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MAR 05 2017 ANNUAL AUDITED REPORT

Washington DC  
408

FORM X-17A-5  
PART III

SEC FILE NUMBER
8-68237

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 01/01/2017 AND ENDING 12/31/2017  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: **Hub International Investment Services, Inc.**

OFFICIAL USE ONLY
FIRM I.D. NO.

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

**2300 Clayton Road**

(No. and Street)

**Concord**

**California**

**94520**

(City)

(State)

(Zip Code)

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

Christine Bazzini

(530) 333-4810

(Area Code - Telephone Number)

**B. ACCOUNTANT IDENTIFICATION**

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

**Plante & Moran, PLLC**

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

**2601 Cambridge Court**

**Auburn Hills**

**MI**

**48326**

(Address)

(City)

(State)

(Zip Code)

CHECK ONE:

Certified Public Accountant

Public Accountant

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

**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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OATH OR AFFIRMATION

I, David Reich, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hub International Investment Services, Inc. of December 31, 2017, 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:

Signature

President

Title

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).



**Hub International Investment Services Inc.**  
(A Wholly Owned Subsidiary of Hub International Limited)

**Report Pursuant to Rule 17a-5(d)**  
**Financial Statements**

**As of December 31, 2017**

**Available for Public Inspection**

**Hub International Investment Services Inc.**  
(A Wholly Owned Subsidiary of Hub International Limited)  
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholder  
HUB International Investments Services Inc.

**Opinion on the Financial Statements**

We have audited the accompanying statement of financial condition of HUB International Investments Services Inc. as of December 31, 2017 and the related notes (collectively referred to as the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of HUB International Investments Services Inc. as of December 31, 2017 in conformity with accounting principles generally accepted in the United States of America.

**Basis for Opinion**

This financial statement is the responsibility of HUB International Investments Services Inc.'s management. Our responsibility is to express an opinion on HUB International Investments Services Inc.'s financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to HUB International Investments Services Inc. in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audit provides a reasonable basis for our opinion.

*Plante & Moran, PLLC*

We have served as HUB International Investments Services Inc.'s auditor since 2017.  
Auburn Hills, Michigan  
February 26, 2018

**Hub International Investment Services Inc.**  
(A Wholly Owned Subsidiary of Hub International Limited)  
**Statement of Financial Condition**

	<u>As of December 31, 2017</u>
<b>ASSETS</b>	
<b>CURRENT ASSETS:</b>	
Cash .....	\$ 5,147,703
Accounts receivable.....	1,048,377
Intercompany receivable from Parent and Subsidiaries.....	186,579
Prepaid expenses.....	<u>86,408</u>
Total current assets.....	6,469,067
<b>GOODWILL</b> .....	9,499,387
<b>OTHER INTANGIBLE ASSETS, net</b> .....	12,080,723
<b>NOTES RECEIVABLE - EMPLOYEES</b> .....	<u>61,308</u>
<b>TOTAL ASSETS</b> .....	<u><u>\$ 28,110,485</u></u>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>	
<b>CURRENT LIABILITIES:</b>	
Accounts payable and accrued liabilities.....	\$ 2,036,397
Intercompany payable to Parent and Subsidiaries.....	<u>736,308</u>
Total current liabilities.....	2,772,705
<b>DEFERRED INCOME TAX LIABILITIES</b> .....	302,271
<b>CONTINGENT EARNOUT CONSIDERATION PAYABLE</b> .....	781,932
<b>NOTE PAYABLE</b> .....	<u>155,807</u>
<b>TOTAL LIABILITIES</b> .....	<u><u>4,012,715</u></u>
<b>SHAREHOLDER'S EQUITY:</b>	
Common shares, no par value; 1,000 shares authorized; 100 issued and outstanding.....	-
Additional paid-in capital.....	23,603,643
Accumulated income.....	<u>494,127</u>
<b>TOTAL SHAREHOLDER'S EQUITY</b> .....	<u>24,097,770</u>
<b>TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY</b> .....	<u><u>\$ 28,110,485</u></u>

The accompanying notes are an integral part of this financial statement.

