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**ANNUAL AUDITED REPORT
FORM X-17A-5
PART III**

SEC FILE NUMBER

~~A-002661-L~~

8-14088

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**Information Required of Brokers and Dealers Pursuant to Section 17 of the
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder**

REPORT FOR THE PERIOD BEGINNING 01/01/07 AND ENDING 12/31/07
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Northwestern Mutual Investment Services, LLC

OFFICIAL USE ONLY

FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

Suite 300, 611 E. Wisconsin Avenue

(No. and Street)

Milwaukee

WI

53202

(City)

(State)

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Todd Jones

(414) 665-7225

(Area Code - Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report*

PricewaterhouseCoopers, LLP

(Name - if individual, state last, first, middle name)

Suite 1800,

100 E. Wisconsin Avenue,

Milwaukee

WI

53202

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

- Certified Public Accountant
- Public Accountant
- Accountant not resident in United States or any of its possessions.

PROCESSED

MAR 13 2008

THOMSON
FINANCIAL

FOR OFFICIAL USE ONLY

*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240.17a-5(e)(2)

SEC 1410 (06-02)

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BP 3/10

OATH OR AFFIRMATION

I, Todd Jones, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Northwestern Mutual Investment Services, LLC, as of December 31, 2007, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

Todd Jones
Signature

Treasurer/FINOP

Title

Linda L. Boldus
Notary Public

My commission expires July 6, 2008

This report ** contains (check all applicable boxes):

- (a) Facing Page.
- (b) Statement of Financial Condition.
- (c) Statement of Income (Loss).
- (d) Statement of Changes in Financial Condition.
- (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- (g) Computation of Net Capital.
- (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- (l) An Oath or Affirmation.
- (m) A copy of the SIPC Supplemental Report.
- (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

Report of Independent Auditors

To the Board of Directors and Member of
Northwestern Mutual Investment Services, LLC:

In our opinion, the accompanying consolidated statement of financial condition presents fairly, in all material respects, the financial position of Northwestern Mutual Investment Services, LLC and its subsidiaries (the "Company") at December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Company has extensive transactions with its parent and affiliates as disclosed in Note 4 to the Financial Statements. It is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties.

PricewaterhouseCoopers LLP

February 4, 2008

Northwestern Mutual Investment Services, LLC
Consolidated Statement of Financial Condition
December 31, 2007

Assets	
Cash and cash equivalents	\$ 41,831,097
Cash segregated under federal regulation	4,502,100
Due from clearing broker	22,186,896
Deposit with clearing organizations	120,000
Investment securities, at fair value	165,551
Deferred distribution costs	7,813,492
Prepaid licensing fees	3,210,398
Due from affiliates (see Note 4)	2,630,749
Accounts receivable and other assets	2,692,381
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Total assets	\$ 85,152,664
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Liabilities and Member's Equity	
Commissions payable	\$ 17,956,226
Due to clients	3,297,434
Due to Member and affiliates (see Note 4)	10,840,592
Compensation and benefits payable	1,448,649
Accrued expenses and other liabilities	984,903
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Total liabilities	34,527,804
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Member's equity	50,624,860
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Total liabilities and Member's equity	\$ 85,152,664
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The accompanying notes are an integral part of this consolidated financial statement.

Northwestern Mutual Investment Services, LLC
Notes to the Consolidated Financial Statements
December 31, 2007

1. Organization

The accompanying consolidated statement of financial condition includes Northwestern Mutual Investment Services, LLC and its wholly-owned subsidiaries NML Buffalo, Inc., NMIS Georgia Agency, LLC, NMIS Alabama, LLC and NMIS Massachusetts Insurance Agency, LLC (together, "the Company" or "NMIS"). All intercompany balances and transactions have been eliminated. NMIS Georgia Agency, LLC, NMIS Alabama, LLC and NMIS Massachusetts Insurance Agency, LLC were dissolved in December 2007.

NMIS is wholly-owned by The Northwestern Mutual Life Insurance Company (the "Member" or "NML"). NML is one of the largest life insurance companies in the United States offering life, annuity and disability insurance products to the personal, business and estate markets.

