



Rating Action: **LPL Holdings, Inc.**

Moody's upgrades LPL to Ba3

Approximately \$1.4 Billion of Debt Securities Affected

New York, September 05, 2008 -- Moody's Investors Service today upgraded to Ba3 from B1 the corporate family rating of LPL Holdings, Inc. ("LPL"), concluding the review for a possible upgrade commenced on June 25, 2008. The rating outlook is stable.

Since its leveraged buyout in late 2005, LPL has made considerable and steady progress in growing the size and breadth of its franchise, with a near doubling of revenue, gross margin, and EBITDA. While debt pay-down has been limited to that required by the mandatory amortization schedule and therefore minimal, cash flow leverage has nonetheless declined significantly to 4.4x from 7.7x during this period. In Moody's opinion, this deleveraging represents a meaningful reduction in LPL's credit risk and is the primary driver of today's positive rating action.

The composition of LPL's earnings mix has steadily shifted away from transaction volume-based revenues toward more recurring, asset-based sources. This is a positive dynamic for bondholders because it reduces potential earnings volatility and increases the stability of the company's cash flows. While greater dependence on asset-based revenues also increases the sensitivity of LPL's results to possible downturn scenarios in the equities markets, Moody's believes that LPL can continue generating a reasonable level of profitability that is consistent with a Ba3 rating in a possible bear market scenario of a 10%-15% decline. This reflects primarily the variable nature of commission costs as well as the presence of non-asset based revenue sources such as commissions and clearing fees within its revenue mix.

LPL's business model is supported by positive secular trends that include growth in investable wealth in the U.S. and the continued acceptance of the independent financial advisory channel by both financial advisors and end-clients. Provided that business-related and compliance risks remain well managed, the size and breadth of LPL's franchise should allow it to remain competitive and benefit from these dynamics over the long term.

Therefore, the stable rating outlook incorporates Moody's expectations that LPL will follow a prudent financial policy that is focused on long-term growth of the business and risk reduction through further deleveraging. Moody's also expects that LPL will continue executing on the strategy of growing its core franchise as an independent service provider to financial advisors in a disciplined and methodical way, while managing business, legal, and compliance-related risks.

What Could Move the Rating Up?

The combination of meaningful debt pay-down and further improvements in the profitability and sustainability of earnings that resulted in cash flow leverage of 3.5x or below would exert positive pressure on the rating.

What Could Move the Rating Down?

As the company's track record demonstrates, the operating leverage embedded in its business model makes debt-financed acquisitions in the fragmented advisor-servicing industry seem attractive for shareholders. An increase in cash flow leverage to over 5.0x, resulting from additional borrowing and/or high acquisition-related integration costs, will exert negative pressure on the ratings. The potential for litigation and heightened regulatory scrutiny are a

permanent presence in the retail money management business. Material regulatory sanctions, relating to inadequate compliance and/or IFA oversight procedures, would be viewed negatively in this regard.

Upgrades:

..Issuer: LPL Holdings, Inc.

....Corporate Family Rating, Upgraded to Ba3 from B1

....Senior Subordinated Regular Bond/Debenture, Upgraded to B2 from B3

....Senior Secured Bank Credit Facility, Upgraded to Ba3 from B1

Outlook Actions:

..Issuer: LPL Holdings, Inc.

....Outlook, Changed To Stable From Rating Under Review

LPL is a leading provider of infrastructure and support services to independent financial advisors. In 2007, LPL generated \$2.7 billion of revenue (\$782 million of gross margin) and ended the year with \$232 billion in assets under administration.

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