EFFECTIVE PROFITABLE SOFTWARE, INC.
Form 10QSB
July 06, 2006

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

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FORM 10-QSB

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x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2006

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 No. 000-50494

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EFFECTIVE PROFITABLE SOFTWARE, INC.

(Exact name of small business issuer as specified in its charter)

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Delaware (State or other jurisdiction of incorporation or organization)	**98-0412432** (I.R.S. Employer Identification No.)

1 Innwood Circle, Suite 209, Little Rock, Arkansas	**72211**
(Address of principal executive offices)	(Zip Code)

(501) 223-3310
(Issuer s telephone number)

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

Check whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Exchange Act subsequent to the distribution of securities under a plan confirmed by a court. Yes o No x

Indicate by check mark whether the registrant is a shell company as defined in Rule 12b-2 of the Exchange Act.

Yes x No o

State the number of shares outstanding of each of the issuer s classes of common equity, as of July 5, 2006: 55,480,000 shares of common stock.

Transitional Small Business Disclosure Format (check one): Yes o No x

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PART I FINANCIAL INFORMATION

Item 1. Financial Information

EFFECTIVE PROFITABLE SOFTWARE, INC.

(A DEVELOPMENT STAGE COMPANY)

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EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED BALANCE SHEET

AS OF MARCH 31, 2006

(UNAUDITED)

ASSETS		
CURRENT ASSETS		
Cash	$	170
Prepaid expense		50
Total Current Assets		220
PROPERTY AND EQUIPMENT, NET		4,424
OTHER ASSETS		
Deposits		750
Total Other Assets		750
TOTAL ASSETS	$	5,394
LIABILITIES AND STOCKHOLDERS DEFICIENCY		
CURRENT LIABILITIES		
Cash overdraft	$	295
Accounts payable and accrued expenses		10,307
Stockholder loans		28,852
TOTAL LIABILITIES		39,454
STOCKHOLDERS DEFICIENCY		
Common stock, $0.0001 par value, 100,000,000 shares authorized, 54,280,000 shares issued and outstanding		5,430
Additional paid in capital		132,588
Accumulated deficit during development stage		(172,078)
Total Stockholders Deficiency		(34,060)
TOTAL LIABILITIES AND STOCKHOLDERS DEFICIENCY	$	5,394

See accompanying notes to condensed consolidated financial statements.

EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

		For the Three Months Ended March 31, 2006		For the Three Months Ended March 31, 2005		For the Period from February 23, 2004 (Inception) to March 31, 2006
REVENUES	$	-	$	-	$	-
OPERATING EXPENSES						
General and administrative		9,685		16,675		168,805
Total Operating Expenses		9,685		16,675		168,805
LOSS FROM OPERATIONS		(9,685)		(16,675)		(168,805)
OTHER INCOME (EXPENSE)						
Other income		-		-		30
Loss on disposal of assets		-		-		(6,893)
Interest expense		(828)		(471)		3,590
Total Other Income (Expense)		(828)		(471)		(3,273)
NET LOSS BEFORE PROVISION FOR INCOME TAXES		(10,513)		(17,146)		(172,078)
Provision for Income Taxes		-		-		-
NET LOSS	$	(10,513)	$	(17,146)	$	(172,078)
Net loss per share - basic and diluted	$	-	$	-	$	-
Weighted average number of shares outstanding during the period - basic and diluted		54,246,667		50,718,889		49,881,904

See accompanying notes to condensed consolidated financial statements.

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EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS DEFICIENCY

FOR THE PERIOD FROM FEBRUARY 23, 2004 (INCEPTION) TO MARCH 31, 2006

(UNAUDITED)

	Common Stock Shares	Amount	Additional Paid-In Capital	Accumulated Deficit During Development Stage	Total
Common stock issued to founders for cash ($0.00002 per share)	45,000,000	$ 4,500	$ (3,600)	$ -	$ 900
Common stock issued for legal services ($0.02 per share)	500,000	50	9,950	-	10,000
Common stock issued for services ($0.02 per share)	2,500,000	250	49,750	-	50,000
Common stock issued for cash ($0..02 per share)	2,280,000	230	45,370	-	45,600
In-kind contribution of interest on stockholder loans	-	-	646	-	646
Net loss for the period from February 23, 2004 (inception) to December 31, 2004	-	-	-	(110,081)	(110,081)
Balance, December 31, 2004	50,280,000	5,030	102,116	(110,081)	(2,935)
Common stock issued for services ($0.02 per share)	500,000	50	9,950	-	10,000
Common stock issued for cash ($0.02 per share)	500,000	50	9,950	-	10,000
In-kind contribution of interest on stockholder loans	-	-	1,787	-	1,787
Common stock issued in reverse merger	2,500,000	250	(1,850)	-	(1,600)
Net loss, 2005	-	-	-	(51,484)	(51,484)
Balance, December 31, 2005	53,780,000	5,380	121,953	(161,565)	(34,232)
Stock issued for cash ($0.02 per share)	500,000	50	9,950	-	10,000
In-kind contribution of interest on stockholder loans	-	-	685	-	685

Net loss for the three months ended March 31, 2006	-	-	-	(10,513)	(10,513)
BALANCE, MARCH 31, 2006	54,280,000	$ 5,430	$ 132,588	$ (172,078)	$ (34,060)

See accompanying notes to condensed consolidated financial statements.

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EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

(UNAUDITED)

	For the Three Months Ended March 31, 2006	For the Three Months Ended March 31, 2005	For the Period from February 23, 2004 (Inception) to March 31, 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (10,513)	$ (17,146)	$ (172,078)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation	231	781	3,974
Loss on disposal of property and equipment	-	-	6,893
In-kind contribution of interest on stockholder loans	685	459	3,118
Stock issued for payment of services and expenses	-	10,000	70,000
Changes in operating assets and liabilities:			
Deposits	-	-	(750)
Prepaid expenses	750	26,000	(50)
Accounts payable and accrued expenses	2,120	995	8,707
Net Cash Provided By (Used In) Operating Activities	(6,727)	21,089	(80,186)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Proceeds from the sale of property and equipment	-	-	3,425
Purchase of property and equipment	-	-	(18,716)
Net Cash Provided By (Used In) Investing Activities	-	-	(15,291)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Cash overdraft	295	-	295
Proceeds from issuance of loan payable related party	-	5,050	66,420
Repayment of loan payable related party	(5,733)	(26,265)	(37,568)
Proceeds from issuance of common stock	10,000	-	66,500
Net Cash Provided By (Used In) Financing Activities	4,562	(21,215)	95,647
NET INCREASE (DECREASE) IN CASH	(2,165)	(126)	170
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	2,335	1,544	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 170	$ 1,418	$ 170
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:			
Cash paid during the period for interest	$ 143	$ 12	$ 472

Cash paid during the period for taxes	$ -	$ -	$ -

See accompanying notes to condensed consolidated financial statements.

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EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2006

(UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND ORGANIZATION

(A) Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly, they do not include all the information necessary for a comprehensive presentation of financial position and results of operations.

It is management s opinion however, that all material adjustments (consisting of normal recurring adjustments) have been made which are necessary for a fair financial statements presentation. The results for the interim period are not necessarily indicative of the results to be expected for the year.

(B) Organization

Effective Profitable Software, Inc. F/K/A Modena 2, Inc. (a development stage company) was incorporated in the state of Delaware on November 18, 2003.

EPS, Inc., (a development stage company) was incorporated in the state of Arkansas on February 23, 2004.

On May 10th, 2005 pursuant to a stock purchase agreement and share exchange between the Effective Profitable Software, Inc. and EPS, Inc. and the shareholders of EPS, Inc., we purchased all of the outstanding shares of EPS for the issuance of 10,156,000 (50,780,000 post-split) shares of our stock to EPS shareholders. Pursuant to the agreement, EPS became a wholly owned subsidiary of the Company. As a result of the agreement, the transaction was treated for accounting purposes as a reorganization by the accounting acquirer (EPS, Inc.) and as a recapitalization by the accounting acquiree (Effective Profitable Software, Inc.).

Accordingly, the financial statements include the following:

(1) The balance sheet consists of the net assets of the acquirer at historical cost and the net assets of the acquiree at historical cost.

(2) The statement of operations includes the operations of the acquirer for the periods presented and the operations of the acquiree from the date of the merger.

Activities during the development stage include developing the business plan and raising capital.

EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2006

(UNAUDITED)

Effective Profitable Software, Inc. and its wholly-owned subsidiary are hereafter referred to as the Company .

The Company intends to develop computer software for use in technical analysis of financial markets.

(C) Principles of Consolidation

The 2006 financial statements include the accounts of Effective Profitable Software, Inc. and its wholly-owned subsidiary EPS, Inc. The 2005 financial statements include EPS, Inc.

All significant intercompany accounts and transactions have been eliminated in consolidation.

(D) Revenue Recognition

Revenue is recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed or determinable and collectability is assured.

(E) Cash and Cash Equivalents

The Company considers cash on hand and amounts on deposit with financial institutions which have original maturities of three months or less to be cash and cash equivalents.

(F) Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. Actual results could differ from those estimates

(G) Property and Equipment

Property and equipment are recorded at cost. Depreciation is computed using the declining balance method over the estimated useful lives of the various classes of assets as follows:

Computers and equipment	5 years
Furniture and fixtures	7 years

Property and equipment at March 31, 2006 consisted of the following:

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EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2006

(UNAUDITED)

Office furniture and fixtures	$	4,727
Computer equipment		1,246
Total Property	$	5,973
Less: Accumulated depreciation		1,549
Property and equipment, net	$	4,424

Depreciation expense for the three month periods ended March 31, 2006 and 2005 and for the period from February 23, 2004 (inception) to March 31, 2006 was $231, $781 and $3,974, respectively.

(H) Income Taxes

The Company accounts for income taxes under the Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (Statement 109). Under Statement 109, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Under Statement 109, the effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

(I) Fair Value of Financial Instruments

The Company s financial instruments include accounts payable and liabilities to shareholders. The carrying amounts of other financial instruments approximate their fair value because of short-term maturities.

(J) Earnings Per Share

Basic earnings per share is computed by dividing earnings available to stockholders by the weighted-average number of shares outstanding for the period as guided by the Financial Accounting Standards Board (FASB) under Statement of Financial Accounting Standards (SFAS) No. 128, Earnings per Shares . Diluted EPS reflects the potential dilution of securities that could share in the earnings. As of March 31, 2006 and 2005, the Company does not have any outstanding dilutive securities.

