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

SEC FILE NUMBER
8-44435

FACING PAGE

## 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: National Planning Corporation

OFFICIAL USE ONLY
FIRM I.D. NO.

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

401 Wilshire Boulevard, Suite 1100

(No. and Street)

Santa Monica

(City)

CA

(State)

90401

(Zip Code)

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

Maura Collins

310-889-8805

(Area Code - Telephone Number)

### B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG LLP

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

355 South Grand Avenue, Suite 2000, Los Angeles, CA 90071

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

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

*3*

**PROCESSED**

**MAR 21 2008**

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\*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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OATH OR AFFIRMATION

I, Maura Collins, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of National Planning Corporation, as of December, 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:

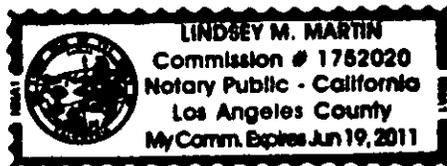
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Maura K. Collins

Signature

Senior Vice President, Chief Financial Officer  
Title

Lindsey M. Martin  
Notary Public



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).

**NATIONAL PLANNING CORPORATION**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

**Table of Contents**

	<b>Page</b>
Independent Auditors' Report	1
Statement of Financial Condition	2
Notes to the Statement of Financial Condition	3



KPMG LLP  
Suite 2000  
355 South Grand Avenue  
Los Angeles, CA 90071-1568

## Independent Auditors' Report

The Board of Directors and Stockholder  
National Planning Corporation:

We have audited the accompanying statement of financial condition of National Planning Corporation (an indirect, wholly owned subsidiary of Prudential plc) as of December 31, 2007 that you are filing pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and Regulation 1.16 of the Commodity Futures Trading Commission. 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 in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of National Planning Corporation's internal control over financial reporting. Accordingly, we express no such opinion. An audit of a statement of financial condition also includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall statement of financial condition presentation. We believe our audit of the statement of financial condition provides a reasonable basis for our opinion.

In our opinion, the statement of financial condition referred to above presents fairly, in all material respects, the financial position of National Planning Corporation as of December 31, 2007 in conformity with U.S. generally accepted accounting principles.

**KPMG LLP**

February 26, 2008

**NATIONAL PLANNING CORPORATION**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Statement of Financial Condition

December 31, 2007

**Assets**

Cash and cash equivalents	\$ 17,602,003
Marketable securities	54,725
Commissions receivable	14,172,514
Forgivable notes receivable, net of accumulated amortization of \$5,840,897	22,543,586
Other receivables	2,422,406
Receivable from registered representatives, net of allowance of \$241,418	648,316
Due from affiliates	1,216,879
Deferred tax assets	12,737,151
Fixed assets, net of accumulated depreciation of \$704,468	319,852
Prepaid expenses and other assets	1,083,885
	<hr/>
Total assets	\$ <u><u>72,801,317</u></u>

**Liabilities and Stockholder's Equity**

Liabilities:	
Drafts payable	\$ 432,289
Commissions payable	16,757,897
Accounts payable and other accrued expenses	4,736,742
Payable to affiliates	749,909
Income taxes payable	500,414
	<hr/>
Total liabilities	23,177,251
Commitments and contingencies	
Stockholder's equity	<u>49,624,066</u>
	<hr/>
Total liabilities and stockholder's equity	\$ <u><u>72,801,317</u></u>

See accompanying notes to statement of financial condition.

**NATIONAL PLANNING CORPORATION**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2007

**(1) Organization and Significant Accounting Policies**

**(a) Organization**

National Planning Corporation (the Company) is a wholly owned subsidiary of National Planning Holdings, Inc. (NPH), which in turn is an indirect, wholly owned subsidiary of Prudential plc. The Company is a registered broker/dealer with the Securities and Exchange Commission (SEC) and the Commodity Futures Trading Commission and is a member of the Financial Industry Regulatory Authority and the National Futures Association. The Company offers financial products (primarily mutual funds and insurance products) through its registered representatives to customers located throughout the United States.

**(b) Cash and Cash Equivalents**

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. Cash equivalents include \$413,927 in money market funds and accounts and \$14,483,356 of commercial paper with an initial term of less than three months at December 31, 2007. Cash held in banks periodically exceeds the Federal Deposit Insurance Corporation's (FDIC) insurance coverage of \$100,000, and as a result, there is a concentration of credit risk related to amounts in excess of FDIC insurance coverage.

