

The unprecedented events of the last year raised serious questions about the stability of several well-known financial services organizations. As a result, it is natural that investors have concerns about the financial strength of the firms through which they invest. Although this has been a difficult time for many in our industry, LPL Financial remains financially sound and continues to maintain the strongest commitment to providing resources and support that help LPL Financial advisors to serve the needs of their clients. To help address a few of the questions you may have, I would like to share with you some information about our business model, our financial performance and liquidity position, the steps we take to help protect client accounts, how we are regulated, and how we assess risk from other parties with which we do business.

### **Business model**

LPL Financial provides technology, brokerage, and investment advisory services through business relationships with independent financial advisors, registered investment advisors (RIAs), and financial institutions and their financial representatives, all of whom we refer to collectively as our “customers.” We offer these customers access to a broad array of financial products and services to support them in providing financial advice and brokerage services to retail investors. Our financial advisors and institutions are our only customers, and we do not market directly to investors.

Unlike traditional brokerage firms, which combine product distribution and product manufacturing, we operate on a conflict-free open architecture product platform with no proprietary investment products. Our research department provides objective analysis on financial products, asset allocation strategies, and economic conditions. As a result, we believe our customers are able to recommend products selected on the basis of their clients’ financial needs and objectives without being influenced by any product manufacturing bias.

In addition, LPL Financial does not engage in the business practices of investment banks or provide other alternative financial services. We do not engage in market-making activities trading out of our own inventory, which means we do not hold any securities on our balance sheet that are open to market risk. We do not have exposure to mortgage-related investments or securities, nor do we provide loans to hedge funds or other speculators.

### **Financial performance and liquidity position**

Because the vast majority of our financial advisors are independent contractors rather than employees, LPL Financial does not have a high degree of fixed costs. A significant portion of our expenses is directly tied to revenue performance, which means that much of our expense base automatically adjusts to any reductions in revenue that may occur. As a result, since 1990, LPL Financial has not posted a loss in earnings regardless of market conditions, remaining profitable since our formation 20 years ago. Our revenue is derived through over 7,000 business relationships, including relationships with financial advisors, banks, credit unions, investment companies, insurance carriers, and other financial institutions. No single business relationship accounts for more than 2% of our revenue.

The Financial Industry Regulatory Authority (FINRA), our industry’s regulatory body, mandates that all broker/dealers must maintain net capital equal to or in excess of the minimum regulatory requirement to provide a level of comfort in our ability to meet our financial obligations and support our business. As of June 30, 2009, LPL Financial was required to have a minimum net capital of \$9.4 mm. At quarter end, we had \$127.5 mm in net capital, resulting in excess capital of \$118.1 mm, or 13.6 times our requirement.

Like many financial services firms, LPL Financial carries debt on our balance sheet. We are currently in compliance with all of our lender debt covenants. In addition, due to the growth of our firm and decline in our credit risk since incurring the debt, LPL Financial received two ratings upgrades in the last four months of 2008. Moody’s upgraded our debt rating on September 5, and Standard and Poor’s raised our rating on November 4.

LPL Financial has two operating lines of credit, which provide liquidity to the firm. This is in addition to cash assets that we hold on the balance sheet. Therefore, we believe the total liquidity of the firm is sufficient for our capital needs. As a result, LPL Financial has had no need for any capital infusions to maintain our business and we have not participated in any federal relief programs related to recent financial events, including the Troubled Asset Relief Program (TARP).

**Client account protection**

LPL Financial is a member firm of the Securities Investor Protection Corporation (SIPC). Membership provides account protection up to a maximum of \$500,000 per client, of which \$100,000 may be claims for cash. For an explanatory brochure, please visit [www.sipc.org](http://www.sipc.org). Additionally, through Lloyd's of London, LPL Financial accounts have additional securities coverage to cover the net equity of client accounts up to an overall aggregate firm limit of \$575,000,000, subject to conditions and limitations. The account protection applies when a SIPC member firm fails financially and is unable to meet its obligations to securities clients, but it does not protect against losses from the rise and fall in the market value of investments. This extensive coverage reflects a strong commitment to serving your investment needs.

**Regulation**

The financial services industry is subject to extensive regulation by U.S. federal and state regulatory agencies and securities exchanges, as well as by non-government agencies, regulatory bodies, and securities exchanges. We take an active leadership role in the development of the rules and regulations that govern our industry. Given the recent turmoil in the financial services industry, we anticipate continued heightened scrutiny and significant modifications in these rules and regulations, and we expect to be at the forefront of this change. Throughout our history, we have invested heavily, with the benefit of our scale, in compliance capabilities to monitor our compliance with the numerous legal and regulatory requirements applicable to our business. We believe that none of our current legal proceedings will have a material adverse impact on our business, results of operations, cash flows, or financial condition.

**Counter-party risk assessment**

LPL Financial utilizes our enterprise risk management group to routinely examine the health of business partners with which we have relationships in order to assess risk to both ourselves and our advisors. This process includes extensive research, due diligence, financial analysis, and forward-looking measures of financial strength and sustainability. When necessary, business partners have been removed from our "approved" list until such time as they can effectively demonstrate a return to good standing.

I hope this information addresses any questions or concerns you may have about our organization. Thank you for the opportunity to serve your financial needs.

Sincerely,



Robert J. Moore  
Chief Financial Officer  
LPL Financial

*This statement includes certain forward-looking statements provided by LPL Financial with respect to the anticipated future performance of the Company. Such forward-looking statements reflect various assumptions of management concerning the future performance of the Company and are subject to significant business, economic, and competitive uncertainties and contingencies, many of which are beyond the control of the Company. Readers are cautioned not to place undue reliance on these forward-looking statements, which reflect management's opinions only as of the date hereof. There can be no assurance that such forward-looking statements will be realized. The actual results may vary from the anticipated results and such variations may be material. No representations or warranties are made as to the accuracy or reasonableness of such assumptions or forward-looking statements based thereon.*

The LPL Financial family of affiliated companies includes LPL, UVEST Financial Services Group, Inc., Mutual Service Corporation, Waterstone Financial Group, Inc., and Associated Securities Corp., each of which is a member of FINRA/SIPC.

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Not Guaranteed by any Government Agency	Not a Bank/Credit Union Deposit	