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EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2006

(UNAUDITED)

(K) Concentrations of Credit Risk

Financial instruments which potentially expose the Company to concentrations of credit risk consist principally of operating demand deposit accounts if those accounts are in excess of $100,000. As at March 31, 2006 there were no cash deposits in excess of the FDIC limit.

(L) Recent Accounting Pronouncements

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections. This Statement replaces APB Opinion No. 20, Accounting Changes, and FASB Statement No. 3, Reporting Accounting Changes in Interim Financial Statements, and changes the requirements for the accounting for and reporting of a change in accounting principle. This Statement applies to all voluntary changes in accounting principle. It also applies to changes required by an accounting pronouncement in the unusual instance that the pronouncement does not include specific transition provisions. SFAS 154 also requires that a change in depreciation, amortization or depletion method for long-lived, non financial assets be accounted for as a change in accounting estimate effected by a change in accounting principle. This Statement is effective in fiscal years beginning after December 15, 2005. The Company has determined that this will not have an effect on the financial statements.

NOTE 2 RELATED PARTY TRANSACTIONS

The Company s officers have loaned the Company working capital in the form of unsecured demand notes. At March 31, 2006 the Company owed $28,852. There are no terms on the note and the Company expects to retire these notes during the year 2007. The Company is accruing interest at a rate of 4% per annum and classifying the expense as an in-kind contribution.

NOTE 3 STOCKHOLDERS EQUITY

(A) Issuance of Common Stock to Founders

On February 23, 2004, the company issued 45,000,000 shares of common stock to the Company s officers for services regarding the initial start up of the Company. The value of these shares was $900, or $.00002 per share.

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EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2006

(UNAUDITED)

(B) Stock Issued for Cash

During the period ended December 31, 2004, the Company undertook a private placement issuance, Regulation D Rule offering whereby 2,280,000 shares of common stock were issued for cash of $45,600, or $0.02 per share.

During the year ended December 31, 2005, the Company issued 500,000 shares to an investor for cash of $10,000, or $0.02 per share. During the three months ended March 31, 2006, the Company issued 500,000 shares to an investor for cash of $10,000 or $0.02 per share.

During the three months ended March 31, 2006, the Company issued 500,000 shares to an investor for cash of $10,000 or $0.02 per share.

(C) Stock Issued in Reverse Merger

On May 10, 2005, Effective Profitable Software, Inc. exchanged 2,500,000 shares of common stock for all the outstanding shares of EPS (See Note 12).

(D) Stock Issued for Services

On April 1, 2004, the Company issued 500,000 shares of common stock for legal services. The value of these shares was $10, 000 or $0.02 per share.

During the last quarter of 2004, the Company issued 2,500,000 shares of common stock for services. The value of these shares was $50,000, or $0.02 per share.

In January 2005, the Company issued 500,000 shares of common stock for services. The value of these shares was $10,000, or $0.02 per share.

(E) In-Kind Contribution

During the period ended December 31, 2004, $646 of in-kind contributions relating to imputed interest on related party loans was recorded.

During the year ended December 31, 2005, $1,787 of in-kind contributions relating to imputed interest on related party loans was recorded.

During the three months ended March 31, 2006, $685 of in-kind contribution relating to imputed interest on related party loans was recorded.

EFFECTIVE PROFITABLE SOFTWARE, INC. AND SUBSIDIARY

(A DEVELOPMENT STAGE COMPANY)

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

AS OF MARCH 31, 2006

(UNAUDITED)

NOTE 4 GOING CONCERN

As reflected in the accompanying financial statements, the Company is in the development stage with no revenue, a working capital deficiency of $39,234, a stockholder s deficiency of $34,060 and has a negative cash flow from operations of $80,186 from inception. This raises substantial doubt about its ability to continue as a going concern. The ability of the Company to continue as a going concern is dependent on the Company s ability to raise additional capital and implement its business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

Management believes that actions presently being taken to obtain additional funding and implement its strategic plans provide the opportunity for the Company to continue as a going concern.

NOTE 5 SUBSEQUENT EVENT

During April 2006, the Company issued 1,200,000 shares to one investor for cash of $24,000 ($0.02 per share).

Item 2. Management s Discussion and Analysis or Plan of Operation

The following discussion and analysis provides information which management believes is relevant to an assessment and understanding of our financial condition. The discussion should be read in conjunction with our financial statements and notes thereto appearing in this prospectus. The following discussion and analysis contains forward-looking statements, which involve risks and uncertainties. Our actual results may differ significantly from the results, expectations and plans discussed in these forward- looking statements.

Overview

On May 10, 2005, pursuant to a Stock Purchase Agreement and Share Exchange between us and EPS, Inc., an Arkansas corporation, and the shareholders of EPS, we purchased all of the outstanding shares of EPS for the issuance of 10,156,000 (50,780,000 post-split) shares of our stock to the EPS shareholders. Pursuant to the Agreement, EPS became a wholly owned subsidiary of the Company. Pursuant to the terms of the Agreement, we filed Articles of Amendment with the State of Delaware changing our name to Effective Profitable Software, Inc.

Based on the acquisition of EPS we changed our business focus to become a financial markets evaluation software company which focuses on bringing affordable evaluation tools to the general public. We are based in Little Rock, Arkansas and are lead by Don Bratcher, Gary Moore and Richard Torti. We use in house proprietary software for evaluation of markets, stocks, commodities, and other financial instruments. We have developed an innovative evaluation system we call the TimingWave. At the center of the system is a 100% mechanical, unemotional timing model that is both powerful and simple to use. The system s web-based access will make it both affordable and accessible and our evaluations will be easily understood.

On May 20, 2005, our directors and shareholders approved a 5-1 forward split of our outstanding common shares increasing the amount of shares owned by these shareholders to 50,780,000 shares.

Plan of Operations

During the next twelve months, we expect to take the following steps in connection with the operations:

Initially we plan to prepare and execute a marketing plan to develop our subscription base. The majority of our member base will be obtained from two sources: search engine results and links placed in online market timing directories via link exchange programs. We anticipate that within thirty to sixty days, a comprehensive marketing plan will be developed. We expect to spend approximately $5,000 on marketing in the areas of Keyword Advertising and Sponsored Links through Google, FindWhat, and other similar targeted keyword programs. Another area that we will vigorously pursue as part of our marketing and branding program is search engine placement. By continuing to work to optimize the site, and by increasing the number of links to the site, we feel we can receive better search results and search engine saturation, which in turn directs more traffic to the website. In addition to our internet based effort we intend to advertise in national papers Wall Street Journal, USA Today we anticipate additional subscriptions from word of mouth.

In the latter part of 2006 we intend to charge a subscription fee for our services. We believe our programs are so unique and accurate that no active subscription members will be affected and we intend to inform them when they subscribe that this is an initial offer and prices will increase. We currently have enough cash to satisfy our minimum cash requirements for the next 6 months to maintain our operations. However, we may require additional funds to increase marketing, to expand international and for further development of our Website.

We currently do not have enough cash to satisfy our minimum cash requirements for the next twelve months. In addition, we will require additional funds to increase marketing, to expand operations, and for further development of our website. No significant purchases of equipment are anticipated; however, a substantial surge in traffic and/ or membership could necessitate the purchase of additional servers.

As reflected in the accompanying financial statements, we are in the development stage with limited operations. This raises substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on our ability to raise additional capital and implement our business plan. The financial statements do not include any adjustments that might be necessary if we are unable to continue as a going concern.

Capital Resources and Liquidity.

Our unaudited balance sheet as of March 31, 2006 reflects assets of $5,394 consisting of cash of $170, prepaid expense of $50, property and equipment of $4,424, and deposits of $750. Total liabilities as of March 31, 2006 were $39,450 consisting of cash overdraft of $295, accounts payable of $10,307, and stockholder loans of $28,852.

As of March 31, 2006, we had cash of $170. Our general and administrative expenses are expected to average $5,000 per month for the next 12 months based upon our projected operating budget. We currently do not have enough cash to satisfy more than one year of operations without receiving additional funds from our President or additional investors. Subsequent to March 31, 2006, we raised $24,000 from the issuance of stock.

Recent Financial Pronouncements

Statement of Financial Accounting Standards (SFAS) No. 154, Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3 SFAS No. 151, Inventory Costs - an amendment of ARB No. 43, Chapter 4 SFAS No. 152, Accounting for Real Estate Time-Sharing Transactions - an amendment of FASB Statements No. 66 and 67 SFAS No. 153, Exchanges of Non-monetary Assets - an amendment of APB Opinion No. 29 and SFAS No. 123 (revised 2004), Share-Based Payment , do not have applicability to the Company s operations nor any impact on the Company s financial statements.

Going Concern Consideration

As reflected in the accompanying financial statements, we are in the development stage with no revenue, a working capital deficiency of $38,234, a stockholder s deficiency of $34,060 and a negative cash flow from operations of $80,186 from inception. Accordingly, there is substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent on our ability to raise additional capital and implement our business plan. The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern.

We believe that actions presently being taken to obtain additional funding and implement our strategic plans provide the opportunity for us to continue as a going concern.

Critical Accounting Policies

Our financial statements and related public financial information are based on the application of accounting principles generally accepted in the United States (GAAP). GAAP requires the use of estimates; assumptions, judgments and subjective interpretations of accounting principles that have an impact on the assets, liabilities, revenue and expense amounts reported. These estimates can also affect supplemental information contained in our external disclosures including information regarding contingencies, risk and financial condition. We believe our use if estimates and underlying accounting assumptions adhere to GAAP and are consistently and conservatively applied. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ materially from these estimates under different assumptions or conditions. We continue to monitor significant estimates made during the preparation of our financial statements.

Our significant accounting policies are summarized in Note 1 of our financial statements. While all these significant accounting policies impact our financial condition and results of operations, we view certain of these policies as critical. Policies determined to be critical are those policies that have the most significant impact on our financial statements and require management to use a greater degree of judgment and estimates. Actual results may differ from those estimates. Our management believes that given current facts and circumstances, it is unlikely that applying any other reasonable judgments or estimate methodologies would cause effect on our consolidated results of operations, financial position or liquidity for the periods presented in this report.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 3. Controls and Procedures

Evaluation of disclosure controls and procedures

Under the supervision and with the participation of our management, including our principal executive officer and Chief Financial Officer , we conducted an evaluation of our disclosure controls and procedures, as such term is defined under Rule 13a-15(e) and Rule 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended (Exchange Act), as of March 31, 2006. Based on that evaluation, our principal executive officer and principal financial officer concluded that, a material weakness in our internal accounting controls existed prior to March 31, 2006 so that our disclosure controls and procedures in place were not adequate to ensure that information required to be disclosed by us, including our consolidated subsidiaries, in reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported on a timely basis in accordance with applicable rules and regulations. Although our principal executive officer and principal financial officer believe our current existing disclosure controls and procedures are adequate to enable us to comply with our disclosure obligations, we intend to formalize and document the procedures already in place and establish a disclosure committee.