**(c) Marketable Securities**

Securities are carried at fair value based on quoted market prices and are recorded on a trade-date basis.

**(d) Drafts Payable**

Drafts payable represents amounts drawn by the Company pursuant to sweep agreement with a bank. Under this agreement, the bank does not advance cash to the Company.

**(e) Fixed Assets**

Fixed assets are carried at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis using the estimated useful lives of the assets. Fixed assets consist primarily of furniture and equipment and computer hardware, which are depreciated over three to seven years.

**(f) Income Taxes**

Income taxes are accounted for under the asset and liability method. 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 and operating loss and tax credit carryforwards. 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. 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. Beginning with the adoption of FASB Interpretation No. 48, *Accounting for Uncertainty in Income*

**NATIONAL PLANNING CORPORATION**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2007

*Taxes* (FIN 48) as of January 1, 2007, the Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company is included in a consolidated federal income tax return with Brooke Holdco1 Inc. (BHI), an indirect, wholly owned subsidiary of Prudential plc. The Company's tax sharing agreement with BHI is based on the separate return method and any intercompany income taxes are settled on a monthly basis. The Company files combined state tax returns in California and Alaska and separate state income tax returns for other states that the Company is required to file income tax returns. Beginning with the first taxable year ended December 31, 2006, the Company does not have a right to reimbursement for the utilization of its losses in the federal consolidated tax return.

**(g) *Allowance for Doubtful Accounts***

On an ongoing basis, the Company reviews its allowance for doubtful accounts on forgivable notes and receivables from registered representatives. The Company establishes specific allowances to cover any incurred losses.

**(h) *Use of Estimates***

The preparation of the statement of financial condition, in accordance with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the statement of financial condition and accompanying notes. Significant items subject to such estimates and assumptions include the useful lives of fixed assets, allowances for doubtful accounts, deferred tax assets, receivable from registered representatives, and income tax uncertainties and other contingencies. Actual results could differ from those estimates.

**(i) *Fair Value of Financial Instruments***

The financial instruments of the Company are reported in the statement of financial condition at market or fair values, or at carrying amounts that approximate fair values because of the short maturity of the instruments.

**NATIONAL PLANNING CORPORATION**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2007

**(2) Income Taxes**

The tax effects of the temporary differences that give rise to significant portions of the Company's deferred income tax assets and liabilities are as follows:

Deferred tax assets:	
Forgivable notes	\$ 1,471,985
Allowance for doubtful accounts	94,382
Deferred compensation	10,458,632
Accrued bonus	159,680
Commissions held	465,606
Other accruals	<u>107,851</u>
Total deferred tax assets	<u>12,758,136</u>
Deferred tax liabilities:	
Depreciation	(16,289)
Unrealized gain on marketable securities	<u>(4,696)</u>
Total deferred tax liabilities	<u>(20,985)</u>
Net deferred tax assets	<u>\$ 12,737,151</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Based upon the projections for future taxable income over the periods in which the deferred tax assets are deductible, management believes it is more likely than not that the Company will realize the benefits of these deductible differences.

The Company has a state tax receivable of \$295,144 and a Federal income tax payable of \$795,558, of which \$518,749 relates to unrecognized tax benefits. These amounts are included in income taxes payable in the accompanying statement of financial condition as of December 31, 2007.

In connection with the adoption of FIN 48 the Company did not record any change to opening accumulated deficit resulting from the adoption of FIN 48. A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

Balance at December 31, 2006	\$ 466,790
Additions to prior year tax positions	<u>51,959</u>
Balance at December 31, 2007	<u>\$ 518,749</u>

The total amount of unrecognized tax benefits as of December 31, 2007 was \$518,749 and is included in income taxes payable in the accompanying statement of financial condition. The total unrecognized tax benefits would affect the effective tax rate if recognized.

**NATIONAL PLANNING CORPORATION**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2007

The Company's federal income tax returns remain open to examination for the tax years 2004 through 2006. The Company does not believe it is reasonably possible that a significant change will occur within the coming year to its unrecognized tax benefits.