## Note 1: Nature of Operations

Hub International Investment Services Inc., (the “Company”, “we”) is a financial services organization that offers investment solutions for customers by conducting business as an introducing broker-dealer and investment advisor. The Company also refers employee benefit plan customers or producers to a third-party broker-dealer to hold customer accounts and effect transactions in securities on behalf of such customers. The Company was incorporated in the state of Delaware in 2007, and obtained a license to conduct operations on January 8, 2010. The Company is a wholly owned subsidiary of Hub International Limited (the “Parent”), a global insurance brokerage company, and is a member of the Financial Industry Regulatory Authority Inc. (“FINRA”) and the Securities Investor Protection Corporation (“SIPC”). The investment advisor is registered with various state department entities.

Under its membership agreement with FINRA and the Securities and Exchange Act of 1934 (“Act”) Rule 15c3-3(k)(2)(i) promulgated pursuant to the Act, the Company conducts business on a fully disclosed basis and does not execute or clear securities transactions for customers. The Company has engaged with third party broker-dealers that are responsible for opening accounts and effecting transactions for such customers. Therefore, the Company is exempt from the requirement of Rule 15c3-3 of the Act pertaining to the possession or control of customer assets and reserve requirements.

## Note 2: Summary of Significant Accounting Policies

### *A. Use of estimates*

The accompanying financial statements, and these notes, are prepared in accordance with accounting principles generally accepted in the United States (“GAAP”). GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *B. Accounts Receivable*

Uncollected commissions and advisory fees from the third party broker dealers are recorded as accounts receivable on our Statement of financial condition. Accounts receivable are stated net of an allowance for uncollectible accounts. Due to the immaterial nature of the Company’s uncollectible commissions and advisory fees, an allowance for uncollectible accounts is not deemed necessary.

### *C. Goodwill and Intangible assets, net*

Goodwill represents the excess of cost over fair value of identifiable net assets acquired through business acquisitions. In accordance with ASC 350, *Intangibles – Goodwill and Other*, goodwill is not amortized, but instead is reviewed for impairment on at least an annual basis.

In evaluating the recoverability of the carrying value of goodwill we must make assumptions regarding the fair value of the Company and determine if an indicator of goodwill impairment exists by comparing the carrying value of the Company with the estimated fair value. If we determine that an indicator of goodwill impairment exists, we must then quantify the actual goodwill impairment charge, if any, by comparing the carrying value of goodwill to its estimated fair value, based on the fair value of the Company’s assets and liabilities as of the impairment test date. As of December 31, 2017, goodwill was deemed to not be impaired.

Intangible assets consist primarily of customer relationships and are amortized over their useful life which is based on the estimated timeframe over which the customer relationship is expected to contribute to the Company’s future cash flows.

In evaluating the carrying value of intangible assets, the Company must determine if an indicator of impairment exists by comparing the carrying value of the asset with the estimated fair value. If the carrying value of the intangible asset is greater than its fair value as of the impairment test date, the Company must record an impairment charge equal to the calculated excess. As of December 31, 2017, intangible assets were deemed to not be impaired.

*D. Income taxes*

The Company files both the federal and state tax return on a consolidated basis with its Parent. The Company accounts for its income taxes using ASC 740, *Income Taxes*. ASC 740 requires the establishment of a deferred tax asset or liability to recognize the future tax effects of transactions that have not been recognized for tax purposes, including taxable and deductible temporary differences as well as net operating loss and tax credit carry forwards.

The Company reduces the carrying amount of deferred income tax assets, including the expected future benefit of operating loss carry forwards by a valuation allowance if it is more likely than not that some portion of the deferred income tax asset will not be realized. Interest or penalties related to income tax deficiencies are reported as a component of income taxes. As of December 31, 2017 we performed our assessment of the realizability of deferred tax assets. Based on the anticipated reversal pattern of our taxable temporary differences, we believe our deferred tax assets are “more likely than not” to be realized. Therefore, no valuation allowance is required.