The Company is an introducing broker-dealer and investment advisor registered with the Securities and Exchange Commission ("SEC") and is a member of the Financial Industry Regulatory Authority ("FINRA") and the Securities Investor Protection Corporation. Through its registered financial representatives, NMIS offers mutual funds, stocks, bonds, variable life insurance, variable and group annuities, investment advisory services and other investment alternatives to its clients. The Company is the principal underwriter and distributor for NML's variable annuity and variable life insurance products.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated statement of financial condition is prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make assumptions and estimates that affect the reported amounts of assets and liabilities at the date of the consolidated statement of financial condition. Actual future results could differ from these estimates and assumptions.

Cash and Cash Equivalents

Cash and cash equivalents represent amounts on deposit with banks or invested in highly liquid financial instruments with original maturities of three months or less. They are reported in the consolidated statement of financial condition at fair value.

Cash Segregated Under Federal Regulation

Amounts estimated to be refunded to clients are segregated under federal regulation in a special reserve bank account for the exclusive benefit of NMIS clients.

Investment Securities, at Fair Value

Investment securities generally result from failed execution of client trades, at which time NMIS assumes direct responsibility for them. These investments are generally liquidated shortly thereafter. These investments are considered to be on a trading basis, whereby they are reported at fair value.

Fair Value of Financial Instruments

Financial instruments, which include cash and cash equivalents, receivables and payables are at fair value or approximate their fair value because of the short maturities of these assets and liabilities.

3. Deferred Distribution Costs

Upon retirement or separation from the Company, certain of the Company's registered financial representatives are offered the option of receiving a one-time, lump-sum payment in lieu of actual future commissions to which they would otherwise be entitled over a five year period subsequent to retirement or separation. If this option is elected, the Company retains these future commissions up to an agreed-upon limit. Lump-sum payments are deferred and amortized as commission expense using a straight-line method over five years. The Company is compensated for these distribution costs through both annual asset-based and transaction-based fees, which are reported as commissions in the consolidated statement of operations when earned. Because the related revenues are earned and recognized over time, the deferral and amortization of these lump-sum payments provides a better matching of these expenses with the related revenues. At December 31, 2007, deferred distribution costs reported in the consolidated statement of financial condition included \$11,208,288 of deferred lump-sum payments, which were reported net of accumulated amortization of \$3,252,832 and a valuation allowance of \$141,964. The recoverability of the remaining net deferred distribution costs is supported by anticipated future revenues associated with assets owned by NMIS clients at that date.

4. Related Party Transactions

A significant portion of the Company's transactions are with NML and its affiliates.

Under the terms of various service agreements, NML and affiliates provide certain administrative and operational support services to the Company. NMIS employees also participate in various employee benefit plans sponsored by NML, including retirement, deferred compensation, bonus and employee welfare plans. NMIS reimburses NML for the cost of these benefits. The Company's unpaid liability related to these services and benefits was \$12,032,237 at December 31, 2007 and is included in amounts due to Member and affiliates in the consolidated statement of financial condition.

Northwestern Mutual Investment Services, LLC
Notes to the Consolidated Financial Statements
December 31, 2007

NMIS selects, trains and supervises financial representatives who are engaged in the distribution of NML's variable annuity and variable life insurance products. The Company receives commission revenue from NML related to sales of these products. The Company pays an equal amount of commissions to its financial representatives. In addition, the Company receives distribution management fee revenue from NML related to variable annuity and variable life insurance underwriting and distribution services. For these services, \$1,191,645 is due from NML at December 31, 2007 and is classified as a reduction of other amounts due to Member and affiliates in the consolidated statement of financial condition.

Northwestern Mutual Wealth Management Company ("NMWMC") is a limited purpose federal savings bank and a wholly-owned subsidiary of NML. NMIS has a service agreement with NMWMC whereby NMIS facilitates payment of NMWMC commissions to its registered financial representatives as part of a solicitation and supervisory agreement with NMWMC. NMIS receives no revenue and NMWMC incurs no expense related to facilitation of NMWMC's fee-based planning activities. NMIS receives referral and servicing fees related to solicitation and supervision services provided by NMIS to NMWMC. The unpaid balance due to NMIS related to these services is \$80,616 at December 31, 2007 and is reported in due from affiliates in the consolidated statement of financial condition.

NMWMC's product offerings include certain advisory products for which NMIS facilitates securities transaction execution, clearance, settlement, custody and collection of client advisory fees through a third-party clearing broker-dealer ("brokerage and platform services"). NMIS also incurs expenses related to research and investment advice provided by NMWMC. The net unpaid balance due from NMWMC related to these services is \$747,327 at December 31, 2007 and is reported in due from affiliates in the consolidated statement of financial condition.