**(3) Clearing Agreement**

The Company is an introducing broker and clears transactions with and for customers on a fully-disclosed basis with Pershing LLC, a Bank of New York Mellon Company. The Company promptly transmits all customer funds and securities to Pershing LLC. In connection with this arrangement, the Company is contingently liable for its customers' transactions.

**(4) Net Capital Requirements**

The Company is subject to the Securities and Exchange Commission Uniform Net Capital Rule 15c3-1 (Rule 15c3-1) and is required to maintain minimum "net capital" equivalent to \$250,000 or 2% of "aggregate debit items," whichever is greater, as these terms are defined. The Company is also subject to the Commodity Futures Trading Commission's minimum financial requirements (Regulation 1.17), which requires the Company to maintain minimum net capital equal to the minimum net capital required under Rule 15c3-1. At December 31, 2007, the Company had net capital of \$7,623,512, which was \$7,373,512 in excess of its requirement.

**(5) Forgivable Notes Receivable**

The Company holds forgivable notes from certain registered representatives. Under the terms of the forgivable notes, the principal and interest are forgiven over a certain period of time, generally five to seven years. Interest income on the notes is not recognized unless actually paid to the Company. The forgiveness of the notes is contingent upon the continued affiliation of the representative and the representative achieving agreed upon production levels, measured in terms of gross dealer concessions.

The Company records amortization of the principal balance of the notes monthly on a straight-line basis over the term of the note. In circumstances when the representative achieves a predetermined percentage of the agreed-upon production levels, the term of the forgivable notes may be extended for one additional year. Under such circumstances, the unamortized balance of the note is amortized over the remaining term. If the representative achieves an amount lower than the predetermined percentage of the agreed-upon production levels, the representative must pay down a portion of the note and the remaining balance is amortized over the remaining term. In some instances, when it has been determined that a note will be repaid by a representative; the amount to be repaid is reclassified from forgivable notes receivable to receivable from registered representatives. If a note is in litigation due to a representative not achieving agreed-upon production levels, then the Company will estimate and record an allowance for the note.

**NATIONAL PLANNING CORPORATION**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2007

The activity in the forgivable notes receivable balance is comprised of the following:

Balance at December 31, 2006	\$ 8,382,547
Granted	17,007,536
Amortization	(2,599,372)
Amounts reclassified to receivable from registered representatives	(64,657)
Payments received from registered representatives	(187,968)
Bad debt recoveries, included in amortization	(9,500)
Allowance activity, net	<u>15,000</u>
Balance at December 31, 2007	\$ <u><u>22,543,586</u></u>

During 2007, forgivable notes receivable totaling \$1,403,065 became fully amortized and were forgiven by the Company.

**(6) Defined Contribution Plans**

The Company participates with Jackson National Life Insurance Company (JNL) (which is also an indirect, wholly owned subsidiary of Prudential plc) in defined contribution retirement plans covering all eligible full-time employees. The Company's annual contributions are based on a percentage of covered compensation paid to participating employees during each year.

**(7) Related Party Transactions**

JNL, an affiliate of NPH, allocates a portion of it leased office space and fixed assets to the Company based on the proportionate share that the Company utilizes for operations.

The Company participates in the allocation of costs in which NPH and the other wholly owned subsidiaries of NPH allocate a portion of their operating expenses to the Company, and the Company allocates a portion of its operating expenses to the other subsidiaries of NPH.

Pursuant to the tax-sharing agreement, the Company paid \$2,436,000 for federal income taxes for the year ended December 31, 2007.

**NATIONAL PLANNING CORPORATION**  
(An Indirect, Wholly Owned Subsidiary of Prudential plc)

Notes to Statement of Financial Condition

December 31, 2007

**(8) Representative Compensation Program**

The Company has a nonqualified deferred compensation plan for certain independent contractors of the Company. The Company's annual contributions are based on commission revenue production of participating independent contractors during the year. The Company has transferred title and ownership of all amounts credited to each participant's account and all underlying funds to JNL for the purpose of facilitating administration of the plan.

**(9) Contingencies**

The Company is involved in various claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position, results of operations, or liquidity.