Changes in internal controls

We are in the process of making significant changes to our internal controls subsequent to the Evaluation Date. During the course of the most recent examination of our financial statements for the period ended March 31, 2006 by our independent accountants, we were advised of the existence of a material weakness in our internal accounting controls that existed prior to March 31, 2006. We are applying the necessary corrective action and believe this weakness will be remediated.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We are currently not a party to any pending legal proceedings and no such actions by, or to the best of our knowledge, against us have been threatened.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

During the three months ended March 31, 2006, the Company issued 500,000 shares to an investor for cash of $10,000 or $0.02 per share.

Item 3. Defaults Upon Senior Securities.

None

Item 4. Submission of Matters to a Vote of Security Holders.

No matter was submitted during the quarter ending March 31, 2006, covered by this report to a vote of our shareholders, through the solicitation of proxies or otherwise.

Item 5. Other Information.

None

Item 6. Exhibits and Reports of Form 8-K.

(a) Reports on Form 8-K and Form 8K-A

None

(b) Exhibits

Exhibit Number	Exhibit Title
3.1	Certificate of Incorporation; Certificate of Amendment to Certificate of Incorporation *

3.3 By-Laws *

31.1 Certification of Gary Moore pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of Don Bratcher pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification of Gary Moore pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification of Don Bratcher pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Incorporated by reference to our quarterly report for the period-ending June 30, 2005 filed on Form 10-QSB filed with the SEC on June 7, 2006 (File No. 000-50494).

SIGNATURES

In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, there unto duly authorized.

EFFECTIVE PROFITABLE SOFTWARE, INC.

By: */s/Gary Moore*

Gary Moore

President,

Chief Executive Officer

July 5, 2006

00000">**Capital Required Capital**

LPL Financial LLC
$130,284 $6,476 $123,808
UVEST Financial Services Group, Inc.
$23,000 $1,678 $21,322
LPL Financial is a clearing broker-dealer and UVEST is an introducing broker-dealer.
In connection with the consolidation of the Affiliated Entities; Associated and WFG have withdrawn their registration with FINRA effective February 5, 2011, and are no longer subject to net capital filing requirements. MSC expects to withdraw its registration with FINRA and has maintained sufficient capital to carry out any remaining activities during the interim. At March 31, 2011, MSC had a net capital of $9.2 million, which was $8.9 million in excess of its minimum required net capital.
PTC is also 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 unaudited condensed consolidated financial statements. As of March 31, 2011 and December 31, 2010, the Company s registered broker-dealers and PTC have met all capital adequacy requirements to which it is subject.
The Company operates in a highly regulated industry. Applicable laws and regulations 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 subject to comprehensive examinations and supervision 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.

16. 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 clients 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

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LPL INVESTMENT HOLDINGS INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited) (Continued)

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 hold equity securities on both a long and short basis that are recorded on the unaudited condensed 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 is engaged in buying and selling securities and other financial instruments for clients of 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.

The Affiliated Entities were engaged in buying and selling securities and other financial instruments for clients of advisors. Such transactions were introduced and cleared through a third-party clearing firm on a fully disclosed basis. These firms no longer conduct such activities. The registered representatives and their client accounts have transitioned to LPL Financial or to new firms.

17. Subsequent Events

On April 4, 2011, the Company received $55.3 million and $42.9 million, respectively, for refunds of federal taxes paid in 2009 and 2008 in connection with the IPO.

On April 20, 2011, the Company announced its intent to acquire Concord Capital Partners (Concord Wealth Management) and certain of its subsidiaries. Concord Wealth Management is an industry leader in providing technology and open architecture investment management solutions for trust departments of financial institutions. Through this acquisition, LPL Financial will have the ability to support both the brokerage and trust business lines of current and prospective financial institutions. The acquisition will also create new expansion opportunities such as giving the Company the ability to custody personal trust assets within banks across the country.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

Overview

We provide an integrated platform of proprietary technology, brokerage and investment advisory services to over 12,500 independent financial advisors and financial advisors at financial institutions (our advisors) across the country, enabling them to successfully service their retail investors with unbiased, conflict-free financial advice. In addition, we support over 4,000 financial advisors with customized clearing, advisory platforms and technology solutions. Our singular focus is to support our advisors with the front, middle and back-office support they need to serve the large and growing market for independent investment advice, particularly in the mass affluent market. We believe we are the only company that offers advisors the unique combination of an integrated technology platform, comprehensive self-clearing services and full open architecture access to leading financial products, all delivered in an environment unencumbered by conflicts from product manufacturing, underwriting or market making.

For over 20 years we have served the independent advisor market. We currently support the largest independent advisor base and we believe we are the fourth largest overall advisor base in the United States as of December 31, 2010. Through our advisors, we are also one of the largest distributors of financial products in the United States. Our scale is a substantial competitive advantage and enables us to more effectively attract and retain advisors. Our unique model allows us to invest more resources in our advisors, increasing their revenues and creating a virtuous cycle of growth. We are headquartered in Boston and currently have over 2,600 employees across our locations in Boston, Charlotte and San Diego.

Our Sources of Revenue

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

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

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

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

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

Advisory Fees. Advisory fee revenues represent fees charged by us and our advisors to their clients based on the value of advisory assets. Some of our advisors conduct their advisory business through separate entities by establishing their own Registered Investment Advisor (RIA) pursuant to the Investment Advisers Act of 1940, rather than using our corporate registered RIA. These stand-alone RIAs engage us for technology, clearing, regulatory and custody services, as well as access to our investment advisory platforms. The fee-based production generated by the stand-alone RIA is earned by the advisor, and accordingly not included in our advisory fee revenue. We charge fees to

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stand-alone RIAs including administrative fees based on the value of assets within these advisory accounts. Such fees are included within asset-based fees and transaction and other fees, as described below.

Asset-Based Fees. Asset-based fees are comprised of fees from cash sweep programs, our financial product manufacturer sponsorship programs, and omnibus processing and networking services. Pursuant to contractual arrangements, uninvested cash balances in our advisors client accounts are swept into either insured deposit accounts at various banks or third-party money market funds, for which we receive fees, including administrative and record-keeping fees based on account type and the invested balances. In addition, we receive fees from certain financial product manufacturers in connection with sponsorship programs that support our marketing and sales-force education and training efforts. We also earn fees on mutual fund assets for which we provide administrative and record-keeping services. Our networking fees represent fees paid to us by mutual fund and annuity product manufacturers in exchange for administrative and record-keeping services that we provide to clients of our advisors. Networking fees are correlated to the number of positions we administer, not the value of assets under administration.

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

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

Our Operating Expenses

Production Expenses. Production expenses are comprised of the following: gross commissions and advisory fees that are earned and paid out to advisors based on the sale of various products and services; production bonuses for achieving certain levels of production; recognition of share-based compensation expense from stock options and warrants granted to advisors and financial institutions based on the fair value of the awards at each interim reporting period; amounts designated by advisors as deferred commissions in a non-qualified deferred compensation plan that are marked to market at each interim reporting period; and brokerage, clearing and exchange fees. We refer to these expenses as the production payout . Substantially all of the production payout is variable and correlated to the revenues generated by each advisor.

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

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

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

Restructuring Charges. Restructuring charges represent expenses incurred as a result of our 2009 consolidation of the Affiliated Entities and our 2011 consolidation of UVEST.

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

How We Evaluate Growth

We focus on several business and key financial metrics in evaluating the success of our business relationships and our resulting financial position and operating performance. Our key metrics as of and for the three months ended March 31, 2011 and 2010 are as follows:

	March 31,		
	2011	2010	% Change
	(unaudited)		
Business Metrics			
Advisors(1)	12,554	12,026	4.4%
Advisory and brokerage assets (in billions)(2)	$ 330.1	$ 284.6	16.0%
Advisory assets under management (in billions)(3)	$ 99.7	$ 81.0	23.1%
Net new advisory assets (in billions)(4)	$ 3.7	$ 1.4	164.3%
Insured cash account balances (in billions)(3)	$ 12.3	$ 11.4	7.9%
Money market account balances (in billions)(3)	$ 6.9	$ 6.7	3.0%
Financial Metrics			
Revenue growth from prior period	17.5%	15.6%	
Recurring revenue as a % of net revenue(5)	60.2%	60.1%	
Gross margin (in millions)(6)	$ 269.5	$ 230.2	
Gross margin as a % of net revenue(6)	30.8%	31.0%	
Net income (in millions)	$ 49.0	$ 25.6	
Adjusted EBITDA (in millions)	$ 124.3	$ 105.5	
Adjusted Earnings (in millions)	$ 59.4	$ 41.1	
Earnings per share (diluted)	$ 0.43	$ 0.25	
Adjusted Earnings per share (diluted)	$ 0.52	$ 0.42	

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

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

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

(4) Represents net new advisory assets that are custodied in the Company s fee-based advisory platforms.

(5) Recurring revenue is derived from sources such as advisory fees, asset-based fees, trailing commission fees, fees related to our cash sweep programs, interest earned on margin accounts and technology and service fees.