Note 3: Business Acquisitions

During 2017 the Company acquired substantially all of the assets of certain books of business for consideration of cash. With these acquisitions, the Company has expanded its geographic footprint and investment products and services. Goodwill arising from these acquisitions is a result of expected synergies from combining operations and intangible assets that do not qualify for separate recognition including the assembled workforce. To fund purchases of these businesses the Parent made capital contributions of \$8.2 million in 2017. The purchase price allocation for our year ended December 31, 2017 acquisitions is summarized in the table below:

	<b>As of December 31, 2017</b>				
	<b>Hubbard Bert</b>	<b>Employers Resource Group Financial</b>	<b>BCI Group</b>	<b>Summit Financial</b>	<b>Total Acquisitions</b>
<b>Consideration paid:</b>					
Cash.....	\$ 700,000	\$ 113,000	\$ 2,160,000	\$ 7,050,065	\$ 10,023,065
Contingent earnout consideration payable.....	67,987	41,961	52,987	179,996	342,931
Total purchase price.....	<u>\$ 767,987</u>	<u>\$ 154,961</u>	<u>\$ 2,212,987</u>	<u>\$ 7,230,061</u>	<u>\$ 10,365,996</u>
<b>Allocation of purchase price:</b>					
<b>Intangible assets:</b>					
Goodwill.....	\$ 383,994	\$ 77,480	\$ 925,987	\$ 3,615,031	\$ 5,002,492
Customer relationships.....	383,994	77,480	1,221,000	3,615,031	5,297,505
Broker dealer network.....			52,000		52,000
Trade names.....			14,000		14,000
Total assets acquired.....	<u>\$ 767,987</u>	<u>\$ 154,961</u>	<u>\$ 2,212,987</u>	<u>\$ 7,230,061</u>	<u>\$ 10,365,996</u>
Net fair value of assets acquired.....	<u>\$ 767,987</u>	<u>\$ 154,961</u>	<u>\$ 2,212,987</u>	<u>\$ 7,230,061</u>	<u>\$ 10,365,996</u>

The fair value adjustments for the customer relationship and broker dealer network intangible assets were determined on an excess cash flow method. The fair value adjustments for the trade names were based on a relief from royalty method. See Note 6, “Commitments and Contingencies” for a detailed discussion of contingent consideration arrangements and liabilities in connection with the acquired business.

#### Note 4: Intangible Assets

##### Goodwill

In connection with certain of our acquisitions, we specifically identified Goodwill of \$5,002,492. As of December 31, 2017, the goodwill balance is \$9,499,387.

We expect that approximately \$6,567,886 of our total goodwill balance will be deductible for income tax purposes in future periods.

##### Other Intangible Assets

The carrying amount of other intangible assets as of December 31, 2017 are as follows:

	<u>Gross Carrying Amount</u>	<u>Accumulated Amortization</u>	<u>Net Carrying Amount</u>
Intangible assets subject to amortization:			
Customer Relationships.....	13,502,387	(2,189,057)	11,313,330
Trade Names.....	164,161	(109,714)	54,447
Total intangible assets subject to amortization.....	<u>\$ 13,666,548</u>	<u>\$ (2,298,771)</u>	<u>\$ 11,367,777</u>
Indefinite-lived intangible assets:			
Trade Names.....			518,946
Broker Dealer Network.....			194,000
Total indefinite-lived intangible assets.....			<u>712,946</u>
Total other intangible assets, net.....			<u>\$ 12,080,723</u>

In connection with certain of our acquisitions, we specifically identified customer relationship trade name intangible assets subject to amortization. Trade names are amortized on a straight-line basis over the applicable estimated useful life. The estimated useful life of the customer relationships and trade name assets recorded in connection with the acquisitions ranges from 6 years to 10 years and 2 years to 4 years, respectively.

We specifically identified our Hub International trade name as an indefinite-lived trade name. As of December 31, 2017, the indefinite-lived trade name is \$518,946. In connection with certain of our 2017 acquisitions, we specifically identified an indefinite-lived broker-dealer network intangible asset. As of December 31, 2017, the indefinite-lived broker dealer network is \$194,000.

#### Note 5: Notes Payable and Receivable

On May 20, 2015, we entered into a \$461,325 Promissory Note (the "Note") with a third party broker-dealer responsible for opening accounts and effecting transactions for certain customers of the Company (the "Lender"). The note matures August 13, 2019 at a stated interest rate of zero unless an event of default, as defined in the Note ("Event of Default"), occurs. In accordance with GAAP, interest has been accrued at an approximate market rate for similar transactions (1.53% as of December 31, 2017); upon an Event of Default, interest accrues starting on the date of default at an annual rate of the lesser of 1) prime plus 6% or 2) the highest rate allowed under applicable law.

