financial advisors who terminated prior to vesting were forfeited and reallocated to other financial advisors eligible under the plan. In 2008, the Company amended and restated its Stock Bonus Plan by eliminating the vesting provisions and granting the financial advisors with physical ownership of common stock of the Company. Consequently, on December 28, 2008, the Company issued 7,423,973 restricted shares in exchange for bonus credits. These restricted shares may not be sold, assigned or transferred and are not entitled to receive dividends or non-cash distributions, until either a sale of the Company that constitutes a change in control or an initial public offering.

The Company accounts for restricted shares granted to its financial advisors under the Stock Bonus Plan in accordance with EITF 96-18 and measures such grants at their then-current lowest aggregate value. Since the value is contingent upon the Company's decision to sell itself or perform an initial public offering, the current aggregate value will be zero until such event occurs. Upon the occurrence of such an event, the Company will record the par value, additional paid in capital and expense based on the number of restricted shares under the stock bonus plan times the fair market value determined at the event date.

**16. EMPLOYEE AND ADVISOR BENEFIT PLANS**

The Company has a 401(k) defined contribution plan. All employees meeting minimum age and length of service requirements are eligible to participate. The Company has an employer matching program whereby employer contributions are made to the 401(k) plan in an amount equal to 50% of the lesser of the amount designated by the employee for withholding and contribution to the 401(k) plan or 10% of the employee's total compensation. The Company's total cost under the 401(k) plan was $4.79 million, $3.79 million and $1.85 million for the years ended December 31, 2008, 2007 and 2006, respectively.

On January 1, 2008, the Company adopted a non-qualified deferred compensation plan for the purpose of attracting and retaining financial advisors who operate, for tax purposes, as independent contractors, by providing an opportunity for participating financial advisors to defer receipt of a portion of their gross commissions generated primarily from commissions earned on the sale of various products. The deferred compensation plan has been fully funded to date by participant contributions. Plan assets are invested in mutual funds, which are held by the Company in a Rabbi Trust and accounted for in accordance with EITF Issue No. 97-14, *Accounting for Deferred Compensation Arrangements Where Amounts Earned Are Held in a Rabbi Trust and Invested* ("EITF 97-14"). The liability for benefits accrued under the non-qualified deferred compensation plan totaled $3.51 million at December 31, 2008, and is included in accounts payable and accrued liabilities in the accompanying consolidated statements of financial condition. The cash values of the related trust assets was $3.60 million at December 31, 2008, which is included in other assets in the accompanying consolidated statements of financial condition.

Certain employees and financial advisors of the Company's subsidiaries AFG, MSC and UVEST participated in non-qualified deferred compensation plans (the "Plans") that permitted participants to defer portions of their compensation and earn interest on the deferred amounts. The Plans have been closed to new participants and no contributions have been made since the acquisition date. Plan assets are held by the Company in a Rabbi Trust and accounted for in accordance with EITF 97-14. As of

December 31, 2008, the Company has recorded assets of approximately $3.36 million and liabilities of $4.44 million, which are included in other assets and accounts payable and accrued liabilities, respectively, in the accompanying consolidated statements of financial condition.

In conjunction with the Company's acquisitions of IASG and IFMG and pursuant to the purchase and sale agreements, the sellers committed to provide retention plan distributions to employees and financial advisors who remained with the Company through a specified date. Benefits received for the year ended December 31, 2008, totaled $4.35 million; $2.27 million has been classified as commission expense and $2.08 million has been recognized as compensation and benefits, respectively, in the accompanying consolidated statements of income. The retention plan distributions have been made in 2008 pursuant to the terms of the purchase and sale agreements.

## 17. RELATED-PARTY TRANSACTIONS

AlixPartners, LLP ("AlixPartners"), a company majority-owned by one of the Company's Majority Holders, provides LPL Financial with consulting services pursuant to an agreement for interim management and consulting services dated August 21, 2007. LPL Financial paid $4.17 million and $0.91 million to AlixPartners during the years ended December 31, 2008 and 2007, respectively, and an additional $0.15 million and $0.76 million was included in accounts payable and accrued liabilities on the accompanying consolidated statements of financial condition as of December 31, 2008 and 2007, respectively, for annual fees under such agreement.

Artisan Partners Limited Partnership ("Artisan"), a company majority-owned by one of the Company's Majority Holders, pays fees to LPL Financial in exchange for product distribution and record-keeping services. During the years ended December 31, 2008 and 2007, LPL Financial earned $1.57 million and $1.92 million, respectively, in fees from Artisan. Additionally, as of December 31, 2008 and 2007, Artisan owed LPL Financial $0.27 million and $0.48 million, respectively, which is included in receivables from product sponsors, broker-dealers and clearing organizations on the accompanying consolidated statements of financial condition.