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

Adjusted EBITDA

Adjusted EBITDA is defined as EBITDA (net income plus interest expense, income tax expense, depreciation and amortization), further adjusted to exclude certain non-cash charges and other adjustments set forth below. We present Adjusted EBITDA because we consider it an important measure of our performance. Adjusted EBITDA is a useful financial metric in assessing our operating performance from period to period by excluding certain items that we believe are not representative of our core business, such as certain material non-cash items and other adjustments. We believe that Adjusted EBITDA, viewed in addition to, and not in lieu of, our reported GAAP results, provides useful information to investors regarding our performance and overall results of operations for the following reasons:

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

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

We use Adjusted EBITDA:

as a measure of operating performance;

for planning purposes, including the preparation of budgets and forecasts;

to allocate resources to enhance the financial performance of our business;

to evaluate the effectiveness of our business strategies;

in communications with our board of directors concerning our financial performance and

as a factor in determining employee and executive bonuses

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Adjusted EBITDA is a non-GAAP measure and does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. The term Adjusted EBITDA is not defined under GAAP, and Adjusted EBITDA is not a measure of net income, operating income or any other performance measure derived in accordance with GAAP, and is subject to important limitations.
Adjusted EBITDA has limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

- Adjusted EBITDA does not reflect all cash expenditures, future requirements for capital expenditures or contractual commitments

- Adjusted EBITDA does not reflect changes in, or cash requirements for, working capital needs and

- Adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on our debt

- Adjusted EBITDA can differ significantly from company to company depending on long-term strategic decisions regarding capital structure, the tax jurisdictions in which companies operate and capital investments, limiting its usefulness as a comparative measure

Because of these limitations, Adjusted EBITDA should not be considered as a measure of discretionary cash available to us to invest in our business. We compensate for these limitations by relying primarily on the GAAP results and using Adjusted EBITDA as supplemental information.
Set forth below is a reconciliation from our net income to Adjusted EBITDA for the three months ended March 31, 2011 and 2010 (in thousands):

	For the Three Months Ended March 31,	
	2011	**2010**
	(unaudited)	
Net income	$ 48,999	$ 25,554
Interest expense	18,172	24,336
Income tax expense	32,559	19,162
Amortization of purchased intangible assets and software(1)	9,537	14,111
Depreciation and amortization of all other fixed assets	8,628	11,479
EBITDA	117,895	94,642
EBITDA Adjustments:		
Share-based compensation expense(2)	3,860	2,536
Acquisition and integration related expenses(3)	1,416	140
Restructuring and conversion costs(4)	835	7,979
Debt amendment and extinguishment costs(5)		121
Equity issuance and related offering costs	292	
Other(6)	33	39
Total EBITDA Adjustments	6,436	10,815
Adjusted EBITDA	$ 124,331	$ 105,457

(1) Represents amortization of intangible assets and software as a result of our purchase accounting adjustments from our merger transaction in 2005 and our previous acquisitions.

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

(3) Represents acquisition and integration costs resulting from various acquisitions.

(4) Represents organizational restructuring charges and conversion and other related costs incurred resulting from the 2009 consolidation of the Affiliated Entities and the 2011 consolidation of UVEST.

(5) Represents debt amendment costs incurred in 2010 for amending and restating our credit agreement to establish a new term loan tranche and to extend the maturity of an existing tranche on our senior credit facilities.

(6) Represents other taxes.

Adjusted Earnings and Adjusted Earnings per share

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

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

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

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

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

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

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

Since 2010, we have used Adjusted Earnings for internal management reporting and evaluation purposes. We also believe Adjusted Earnings and Adjusted Earnings per share are useful to investors in

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evaluating our operating performance because securities analysts use them as supplemental measures to evaluate the overall performance of companies, and our investor and analyst presentations include Adjusted Earnings and Adjusted Earnings per share.

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

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

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

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

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

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

The following table sets forth a reconciliation of net income to Adjusted Earnings and Adjusted Earnings per share (in thousands, except per share data):

	For the Three Months Ended March 31,	
	2011	**2010**
	(unaudited)	
Net income	$ 48,999	$ 25,554
After-Tax:		
EBITDA Adjustments(1)		
Share-based compensation expense(2)	2,901	2,010
Acquisition and integration related expenses	874	85
Restructuring and conversion costs	515	4,823
Debt amendment and extinguishment costs		73
Equity issuance and related offering costs	180	
Other	20	24
Total EBITDA Adjustments	4,490	7,015
Amortization of purchased intangible assets and software(1)	5,884	8,530
Adjusted Earnings	$ 59,373	$ 41,099
Adjusted Earnings per share(3)	$ 0.52	$ 0.42
Weighted average shares outstanding diluted(4)	113,196	98,945

(1) EBITDA Adjustments and amortization of purchased intangible assets and software have been tax effected using a federal rate of 35.0% and the applicable effective state rate which was 3.30% for the

three month period ended March 31, 2011 and 4.55% for the corresponding period in 2010, net of the federal tax benefit. In April 2010, a step up in basis of $89.1 million for internally developed software that was established at the time of the 2005 merger transaction became fully amortized, resulting in lower balances of intangible assets that are amortized.

(2) Represents the after-tax expense of non-qualified stock options in which we receive a tax deduction upon exercise, and the full expense impact of incentive stock options granted to employees that have vested and qualify for preferential tax treatment and conversely, we do not receive a tax deduction. Share-based compensation for vesting of incentive stock options was $1.4 million and $1.2 million, respectively, for the three months ended March 31, 2011 and 2010.

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

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010
	(unaudited)	
Earnings per share diluted	$ 0.43	$ 0.25
Adjustment for allocation of undistributed earnings to stock units		0.01
After-Tax:		
EBITDA Adjustments per share	0.04	0.07
Amortization of purchased intangible assets and software per share	0.05	0.09
Adjusted Earnings per share	$ 0.52	$ 0.42

(4) Weighted average shares outstanding on a fully diluted basis increased from 98.9 million shares as of March 31, 2010 to 113.2 million shares as of March 31, 2011, due to the successful completion of our IPO in the fourth quarter of 2010. The increase is attributed to the release of the restriction of approximately 7.4 million shares of common stock upon closing of our IPO in the fourth quarter of 2010, the issuance of approximately 1.5 million shares of common stock by the Company pursuant to the over-allotment option granted to the underwriters in connection with the IPO, and shares that were issued upon exercise of options by selling stockholders in connection with the IPO, net of any shares retired to satisfy the exercise price in a cashless exercise.

The following table reflects pro-forma Adjusted Earnings per share and growth in pro-forma Adjusted Earnings per share, assuming weighted average shares outstanding on a fully diluted basis as of March 31, 2011 was also outstanding as of March 31, 2010 (in thousands, except per share data):

	For the Three Months Ended March 31, 2011	For the Three Months Ended March 31, 2010	% Change
	(unaudited)		
Adjusted Earnings	$ 59,373	$ 41,099	
Weighted average shares outstanding diluted as of March 31, 2011	113,196	113,196	

Pro-forma Adjusted Earnings per share	$	0.52	$	0.36	44.4%

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Acquisitions, Integrations and Divestitures

Acquisition of National Retirement Partners Inc.

On July 14, 2010, we announced a definitive agreement to acquire certain assets of NRP. NRP s advisors offer products and services to retirement plan sponsors and participants and comprehensive financial services to high net worth individuals. This strategic acquisition will further enhance our capabilities and presence in the group retirement plan space. Our existing advisors will benefit from growth opportunities, as well as IRA rollovers and other retirement related services and solutions.

The transaction closed on February 9, 2011, and accordingly 206 advisors previously registered with NRP transferred their securities and advisory licenses and registrations to LPL Financial. Additionally, approximately 3,800 client accounts with advisory and brokerage assets of $564.3 million were converted from NRP s former clearing firm to LPL Financial. For the three months ended March 31, 2011, revenues and gross margin attributed to the NRP acquisition were $9.1 million and $1.1 million, respectively.

We paid $16.7 million at the closing of the transaction, and $3.6 million of additional funds remain in an escrow account to be paid to former shareholders of NRP within ninety days following the transaction date. Additionally, we may be required to pay future consideration that is contingent upon the achievement of certain revenue-based milestones in the third year after acquisition. Including the provisional contingent consideration, the total consideration for the acquisition was approximately $22.7 million. Transaction costs associated with the acquisition of certain assets of NRP totaling $3.5 million were expensed as incurred through other expense in the unaudited condensed consolidated statements of operations. Of these transaction costs $1.2 million were incurred during the three months ending March 31, 2011.

Consolidation of UVEST Financial Services Group, Inc.

On March 14, 2011, we committed to a corporate restructuring plan to enhance our service offering, while generating efficiencies. The restructuring plan will consolidate the operations of our subsidiary, UVEST with those of LPL Financial. In connection with the consolidation, certain registered representatives currently associated with UVEST will move to LPL Financial through a transfer of their licenses. The transfers are expected to be completed in stages, with the first stage commencing in June 2011, and the final stage to be completed by December 2011. Following the transfer of registered representatives and client accounts to LPL Financial, all registered representatives and client accounts that transferred shall then be associated with LPL Financial. In addition, UVEST will terminate its clearing relationship with a third-party clearing firm.

We anticipate recording pre-tax charges of $52.7 million over the course of the restructuring plan, including a non-cash impairment charge of $5.6 million. These charges are comprised of estimated charges of $28.7 million in expenditures principally relating to the conversion and transfer of registered representatives and client accounts from UVEST to LPL Financial, $11.4 million of contract termination fees and $7.0 million of advisor retention and related benefits.

These restructuring activities are expected to be completed by the end of 2011. We expect this restructuring will improve pre-tax profitability by approximately $10 million to $12 million per year beginning in 2012 by creating operational efficiencies and revenue opportunities.

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Acquisition of Concord Capital Partners

On April 20, 2011, we announced our intent to acquire Concord Wealth Management and certain of its subsidiaries. Concord Wealth Management is an industry leader in providing technology and open architecture investment management solutions for trust departments of financial institutions. Concord Wealth Management has over $10.0 billion in assets under administration. Through this acquisition, LPL Financial will have the ability to support both the brokerage and trust business lines of current and prospective financial institutions. The acquisition will also create new expansion opportunities such as giving us the ability to custody personal trust assets within banks across the country.

Economic Overview and Impact of Financial Market Events

The steady recovery of the equity markets from the market lows that occurred in March of 2009 entered its third year during the first quarter of 2011. The overall market and economic conditions in the United States have improved substantially from their lowest points in 2009; however, significant uncertainty about the sustainability of growth remains with overall employment levels low and housing prices unsteady. While the general direction of the equity markets has been up for the last two years, the markets have experienced brief and sharp contractions during this time in response to uncertainties arising from global economic and political developments. During these periods of uncertainty, concerns about economic prospects have led to periods of reduced investor activities.

For the first three months of 2011, the equity markets continued to have a positive performance relative to the comparable prior year period. This improvement is reflected in the daily S&P 500, which averaged 1,303 during the first quarter of 2011, 15.9% above the comparable prior year period. This rebound has positively influenced our advisory and brokerage assets and improved those revenue sources which are directly driven by asset-based pricing. Despite the recovery of the markets from the low points in 2009, the equity markets remain below levels attained prior to the 2008-2009 crash. The S&P 500 daily average in the first quarter of 2011, while well ahead of the average for the first quarter of 2010, remains 13.0% below the pre-crash high of 1,497 in the second quarter of 2007.