**INDEPENDENT AUDITORS' REPORT  
ON INTERNAL CONTROL REQUIRED BY RULE 17A-5  
OF THE SECURITIES AND EXCHANGE COMMISSION AND  
REGULATION 1.16 OF THE COMMODITY FUTURES TRADING  
COMMISSION**



KPMG LLP  
Suite 2000  
355 South Grand Avenue  
Los Angeles, CA 90071-1568

**Independent Auditors' Report on Internal Control Required by  
Rule 17a-5 of the Securities Exchange Act of 1934 and  
Regulation 1.16 of the Commodity Futures Trading Commission**

The Board of Directors and Stockholder  
National Planning Corporation:

In planning and performing our audit of the financial statements of National Planning Corporation (the Company) (an indirect, wholly owned subsidiary of Prudential plc), as of and for the year ended December 31, 2007 in accordance with auditing standards generally accepted in the United States of America, we considered the Company's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we do not express an opinion on the effectiveness of the Company's internal control.

Also, as required by Rule 17a-5(g)(1) of the Securities and Exchange Commission (SEC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding securities. This study included tests of such practices and procedures that we considered relevant to the objectives stated in Rule 17a-5(g) in making the periodic computations of aggregate debits and net capital under Rule 17a-3(a)(11) and for determining compliance with the exemptive provisions of Rule 15c3-3. Because the Company does not carry securities accounts for customers or perform custodial functions relating to customer securities, we did not review the practices and procedures followed by the Company in any of the following:

1. Making quarterly securities examinations, counts, verifications, and comparisons and recordation of differences required by Rule 17a-13
2. Complying with the requirements for prompt payment for securities under Section 8 of Federal Reserve Regulation T of the Board of Governors of the Federal Reserve System.

In addition, as required by Regulation 1.16 of the Commodity Futures Trading Commission (CFTC), we have made a study of the practices and procedures followed by the Company including consideration of control activities for safeguarding customer and firm assets. Because the Company does not have any commodities customers, we did not review the practices and procedures followed by the Company in any of the following:

1. The daily computations of the segregation requirements of Section 4d(a)(2) of the Commodity Exchange Act and the regulations thereunder, and the segregation of funds based on such computations
2. The daily computations of the foreign futures and foreign options secured amount requirements pursuant to Regulation 30.7 of the CFTC.

The management of the Company is responsible for establishing and maintaining internal control and the practices and procedures referred to in the preceding paragraphs. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of controls and of the practices and procedures referred to in the preceding paragraphs and to assess whether those practices and procedures can be expected to achieve the SEC's and the CFTC's above-mentioned objectives. Two of the objectives of internal control and the practices and procedures are to provide management with reasonable but not absolute assurance that assets for which the Company has responsibility are safeguarded against loss from unauthorized use or disposition and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in conformity with U.S. generally accepted accounting principles. Rule 17a-5(g) and Regulation 1.16(d)(2) list additional objectives of the practices and procedures listed in the preceding paragraphs.

Because of inherent limitations in internal control and the practices and procedures referred to above, error or fraud may occur and not be detected. Also, projection of any evaluation of them to future periods is subject to the risk that they may become inadequate because of changes in conditions or that the effectiveness of their design and operation may deteriorate.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first, second and third paragraphs and would not necessarily identify all deficiencies in internal control that might be material weaknesses. We did not identify any deficiencies in internal control and control activities for safeguarding securities that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control related to the preparation and review of the income tax provision that we consider to be a significant deficiency, and communicated it in writing to management and those charged with governance on February 26, 2008.

We understand that practices and procedures that accomplish the objectives referred to in the second and third paragraphs of this report are considered by the SEC and CFTC to be adequate for its purposes in accordance with the Securities Exchange Act of 1934 and related regulations, and that practices and procedures that do not accomplish such objectives in all material respects indicate a material inadequacy for such purposes. Based on this understanding and on our study, we believe that the Company's practices and procedures, as described in the second and third paragraphs of this report, were adequate at December 31, 2007, to meet the SEC's and CFTC's objectives.

This report is intended solely for the information and use of the Board of Directors, management, the SEC, the CFTC, Financial Industry Regulatory Authority, the National Futures Association, and other regulatory agencies that rely on Rule 17a-5(g) under the Securities Exchange Act of 1934 or Regulation 1.16 of the CFTC or both in their regulation of registered brokers and dealers, and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

February 26, 2008

END