In conjunction with the acquisition of UVEST (see Note 4), the Company made full-recourse loans to certain members of management (also selling stockholders), most of which are now stockholders of the Company. As of December 31, 2008, outstanding stockholder loans, which are reported as a deduction from stockholders' equity, were approximately $0.94 million.

## 18. NET CAPITAL/REGULATORY REQUIREMENTS

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

Net capital and net capital requirements for the Company's broker-dealer subsidiaries as of December 31, 2008 are presented in the following table (in thousands):

| | December 31, 2008 | | |
|---|---|---|---|
| | Net Capital | Minimum Net Capital Required | Excess Net Capital |
| LPL Financial Corporation | $ 87,131 | $ 7,228 | $ 79,903 |
| UVEST Financial Services Group, Inc. | 8,287 | 1,540 | 6,747 |
| Mutual Service Corporation | 7,181 | 1,289 | 5,892 |
| Associated Securities Corp. | 2,975 | 250 | 2,725 |
| Waterstone Financial Group, Inc. | 3,154 | 294 | 2,860 |
| Total | $ 108,728 | $ 10,601 | $ 98,127 |

LPL Financial is a clearing broker-dealer and the remaining broker-dealer subsidiaries are introducing broker-dealers. During the third quarter ended September 30, 2008, and in accordance with the Shutdown Plan, the Company filed a Form BDW for its IFMG broker-dealer subsidiary along with its final FOCUS report, thus eliminating its net capital requirements.

PTCH 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 the Company's consolidated financial statements. As of December 31, 2008, the Company has met all capital adequacy requirements to which it is subject.

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

## 19. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET CREDIT RISK AND CONCENTRATIONS OF CREDIT RISK

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

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

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

UVEST and the broker-dealer subsidiaries of IASG are engaged in buying and selling securities and other financial instruments for clients of financial advisors. Such transactions are introduced and cleared through a third-party clearing firm on a fully disclosed basis. While introducing broker-dealers generally have less risk than clearing firms, their clearing agreements expose them to credit risk in the event that their clients don't fulfill contractual obligations with the clearing broker-dealer.

## 20. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

| | 2008 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Revenues | $798,647 | $814,947 | $799,537 | $703,999 |
| Gross margin(1) | 245,316 | 244,778 | 251,984 | 212,004 |
| Net income | $ 11,665 | $ 14,303 | $ 17,168 | $ 2,360 |

| | 2007 | | | |
|---|---|---|---|---|
| | First Quarter | Second Quarter | Third Quarter | Fourth Quarter |
| Revenues | $ 562,717 | $ 647,769 | $ 725,017 | $ 782,102 |
| Gross margin(1) | 169,631 | 181,354 | 206,528 | 224,620 |
| Net income | $ 18,487 | $ 23,259 | $ 11,567 | $ 7,756 |

(1) Gross margin is calculated as total revenues less commissions and advisory fees, and brokerage, clearing and exchange expenses.

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**Exhibit 23.2**

**CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We consent to the incorporation by reference in Registration Statement No. 333-151437 on Form S-8 of our report dated March 20, 2009, relating to the consolidated financial statements of LPL Investment Holdings Inc. appearing in this Annual Report on Form 10-K/A of LPL Investment Holdings Inc. for the year ended December 31, 2008.

/s/ Deloitte & Touche LLP

Costa Mesa, California
March 20, 2009

QuickLinks

Exhibit 23.2

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**Exhibit 31.3**

**CERTIFICATION OF THE PRINCIPAL EXECUTIVE OFFICER**

I, Mark S. Casady, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of LPL Investment Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

Date: April 3, 2009

/s/ MARK S. CASADY

Mark S. Casady
*Chief Executive Officer*
*(principal executive officer)*

**Exhibit 31.4**

**CERTIFICATION OF THE PRINCIPAL FINANCIAL OFFICER**

I, Robert J. Moore, certify that:

1. I have reviewed this Annual Report on Form 10-K/A of LPL Investment Holdings Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report; and

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report.

Date: April 3, 2009

/s/ ROBERT J. MOORE

Robert J. Moore
*Chief Financial Officer*
*(principal financial officer)*

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**Exhibit 32.3**

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K/A of LPL Investment Holdings Inc. (the "Company") for the period ending December 31, 2008 as filed with the Securities and Exchange Commission ("SEC") on the date hereof (the "Report"), I, Mark S. Casady, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: April 3, 2009

/s/ MARK S. CASADY

Mark S. Casady
*Chief Executive Officer*

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Exhibit 32.3

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

**Exhibit 32.4**

**CERTIFICATION PURSUANT TO**
**18 U.S.C. SECTION 1350,**
**AS ADOPTED PURSUANT TO**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report on Form 10-K/A of LPL Investment Holdings Inc. (the "Company") for the period ending December 31, 2008 as filed with the Securities and Exchange Commission ("SEC") on the date hereof (the "Report"), I, Robert J. Moore, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

Date: April 3, 2009

/s/ ROBERT J. MOORE

Robert J. Moore
*Chief Financial Officer*