In response to the market turbulence and overall economic environment, the central banks, including the Federal Reserve, have maintained historically low interest rates. The average effective rate for federal funds was 0.15% in the first quarter of 2011, a slight increase from the average of 0.13% for the first quarter of 2010. During the first quarter of 2011, the quantitative easing program introduced by the Federal Reserve resulted in a decline in the average effective rate on a sequential quarter basis of 4 basis points. The low interest rate environment negatively impacts our revenues from client assets in our cash sweep programs.

As a result of the uncertainties in the market and weak investor confidence following the 2008-2009 crash, our revenues from sales of investment products and from transactions have been slowly recovering to their pre-crash levels. Our results for the first quarter of 2011 reflect the first sustained expansions of investment activities and volumes since early in 2008. This re-engagement of investors is reflected, in part, in our commission revenues, which reached $451.9 million in the first quarter, surpassing our previous quarterly high of $441.2 million in the second quarter of 2008. Advisory fees and transactions and other fees also hit record highs of $244.1 million and $73.7 million, respectively, for the for the first quarter of 2011, compared to previous highs of $226.4 million and $70.2 million in the fourth quarter of 2010 and the third quarter of 2010.

While our business has improved as a result of the more favorable environment, our outlook remains cautiously optimistic and we continue to attempt to mitigate the impact of financial market events on our earnings with a strategic focus on attractive growth opportunities such as business development from attracting new advisors and through expense management activities.

Results of Operations

The following discussion presents an analysis of our results of operations for the three months ended March 31, 2011 and 2010. Where appropriate, we have identified specific events and changes that affect comparability or trends, and where possible and practical, have quantified the impact of such items.

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010	% Change
	(In thousands)		
Revenues			
Commissions	$ 451,877	$ 388,972	16.2%
Advisory fees	244,087	206,330	18.3%
Asset-based fees	89,823	71,450	25.7%
Transaction and other fees	73,749	67,363	9.5%
Other	14,333	9,291	54.3%
Net revenues	873,869	743,406	17.5%
Expenses			
Production	604,327	513,202	17.8%
Compensation and benefits	84,142	73,575	14.4%
General and administrative	64,282	53,237	20.7%
Depreciation and amortization	18,165	25,590	(29.0)%
Restructuring charges	537	3,949	(86.4)%
Other	2,686	4,801	(44.1)%
Total operating expenses	774,139	674,354	14.8%
Non-operating interest expense	18,172	24,336	(25.3)%
Total expenses	792,311	698,690	13.4%
Income before provision for income taxes	81,558	44,716	82.4%
Provision for income taxes	32,559	19,162	69.9%
Net income	$ 48,999	$ 25,554	91.7%

Revenues

Commissions

The following table sets forth our commission revenue by product category included in our unaudited condensed consolidated statements of operations for the three months ended March 31, 2011 and 2010 (in thousands):

	2011	% Total	2010	% Total	Change	% Change
Variable annuities	$ 195,077	43.2%	$ 155,692	40.0%	$ 39,385	25.3%
Mutual funds	118,157	26.1%	115,001	29.6%	3,156	2.7%
Fixed annuities	42,751	9.5%	33,888	8.7%	8,863	26.2%
Alternative investments	27,976	6.2%	20,018	5.1%	7,958	39.8%
Equities	27,836	6.2%	24,106	6.2%	3,730	15.5%
Fixed income	23,483	5.2%	21,012	5.4%	2,471	11.8%

Insurance	15,941	3.5%	18,678	4.8%	(2,737)	(14.7)%
Other	656	0.1%	577	0.2%	79	13.7%
Total commission revenue	$ 451,877	100.0%	$ 388,972	100.0%	$ 62,905	16.2%

Commission revenue increased by $62.9 million, or 16.2%, for the three months ended March 31, 2011 compared with 2010. The increase was primarily due to an increase in sales-based commissions as a result of greater commission-based products activity. Sales-based commissions from more market sensitive products such as variable annuities, mutual funds and alternative investments experienced an increase over the prior year period due to increasing investor confidence. Sales of certain financial products with more predictable cash flows such as insurance, which typically increase during periods of

financial uncertainty, decreased during this period, consistent with the market s recovery. In addition, trail-based commission also increased due to improved market conditions as well as growth in assets eligible for trail payment.

Advisory Fees

Advisory fees increased by $37.8 million, or 18.3%, for the three months ended March 31, 2011 compared with 2010. The increase was primarily due to the effect of the rebounding market, which resulted in a significant increase in the value of client assets in advisory programs, as well as net new advisory assets. For the three months ended March 31, 2011, the S&P 500 index averaged 1,303, up 15.9% from the average of 1,124 for the three months ended March 31, 2010. Our advisory assets under management increased 23.1% from $81.0 billion at March 31, 2010 to $99.7 billion at March 31, 2011.

The following table summarizes the activity within our advisory assets under management for the three months ended March 31, 2011 and 2010 (in billions):

	2011	2010
Beginning balance at January 1	$ 93.0	$ 77.2
Net new advisory assets	3.7	1.4
Market impacts	3.0	2.4
Ending balance at March 31	$ 99.7	$ 81.0

Asset-Based Fees

Asset-based fees increased by $18.4 million, or 25.7%, for the three months ended March 31, 2011 compared with 2010. Revenues from product sponsors and for record-keeping services, which are largely based on the underlying asset values, increased due to the impact of the market s recovery on the value of those underlying assets and net new sales of eligible assets. The average S&P 500 index increased 15.9% from the three months ended March 31, 2010 to the three months ended March 31, 2011. In addition, revenues from our cash sweep programs increased by $5.6 million, or 21.5%, to $31.7 million for the three months ended March 31, 2011 from $26.1 million for the three months ended March 31, 2010. This was driven by an increase in the interest rate as reflected by the average effective federal funds rate and its influence on fees associated with assets in our cash sweep programs. In addition, the effective federal funds rate averaged 0.15% for the three months ended March 31, 2011 compared to 0.13% for the three months ended March 31, 2010. Assets in our cash sweep programs averaged $18.9 billion and $18.4 billion for the three months ended March 31, 2011 and 2010, respectively.

Transaction and Other Fees

Transaction and other fees, which include fees from advisors and their client accounts for various processing, technology and account services increased by $6.4 million, or 9.5%, for the three months ended March 31, 2011 compared with 2010. Transactional revenues increased by $4.2 million due to increased volumes in investment activities and related transactional volumes in mutual fund, general securities, fixed income and advisory products. Other fees also increased due to higher advisor counts and client account growth.

Other Revenue

Other revenue increased by $5.0 million, or 54.3%, for the three months ended March 31, 2011 compared with 2010. The increase was primarily attributed to higher direct investment marketing allowances received from product sponsors, largely based on sales volumes, as well as higher unrealized mark-to-market gains in securities owned and certain other assets.

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Expenses

Production Expenses

Production expenses increased by $91.1 million, or 17.8%, for the three months ended March 31, 2011 compared with 2010. This increase was correlated with our commission and advisory revenues, which increased by 16.9% during the same period. Our production payout averaged 85.4% for the three months ended March 31, 2011 and 84.8% for the three months ended March 31, 2010. The modest increase in payout rates from the first quarter of 2010 to the comparable period of 2011 is due primarily to the conversion of certain managed representatives. This change occurred in the third quarter of last year. The change in status of these individuals resulted in an increase in production expenses and a decrease in compensation expense.

Compensation and Benefits

Compensation and benefits increased by $10.6 million, or 14.4%, for the three months ended March 31, 2011 compared with 2010. The increase was due to increased staffing to support higher levels of advisor and client activities, an increase in wages and related employee benefits for existing employee levels, and the recognition of share-based compensation for stock options awarded to employees based on the grant date fair value. Our average number of full-time employees increased 6.6% from 2,464 for the three months ended March 31, 2010 to 2,627 for the three months ended March 31, 2011.

General and Administrative Expenses

General and administrative expenses increased by $11.0 million, or 20.7%, for the three months ended March 31, 2011 compared with 2010. The increase was due primarily to $3.4 million in business development and other promotional expenses, $2.7 million increase in advisor conferences and travel related expenses and $1.0 million in licensing fees and software.

Depreciation and Amortization

Depreciation and amortization expense decreased by $7.4 million, or 29.0%, for the three months ended March 31, 2011 compared with 2010. The decrease in the three month periods was primarily attributed to a step up in basis of $89.1 million in our internally developed software that was established at the time of our 2005 merger transaction and became fully amortized in April 2010. We recorded $4.8 million in amortization expense for these assets for the three months ended March 31, 2010.

Restructuring Charges

Restructuring charges were $0.5 million for the three months ended March 31, 2011, and relate primarily to technology costs and other expenditures incurred for the anticipated conversion and transfer of advisors and their client accounts from UVEST to LPL Financial, which is expected to begin in the second quarter of 2011. Restructuring charges were $3.9 million for the three months ended March 31, 2010, which included charges incurred for severance and termination benefits of $1.8 million, contract termination costs of $0.4 million, asset impairment write-offs of $0.2 million and $1.5 million in other expenditures principally relating to the conversion and transfer of registered representatives and client accounts from the Affiliated Entities to LPL Financial.

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Other Expenses

Other expenses decreased by $2.1 million, or 44.1%, for the three months ended March 31, 2011 compared with 2010. Included in other expense for the three months ended March 31, 2010 is $2.1 million of charges covered under a third-party indemnification agreement whereby the indemnitor is disputing its obligation. Refer to Litigation in Note 11 within the unaudited condensed consolidated financial statements for additional details regarding this matter.

Interest Expense

Interest expense includes non-operating interest expense for our senior secured credit facilities. Interest expense for the three months ended March 31, 2010, also includes non-operating interest expense for our senior unsecured subordinated notes, which we redeemed in May 2010.

Interest expense decreased by $6.2 million, or 25.3%, for the three months ended March 31, 2011 compared with 2010. The reduction in interest expense for the three months ended March 31, 2011 is attributed to our debt refinancing in the second quarter of 2010, which included the redemption of our senior unsecured subordinated notes, resulting in a lower cost of borrowing. Additionally, on January 31, 2011, we repaid $40.0 million of term loans under our senior secured credit facilities using net proceeds received in our IPO, as well as other cash on hand.