NMIS and NMWMC are parties to a custodial agreement whereby NMWMC provides custodial trust services for individual retirement accounts of NMIS clients. NMWMC subcontracts certain of these custodial trust services to NMIS. The unpaid balance related to this agreement due from NMWMC at December 31, 2007 is \$462,438 and is reported in due from affiliates in the consolidated statement of financial condition.

Frank Russell Company ("Russell"), a majority-owned subsidiary of NML, pays mutual fund distribution fees to NMIS. The unpaid balance for fees receivable from Russell is \$1,340,368 at December 31, 2007 and is reported in due from affiliates in the consolidated statement of financial condition.

Northwestern Mutual Investment Services, LLC
Notes to the Consolidated Financial Statements
December 31, 2007

5. Income Taxes

The Company is organized as a Wisconsin single member limited liability company and is thereby a disregarded entity for federal and state income tax purposes. The Company's taxable income or losses are included in NML's consolidated federal and state income tax returns. Under a written tax-sharing agreement, NML collects from or refunds to the Company income taxes determined as if the Company filed a separate federal income tax return.

At December 31, 2007, the Company had taxable losses of \$18,236,920, \$32,276,242, \$63,146,405, \$92,323,705 and \$24,041,694 originating in 2003, 2004, 2005, 2006 and 2007, respectively, that are available for carryforward to future tax years and will expire in 2023, 2024, 2025, 2026 and 2027, respectively. These tax loss carryforwards give rise to a deferred tax asset, before valuation allowance, of \$80,508,738 at the federal income tax rate of 35%.

The Company accounts for deferred tax assets and liabilities, which represent the financial statement impact of cumulative temporary differences between the tax and financial statement bases of assets and liabilities. The significant components of the net deferred tax asset at December 31, 2007 was as follows:

Deferred tax assets:	
Tax loss carryforwards	\$ 80,508,738
Employee benefit liabilities	58,100
Gross deferred tax assets	<u>80,566,838</u>
Deferred tax liabilities:	
Deferred transition costs	<u>(2,734,722)</u>
Net deferred tax assets	<u>\$ 77,832,116</u>

At December 31, 2007, a valuation allowance of \$77,832,116 has been established for the Company's net deferred tax assets due to uncertainty regarding their ultimate realization.

6. Net Capital Requirements

The Company is subject to the SEC Uniform Net Capital Rule 15c3-1, which requires NMIS to maintain a minimum level of net capital equal to the greater of \$250,000 or 6-2/3% of aggregate indebtedness, as defined. At December 31, 2007, the Company had net capital of \$32,150,099, which exceeded the minimum requirement of \$2,082,024 by \$30,068,075. NMIS is also required to maintain a maximum ratio of aggregate indebtedness-to-net capital of 15 to 1. At December 31, 2007, the Company had an aggregate indebtedness-to-net capital ratio of 0.97 to 1.

7. Commitments and Contingencies

NMIS and Pershing, LLC (“Pershing”) are parties to a fully disclosed clearing agreement for an initial term of five years, effective February 13, 2006, whereby Pershing provides securities execution, clearing and settlement services for NMIS. Termination of the clearing agreement by the Company during the initial term would result in significant termination fees as provided for in the clearing agreement.

In the normal course of business, securities transactions for NMIS clients are cleared through Pershing. Pursuant to the clearing agreement, Pershing has the right to seek reimbursement from the Company for certain losses that may result from transactions with NMIS clients. The Company’s policy is to minimize its exposure to loss through the use of various monitoring and control procedures. No such losses were incurred for the year ended December 31, 2007.

The Company is engaged in various legal actions in the normal course of its operations. The status of these legal actions is actively monitored by management. If management believed, based on available information, that an adverse outcome upon resolution of a given legal action was probable and the amount of that adverse outcome was reasonable to estimate, a loss would be recognized and a related liability recorded. No such liabilities were recorded by the Company at December 31, 2007.

Legal actions are subject to inherent uncertainties, and future events could change management’s assessment of the probability or estimated amount of potential losses from pending or threatened legal actions. Based on available information, it is the opinion of management that the ultimate resolution of pending or threatened legal actions, both individually and in the aggregate, will not result in losses having a material effect on the Company’s financial position at December 31, 2007.