Provision for Income Taxes

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

During the three months ended March 31, 2011, we recorded income tax expense of $32.6 million compared with an income tax expense of $19.2 million for the three months ended March 31, 2010. Our effective income tax rate was 39.9% and 42.9% for the three months ended March 31, 2011 and 2010, respectively. The decrease in the effective tax rate is primarily related to a change in California s income sourcing rules that took effect on January 1, 2011.

Liquidity and Capital Resources

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

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

	Three Months Ended March 31,	
	2011	2010
	(In thousands)	
Net cash flows (used in) provided by:		
Operating activities	$ 189,457	$ (86,022)
Investing activities	(5,577)	(3,775)
Financing activities	(6,504)	35,964
Net increase (decrease) in cash and cash equivalents	177,376	(53,833)
Cash and cash equivalents beginning of period	419,208	378,594
Cash and cash equivalents end of period	$ 596,584	$ 324,761

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

Net cash provided by (used in) operating activities includes net income adjusted for non-cash expenses such as depreciation and amortization, restructuring charges, share-based compensation, deferred income tax provision and changes in operating assets and liabilities. Net cash provided by operating activities was $189.5 million for the three months ended March 31, 2011, compared to net cash used in operating activities of $86.0 million for the three months ended March 31, 2010. The increases in net cash provided by operating activities arise from increases in net income, net reductions in income taxes receivable and in cash provided by client activity. Net cash provided by operating activities for the three months ended March 31, 2011 includes an $82.6 million change in tax receivables that arose primarily from a tax benefit resulting from stock options exercised by selling stockholders in connection with the IPO, offset by $36.0 million of excess tax benefits resulting from stock options exercised in the IPO. Operating assets and liabilities include balances related to settlement and funding of client transactions, receivables from product sponsors and accrued commissions and advisory fees due to our advisors. Operating assets and liabilities that arise from the settlement and funding of transactions by our advisors clients are the principal cause of changes to our net cash from operating activities and can fluctuate significantly from day to day and period to period depending on overall trends and client behaviors.

Net cash used in investing activities for the three months ended March 31, 2011 and March 31, 2010 totaled $5.6 million and $3.8 million, respectively. The increase for the three months ended March 31, 2011, as compared to the three months ended March 31, 2010 was due to $16.7 million used for the acquisition of NRP and a $1.8 million increase in capital expenditures, offset by a $17.0 million release of restricted cash. Net cash used to purchase held-to-maturity securities was $2.8 million and $2.0 million for the three months ended March 31, 2011 and 2010, respectively, offset by net cash from the maturity of securities classified as held-to-maturity of $0.7 million and $2.1 million, respectively, for the same periods.

Net cash used in financing activities for the three months ended March 31, 2011 was $6.5 million, compared to net cash provided by financing activities of $36.0 million for the three months ended March 31, 2010. Cash flows used in financing activities for the three months ended March 31, 2011, include $43.5 million of cash used to pay down term loans under our senior secured credit facilities, offset by $36.0 million from excess tax benefits arising from stock options exercised in connection with our IPO. Borrowings of $40.0 million under our bank loan facilities, which we repaid in the second quarter of 2010, were the primary cash flows from financing activities during the three months ended March 31, 2010.

We believe that based on current levels of operations and anticipated growth, cash flow from operations, together with other available sources of funds, will be adequate to satisfy our working capital

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needs, the payment of all of our obligations and the funding of anticipated capital expenditures for the foreseeable future.

Tax Benefit Analysis

In 2010, upon closing our IPO in the fourth quarter, the restriction on 7.4 million shares of common stock issued to our advisors under the Fifth Amended and Restated 2000 Stock Bonus Plan was released. Accordingly, we recorded a share-based compensation charge and a corresponding tax deduction of $222.0 million in the fourth quarter of 2010, representing the offering price of $30.00 per share multiplied by 7.4 million shares. We were able to take a tax deduction for the share-based compensation charge, as noted below.

We also expect to realize in connection with our IPO, a tax deduction of $383.0 million resulting from (a) the exercise of non-qualified stock options by current and former employees; (b) the exercise of non-qualified stock options and warrants by advisors and financial institutions; and (c) the exercise of incentive stock options and subsequent sale of common stock resulting in a disqualifying disposition.

As a result of the tax deduction related to the release on the restriction of shares of common stock held by advisors, as well as stock option and warrant exercises, we expect the tax deduction available to be $605.0 million, resulting in total expected tax benefits in connection with the IPO of $237.3 million. The aggregate tax deduction generated a net operating loss (NOL) for tax purposes in 2010. Such NOLs are available to be applied to prior years operating income to recover taxes previously paid and are eligible to be carried forward to offset any future taxable income for federal tax purposes. Rules regarding carryback and carryforward vary by state.

On January 20, 2011, we received a $45.0 million tax refund for federal taxes paid in 2010. On April 4, 2011, we received $55.3 million and $42.9 million, respectively, for refunds of federal taxes paid in 2009 and 2008.

The following table shows the tax deduction available and the tax benefit expected to be realized in connection with the IPO (in thousands):

	Release on the Restriction of Shares of Common Stock	Stock Option and Warrant Exercises	Total
Tax deduction available	$ 221,982	$ 382,990	$ 604,972
Tax benefit expected to be realized	87,072	150,228	237,300
Tax benefit recorded in 2010 as income tax receivables on the consolidated statements of financial condition	(87,072)	(57,474)	(144,546)
Tax benefit utilized in the fourth quarter of 2010 by not making a quarterly payment		(37,534)	(37,534)
Tax benefit utilized in the first quarter of 2011 by utilization of NOLs to reduce income taxes payable		(35,967)	(35,967)
Total tax benefits realized as of March 31, 2011	(87,072)	(130,975)	(218,047)
Tax benefit expected to be utilized in future periods through the use of NOLs from tax deductions resulting from the IPO	$	$ 19,253	$ 19,253

Operating Capital Requirements

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

Notwithstanding the self-funding nature of our operations, we may sometimes be required to fund timing differences arising from the delayed receipt of client funds associated with the settlement of client transactions in securities markets. These timing differences are funded either with internally generated cash flow or, if needed, with funds drawn under the revolving credit facility at the holding company, and/or uncommitted lines of credit at our broker-dealer subsidiary, LPL Financial.

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

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

Liquidity Assessment

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

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to reduce or delay investments, seek additional capital or restructure or refinance our indebtedness. These measures may not be successful and may not permit us to meet our scheduled debt service obligations. In the absence of sufficient cash flows and capital resources, we could face substantial liquidity constraints and might be required to dispose of material assets or operations to meet our debt service and other obligations. However, our senior secured credit agreement will restrict our

ability to dispose of assets and the use of proceeds from any such dispositions. We may not be able to consummate those dispositions, and even if we could consummate such dispositions, to obtain the proceeds that we could realize from them and, in any event, the proceeds may not be adequate to meet any debt service obligations then due.

Indebtedness

On May 24, 2010, we amended and restated our senior secured credit agreement to add a new term loan tranche of $580.0 million maturing at June 28, 2017, which we used, together with cash on hand, to redeem our $550.0 million of senior unsecured subordinated notes, as described below. We also extended the maturity of a $500.0 million tranche of our term loan facility to June 25, 2015, with the remaining $317.1 million tranche maturing at the original maturity date of June 28, 2013.

On May 24, 2010, we gave notice of redemption of all of our outstanding senior unsecured subordinated notes. The redemption price of the senior unsecured subordinated notes was 105.375% of the outstanding aggregate principal amount, plus accrued and unpaid interest thereon up to but not including June 22, 2010 (the Redemption Date). All of our outstanding senior unsecured subordinated notes were redeemed on the Redemption Date.

We also maintain a revolving credit facility which is provided through the senior secured credit facilities. On January 25, 2010, we amended our senior secured credit agreement to increase the revolving credit facility from $100 million to $218.2 million. In connection with this amendment, we extended the maturity of a $163.5 million tranche of the revolving credit facility to June 28, 2013. The remaining $54.7 million tranche retains its original maturity date of December 28, 2011.

We also maintain two uncommitted lines of credit. One of the lines has an unspecified limit, and is primarily dependent on our ability to provide sufficient collateral. The other line had a limit of $100 million, which was increased to $150 million on May 27, 2010, and allows for both collateralized and uncollateralized (unsecured) borrowings.

We also are a party to interest rate swap agreements, in an aggregate notional amount of $210 million, to mitigate interest rate risk by hedging the variability of a portion of our floating-rate senior secured term loan.

Interest Rate and Fees

Borrowings under our senior secured credit facilities bear interest at a base rate equal to the one, two, three, six, nine or twelve-month LIBOR plus our applicable margin, or an alternative base rate (ABR) plus our applicable margin. The ABR is equal to the greatest of (a) the prime rate in effect on such day, (b) the effective federal funds rate in effect on such day plus 0.5% and (c) solely in the case of the 2015 Term Loans and the 2017 Term Loans, 2.50%. The applicable margin for borrowings (a) with respect to the 2013 Term Loans is currently 0.75% for base rate borrowings and 1.75% for LIBOR borrowings, (b) with respect to the 2015 Term Loans is currently 1.75% for base rate borrowings and 2.75% for LIBOR borrowings, (c) with respect to the 2017 Term Loans is currently 2.75% for base rate borrowings and 3.75% for LIBOR borrowings, (d) with respect to revolver tranche maturing in 2011 is currently 1.00% for base rate borrowings and 2.00% for LIBOR borrowings and (e) with respect to revolver tranche maturing in 2013 is currently 2.50% for base rate borrowings and 3.50% for LIBOR borrowings. The applicable margin on our 2013 Term Loans could change depending on our credit rating. The LIBOR Rate with respect to the 2015 Term Loans and the 2017 Term Loans shall in no event be less than 1.50%.

In addition to paying interest on outstanding principal under the senior secured credit facilities, we are required to pay a commitment fee to the lenders under the revolving credit facility in respect of the unutilized commitments thereunder. The commitment fee rates at March 31, 2010 were 0.375% for our revolver tranche maturing in 2011 and 0.75% for our revolver tranche maturing in 2013, but are subject to change depending on our leverage ratio. We must also pay customary letter of credit fees.

Prepayments

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

- 50% (percentage will be reduced to 25% if our total leverage ratio is 5.00 or less and to 0% if our total leverage ratio is 4.00 or less) of our annual excess cash flow (as defined in our senior secured credit agreement) adjusted for, among other things, changes in our net working capital;
- 100% of the net cash proceeds of all nonordinary course asset sales or other dispositions of property, if we do not reinvest or commit to reinvest those proceeds in assets to be used in our business or to make certain other permitted investments within 15 months as long as such reinvestment is completed within 180 days; and
- 100% of the net cash proceeds of any incurrence of debt, other than proceeds from debt permitted under the senior secured credit agreement.

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

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

Amortization

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

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

Guarantee and Security

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

Certain Covenants and Events of Default

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

- incur additional indebtedness;
- create liens;

enter into sale and leaseback transactions;
engage in mergers or consolidations;
sell or transfer assets;

pay dividends and distributions or repurchase our capital stock;
make investments, loans or advances;
prepay certain subordinated indebtedness;
engage in certain transactions with affiliates;
amend material agreements governing certain subordinated indebtedness; and
change our lines of business.

Our senior secured credit facilities prohibit us from paying dividends and distributions or repurchasing our capital stock except for limited purposes, including, but not limited to payments in connection with: (i) redemption, repurchase, retirement or other acquisition of our equity interests from present or former officers, managers, consultants, employees and directors upon the death, disability, retirement, or termination of employment of any such person or otherwise in accordance with any stock option or stock appreciate rights plan, any management or employee stock ownership plan, stock subscription plan, employment termination agreement or any employment agreements or stockholders agreement, in an aggregate amount not to exceed $5.0 million in any fiscal year plus the amount of cash proceeds from certain equity issuances to such persons, the amount of equity interests subject to a certain deferred compensation plan and the amount of certain key-man life insurance proceeds, (ii) franchise taxes, general corporate and operating expenses not to exceed $3.0 million in any fiscal year, and fees and expenses related to any unsuccessful equity or debt offering permitted by the senior secured credit facilities, (iii) tax liabilities to the extent attributable to our business and our subsidiaries and (iv) dividends and other distributions in an aggregate amount not to exceed 50% of our cumulative consolidated net income available to stockholders at such time so long as at the time of such payment of dividend or the making of such distribution, and after giving effect thereto, our leverage ratio is less than 3.50:1.00.

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

Our senior secured credit agreement provides us with a right to cure in the event we fail to comply with our leverage ratio test or our interest coverage test. We must exercise this right to cure within ten days of the delivery of our quarterly certificate calculating the financial ratio for that quarter.

If we fail to comply with these covenants and are unable to cure, we could face substantial liquidity problems and could be forced to sell assets, seek additional capital or seek to restructure or refinance our indebtedness. These alternative measures may not be successful or feasible. Our senior secured credit

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agreement restricts our ability to sell assets. Even if we could consummate those sales, the proceeds that we realize from them may not be adequate to meet any debt service obligations then due. Furthermore, if an event of default were to occur with respect to our senior secured credit agreement, our creditors could, among other things, accelerate the maturity of our indebtedness.

As of March 31, 2011 and December 31, 2010, we were in compliance with all of our covenant requirements.

Our covenant requirements and actual ratios as of March 31, 2011 and December 31, 2010 are as follows:

	March 31, 2011		December 31, 2010	
Financial Ratio	**Covenant Requirement**	**Actual Ratio**	**Covenant Requirement**	**Actual Ratio**
Leverage Test (Maximum)	3.50	2.26	3.70	2.64
Interest Coverage (Minimum)	2.75	5.45	2.60	4.81

Set forth below is a reconciliation from EBITDA, Adjusted EBITDA and Credit Agreement Adjusted EBITDA to our net income for the trailing twelve months ending March 31, 2011 and December 31, 2010 (in thousands):

	March 31, 2011	**December 31, 2010**
	(unaudited)	
Net income	$ (33,417)	$ (56,862)
Interest expense	84,243	90,407
Income tax expense	(18,590)	(31,987)
Amortization of purchased intangible assets and software(1)	39,084	43,658
Depreciation and amortization of all other fixed assets	39,528	42,379
EBITDA	110,848	87,595
EBITDA Adjustments:		
Share-based compensation expense(2)	11,753	10,429
Acquisition and integration related expenses(3)	13,845	12,569
Restructuring and conversion costs(4)	15,691	22,835
Debt amendment and extinguishment costs(5)	38,512	38,633
Equity issuance and related offering costs(6)	241,194	240,902
Other(7)	144	150
Total EBITDA Adjustments	321,139	325,518
Adjusted EBITDA	431,987	413,113
Pro-forma adjustments(8)		
Credit Agreement Adjusted EBITDA	$ 431,987	$ 413,113

(1) Represents amortization of intangible assets and software as a result of our purchase accounting adjustments from our merger transaction in 2005 and various acquisitions.

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

(3)

Represents acquisition and integration costs resulting from various acquisitions. Included in the trailing twelve months ended March 31, 2011 and December 31, 2010, are $8.9 million of expenditures for certain legal settlements that have not been resolved with the indemnifying party. See Litigation in Note 11 of our unaudited condensed consolidated financial statements for further discussion on legal settlements.

(4) Represents organizational restructuring charges and conversion and other related costs incurred resulting from the 2009 consolidation of the Affiliated Entities and the 2011 consolidation of UVEST.

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

(6) Represents equity issuance and related offering costs. Upon closing of the IPO in the fourth quarter of 2010, the restriction on approximately 7.4 million shares of common stock issued to advisors under our Fifth Amended and Restated 2000 Stock Bonus Plan was released. Accordingly, the Company recorded a share-based compensation charge of $222.0 million, representing the offering price of $30.00 per share multiplied by 7.4 million shares.

(7) Represents excise and other taxes.

(8) Credit Agreement Adjusted EBITDA excludes pro forma general and administrative expenditures from acquisitions, as defined under the terms our senior secured credit agreement. There were no such adjustments for the twelve month periods ended March 31, 2011 and December 31, 2010.

Interest Rate Swaps

An interest rate swap is a financial derivative instrument whereby two parties enter into a contractual agreement to exchange payments based on underlying interest rates. We use interest rate swap agreements to hedge the variability on our floating interest rate for $210.0 million of our term loan under our senior secured credit facilities. We are required to pay the counterparty to the agreement fixed interest payments on a notional balance and in turn receive variable interest payments on that notional balance. Payments are settled quarterly on a net basis. As of March 31, 2011, we assessed our interest rate swaps as being highly effective and we expect them to continue to be highly effective. While approximately $1.1 billion of our term loan remains unhedged as of March 31, 2011, the risk of variability on our floating interest rate is partially mitigated by the client margin loans on which we carry floating interest rates. At March 31, 2011, our receivables from our advisors clients for margin loan activity were approximately $246.8 million.

Bank Loans Payable

We maintain two uncommitted lines of credit at LPL Financial. One line has an unspecified limit, and is primarily dependent on the company s ability to provide sufficient collateral. The other line has a $150.0 million limit and allows for both collateralized and uncollateralized borrowings. Both lines were utilized in 2011 and 2010; however, there were no balances outstanding at March 31, 2011 or December 31, 2010.

Off-Balance Sheet Arrangements

We enter into various off-balance-sheet arrangements in the ordinary course of business, primarily to meet the needs of our advisors clients. These arrangements include firm commitments to extend credit. For information on these arrangements, see Notes 11 and 16 to our unaudited condensed consolidated financial statements.

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Contractual Obligations

The following table provides information with respect to our commitments and obligations as of March 31, 2011:

	Payments Due by Period				
	Total	< 1 Year	1-3 Years	3-5 Years	> 5 Years
			(In thousands)		
Leases and other obligations(1)	$ 90,042	$ 29,917	$ 38,010	$ 15,961	$ 6,154
Senior secured term loan facilities(2)	1,343,146	13,971	323,296	477,285	528,594
Commitment fee on revolving line of credit(3)	2,749	1,314	1,435		
Variable interest payments:(4)					
2013 Loan (Hedged)	2,447	2,113	334		
2013 Loan (Unhedged)	11,343	4,112	7,231		
2015 Loan (Unhedged)	85,969	20,688	40,617	24,664	
2017 Loan (Unhedged)	179,699	29,645	58,202	57,046	34,806
Interest rate swap agreements(5)	5,407	4,660	747		
Total contractual cash obligations	$ 1,720,802	$ 106,420	$ 469,872	$ 574,956	$ 569,554

(1) Minimum payments have not been reduced by minimum sublease rental income of $6.4 million due in the future under noncancelable subleases. Note 11 of our unaudited condensed consolidated financial statements provides further detail on operating lease obligations and obligations under noncancelable service contracts.

(2) Represents principal payments on our senior secured term loan facilities. See Note 9 of our unaudited condensed consolidated financial statements for further detail.

(3) Represents commitment fees for unused borrowings on our senior secured revolving line of credit facility. See Note 9 of our unaudited condensed consolidated financial statements for further detail.

(4) Our senior secured term loan facilities bear interest at floating rates. Variable interest payments are shown assuming the applicable LIBOR rates at March 31, 2011 remain unchanged. See Note 9 of our unaudited condensed consolidated financial statements for further detail.

(5) Represents fixed interest payments net of variable interest received on our interest rate swap agreements. See Note 10 of our unaudited condensed consolidated financial statements for further detail.

As of March 31, 2011, we reflect a liability for unrecognized tax benefits of $22.1 million, which we have included in income taxes payable in the unaudited condensed consolidated statements of financial condition. This amount has been excluded from the contractual obligations table because we are unable to reasonably predict the ultimate amount or timing of future tax payments.

Fair Value of Financial Instruments

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

We use prices obtained from an independent third-party pricing service to measure the fair value of our trading securities. We validate prices received from the pricing service using various methods including, comparison to prices received from additional pricing services, comparison to available market prices and review of other relevant market data including implied yields of major categories of securities.

At March 31, 2011, we did not adjust prices received from the independent third-party pricing service. For certificates of deposit and treasury securities, we utilize market-based inputs including observable market interest rates that correspond to the remaining maturities or next interest reset dates.

Critical Accounting Policies and Estimates

We have disclosed in our unaudited condensed consolidated financial statements and in Item 7-Management s Discussion and Analysis of Financial Condition and Results of Operations included in our 2010 Annual Report on Form 10-K, those accounting policies that we consider to be significant in determining our results of operations and financial condition. There have been no material changes to those policies that we consider to be significant since the filing of our 2010 Annual Report on Form 10-K. The accounting principles used in preparing our unaudited condensed consolidated financial statements conform in all material respects to GAAP.

Recent Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Market Risk

We maintain trading securities owned and securities sold but not yet purchased in order to facilitate client transactions, to meet a portion of our clearing deposit requirements at various clearing organizations, and to track the performance of our research models. These securities include mutual funds, debt securities issued by the U.S. government, money market funds, corporate debt securities, certificates of deposit and equity securities.

Changes in value of our trading inventory may result from fluctuations in interest rates, credit ratings of the issuer, equity prices and the correlation among these factors. We manage our trading inventory by product type. Our activities to facilitate client transactions generally involve mutual fund activities, including dividend reinvestments. The balances are based upon pending client activities which are monitored by our broker dealer support services department. Because these positions arise from pending client transactions, there are no specific trading or position limits. Positions held to meet clearing deposit requirements consist of U.S. government securities. The amount of securities deposited depends upon the requirements of the clearing organization. The level of securities deposited is monitored by the settlement area within our broker dealer support services department. Our research department develops model portfolios that are used by advisors in developing client portfolios. We currently maintain 173 accounts based on model portfolios. At the time the portfolio is developed, we purchase the securities in that model portfolio in an amount equal to the account minimum for a client. Account minimums vary by product and can range from $10,000 to $50,000 per model. We utilize these positions to track the performance of the research department. The limits on this activity are based at the inception of each new model.

At March 31, 2011, the fair value of our trading securities owned were $9.5 million. Securities sold but not yet purchased were $2.5 million at March 31, 2011. See Note 5 of our unaudited condensed consolidated financial statements for information regarding the fair value of trading securities owned and securities sold but not yet purchased associated with our client facilitation activities. See Note 5 of our unaudited condensed consolidated financial statements for information regarding the fair value of securities held to maturity.

We do not enter into contracts involving derivatives or other similar financial instruments for trading or proprietary purposes.

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We also have market risk on the fees we earn that are based on the market value of advisory and brokerage assets, assets on which trail commissions are paid and assets eligible for sponsor payments.

Interest Rate Risk

We are exposed to risk associated with changes in interest rates. As of March 31, 2011, all of the outstanding debt under our senior secured credit facilities, $1.3 billion, was subject to floating interest rate risk. To provide some protection against potential rate increases associated with our floating senior secured credit facilities, we have entered into derivative instruments in the form of interest rate swap agreements with Morgan Stanley Capital Services, Inc. covering a portion ($210.0 million) of our senior secured indebtedness. While the unhedged portion of our senior secured debt is subject to increases in interest rates, we do not believe that a short-term change in interest rates would have a material impact on our income before taxes.

The following table summarizes the impact of increasing interest rates on our interest expense from the variable portion of our debt outstanding at March 31, 2011:

		Annual Impact of an Interest Rate Increase of			
Senior Secured Term Loans	**Outstanding at Variable Interest Rates**	**10 Basis Points**	**25 Basis Points**	**50 Basis Points**	**100 Basis Points**
		(Dollars in thousands)			
2013 Term Loan (Hedged)(1)	$ 210,000	$	$	$	$
2013 Term Loan (Unhedged)(2)	94,867	94	234	468	937
2015 Term Loan (Unhedged)(3)	480,685				
2017 Term Loan (Unhedged)(3)	557,594				
Variable Rate Debt Outstanding	$ 1,343,146	$ 94	$ 234	$ 468	$ 937

(1) Represents the portion of our 2013 Term Loan that is hedged by interest rate swap agreements, which have been designated as cash flow hedges against specific payments due on the 2013 Term Loan. Accordingly, any interest rate differential is reflected in an adjustment to interest expense over the term of the interest rate swap agreements. The variable interest rate for the hedged portion of our 2013 Term Loan is based on the three-month LIBOR of 0.31%, plus the applicable interest rate margin of 1.75%.

(2) Represents the unhedged portion of our 2013 Term Loan outstanding at March 31, 2011. The variable interest rate for the unhedged portion of our 2013 Term Loan is based on the one-month LIBOR of 0.25%, plus the applicable interest rate margin of 1.75%.

(3) The variable interest rate for our 2015 Term Loan and our 2017 Term Loan is based on the greater of the one-month LIBOR of 0.25% or 1.50%, plus an applicable interest rate margin.

We offer our advisors and their clients two primary cash sweep programs that are interest rate sensitive: our insured cash programs and money market sweep vehicles involving multiple money market fund providers. Our insured cash programs use multiple non-affiliated banks to provide up to $1.5 million ($3.0 million joint) of FDIC insurance for client deposits custodied at the banks. While clients earn interest for balances on deposit in the insured cash programs, we earn a fee. Our fees from the insured cash programs are based on prevailing interest rates in the current interest rate environment, but may be adjusted in an increasing or decreasing interest rate environment or for other reasons. Changes in interest rates and fees for the insured cash programs are monitored by our fee and rate setting committee (the FRS committee), which governs and approves any changes to our fees. By meeting promptly after interest rates change, or for other market or non-market reasons, the FRS committee balances financial risk of the insured cash

programs with products that offer competitive client yields. However, as short-term interest rates hit lower levels, the FRS committee may be compelled to lower fees.

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The average Federal Reserve effective federal funds rate for March 2011 was 0.14%. A change of ten basis points upward or downward in short-term interest rates, if accompanied by a commensurate change in fees for our insured cash programs, could result in an increase or decrease of $12.3 million in income before taxes on an annual basis (assuming that client balances at March 31, 2011 remain unchanged). Assuming client balances at March 31, 2011 do not change, once the effective federal funds rate reaches 0.25%, each 25 basis point increase in short-term interest rates between the current federal funds effective rate and 125 basis points, if accompanied by a commensurate change in fees for our insured cash programs, could result in an incremental increase of $15.0 million in income before taxes on an annual basis, after consideration of amounts paid to clients. Actual impacts may vary depending on interest rate levels, the significance of change, and the FRS committee s strategy in responding to that change.

Credit Risk

Credit risk is the risk of loss due to adverse changes in a borrower s, issuer s or counterparty s ability to meet its financial obligations under contractual or agreed upon terms. We bear credit risk on the activities of our advisors clients, including the execution, settlement, and financing of various transactions on behalf of these clients.

These activities are transacted on either a cash or margin basis. Our credit exposure in these transactions consists primarily of margin accounts, through which we extend credit to clients collateralized by cash and securities in the client s account. Under many of these agreements, we are permitted to sell or repledge these securities held as collateral and use these securities to enter into securities lending arrangements or to deliver to counterparties to cover short positions.

As our advisors execute margin transactions on behalf of their clients, we may incur losses if clients do not fulfill their obligations, the collateral in the client s account is insufficient to fully cover losses from such investments, and our advisors fail to reimburse us for such losses. Our loss on margin accounts is immaterial and did not exceed $0.1 million during the three months ended March 31, 2011 and 2010. We monitor exposure to industry sectors and individual securities and perform analyses on a regular basis in connection with our margin lending activities. We adjust our margin requirements if we believe our risk exposure is not appropriate based on market conditions.

We are subject to concentration risk if we extend large loans to or have large commitments with a single counterparty, borrower, or group of similar counterparties or borrowers (e.g. in the same industry). Receivables from and payables to clients and stock borrowing and lending activities are conducted with a large number of clients and counterparties and potential concentration is carefully monitored. We seek to limit this risk through careful review of the underlying business and the use of limits established by senior management, taking into consideration factors including the financial strength of the counterparty, the size of the position or commitment, the expected duration of the position or commitment and other positions or commitments outstanding.

Operational Risk

Operational risk generally refers to the risk of loss resulting from our operations, including, but not limited to, improper or unauthorized execution and processing of transactions, deficiencies in our technology or financial operating systems and inadequacies or breaches in our control processes. We operate in diverse markets and are reliant on the ability of our employees and systems to process a large number of transactions. These risks are less direct and quantifiable than credit and market risk, but managing them is critical, particularly in a rapidly changing environment with increasing transaction volumes. In the event of a breakdown or improper operation of systems or improper action by employees

or advisors, we could suffer financial loss, regulatory sanctions and damage to our reputation. Business continuity plans exist for critical systems, and redundancies are built into the systems as deemed appropriate. In order to mitigate and control operational risk, we have developed and continue to enhance specific policies and procedures that are designed to identify and manage operational risk at appropriate levels throughout our organization and within various departments. These control mechanisms attempt to ensure that operational policies and procedures are being followed and that our employees and advisors operate within established corporate policies and limits.

Risk Management

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

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

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

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

Change in Internal Control over Financial Reporting

During the quarter ended March 31, 2011, we completed the implementation of a new version of our Oracle e-business suite financial applications. This implementation was subject to various testing and review procedures prior to execution. We believe the conversion to and implementation of this new version further strengthened our existing internal control over financial reporting by enhancing certain business processes.

Other than the change described above, there were no changes in our internal control over financial reporting that occurred during the first quarter ended March 31, 2011, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II OTHER INFORMATION

Item 1. Legal Proceedings

None.

Item 1A. Risk Factors

Information regarding the Company s risks is set forth under Part I, Item 1A. Risk Factors in the Company s 2010 Annual Report on Form10-K.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following information relates to all securities issued or sold by us during the three months ended March 31, 2011 that have not been registered under the Securities Act of 1933, as amended (the Securities Act.

On January 20, 2011, we issued warrants to financial institutions to purchase up to an aggregate total of 25,938 shares of our common stock at an exercise price per share of $34.01, pursuant to our 2010 Omnibus Equity Incentive Plan. No consideration was paid by any recipient of any of the foregoing warrants. The warrants vest in equal increments of 20.0% over a five-year period and expire on the tenth anniversary following the date of grant. The transactions were conducted in reliance upon the available exemptions from the registration requirements of the Securities Act, including those contained in Section 4(2).

Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

None.

Item 6. Exhibits

3.1	Amended and Restated Certificate of Incorporation (previously filed as Exhibit 3.1 to the registration statement on Form S-1 (File Number 333-167325) on July 9, 2010, and incorporated herein by reference,
3.2	Second Amended and Restated Bylaws (previously filed as Exhibit 3.1 to the Current Report on Form 8-K (File Number 000-52609) on July 23, 2010 and incorporated herein by reference,
31.1	Certification of the Chief Executive Officer pursuant to Rule 13a-14(a) (filed herewith).
31.2	Certification of the Chief Financial Officer pursuant to Rule 13a-14(a) (filed herewith).
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 (furnished herewith).
32.2	Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (furnished herewith).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

LPL Investment Holdings Inc.

Date: April 26, 2011

By: /s/ Mark S. Casady
Mark S. Casady
Chairman and Chief Executive Officer

Date: April 26, 2011

By: /s/ Robert J. Moore
Robert J. Moore
Chief Financial Officer