As prerequisites to the Note, the Company agreed to certain covenants and restrictions and granted certain rights and interests to the Lender and the Parent provided an unconditional guarantee on the Company's obligations.

The Note contains a forgiveness provision whereby the balance due is forgiven if certain agreed upon cumulative gross commission and fee thresholds are met during the five year period ending on August 13, 2019. If the agreed upon

thresholds are not met during the aforementioned five year period and no Events of Default have occurred, the Company has the option to either 1) extend the Note by one year in which the cumulative commission and fee thresholds for forgiveness then become measured over a six year period ending on August 13, 2020 or 2) repay a portion of the outstanding balance based on the actual level of cumulative commissions and fees attained. If the Company repays the portion of the outstanding balance based on the actual level of cumulative commissions and fees attained, the remaining portion of the balance will be forgiven.

Upon occurrence of an Event of Default, the Lender may declare the note due immediately. No Events of Default occurred as of or during the year ended December 31, 2017.

Subsequent to entering into the Note, we entered into loan agreements totaling \$181,524 with certain employees of the Company (the "Employee Notes"). The Employee Notes mature on the same date of and are subject to the same interest terms and similar conditions of default, forgiveness and other provisions contained in the Note.

The balances of the Note and the Employee Notes were \$155,807 and \$61,308, respectively, as of December 31, 2017, and the entire balances, not considering the Event of Default or forgiveness provisions, are due August 13, 2019.

**Note 6: Commitments and Contingencies**

In connection with business acquisitions, the Company entered into agreements with the sellers to pay consideration that is contingent on achieving certain financial performance measures in future periods. As of December 31, 2017, the Company has \$875,752 of contingent consideration, \$781,932 of which is considered long term, \$93,820 of which is short term, accrued on the Statement of Financial Condition.

Changes in the amount of contingent earnout consideration during the year ending December 31, 2017 are as follows:

	<b>Contingent Earnout Liability</b>
<b>Balance, January 1, 2017</b>	\$ 860,619
Business acquisitions.....	342,931
Changes in fair value of contingent earnout liability.....	(327,798)
<b>Balance, December 31, 2017.....</b>	<b>\$ 875,752</b>

The fair value of contingent consideration was determined based on the Company's best estimate of the present value of the expected future earn-out payment. The fair value estimate of contingent consideration payable is based on observations of historical operating trends for the acquired businesses and current market and economic conditions that the Company believes may impact earnout variables such as revenue and operating profits. When estimating contingent earnout consideration, we historically do not utilize a range of possible estimates but instead determine a reasonable point estimate of expected future payments. The Company's best estimates of contingent earnout consideration liabilities are generally updated on, at minimum, a quarterly basis to reflect current market and operating conditions.

Note 7: Income Taxes

The components of deferred tax assets and liabilities as of December 31, 2017 are as follows:

	<b>As of December 31, 2017</b>
<b>Deferred tax asset:</b>	
Book vs. tax basis difference for fixed assets.....	\$ 181
Charitable contribution carryover.....	549
Future state tax deduction.....	5,992
Accrued bonus.....	25,967
Net deferred tax asset.....	<u>32,689</u>
<b>Deferred tax liability:</b>	
Book vs. tax basis difference for intangible assets.....	(325,874)
Prepaid insurance.....	(9,086)
Net deferred tax liability.....	<u>(334,960)</u>
Total deferred tax liability.....	<u>\$ (302,271)</u>

In accordance with the relevant accounting guidance, the Company has determined that no reserve is required for uncertain tax positions.

The Company is subject to U.S. federal income tax as well as various other state income tax. The Company is no longer subject to examination by taxing authorities for the years before 2013, with the exception of the State of California, which has a four year statute.

Note 8: Related Party Transactions

The Parent and the Parent's other wholly owned subsidiaries (the "Subsidiaries") administer day-to-day operations and provide services to the Company such as human resource, information technology, record-keeping and clerical. In addition, the Parent and the Subsidiaries provide the Company's office space. In return, the Company pays the Parent and the Subsidiaries for operating expenses incurred and paid on its behalf in accordance with established service agreements.

In 2015, we entered into loan agreements with certain employees of the Company; see Note 5 in these notes to our financial statements for further discussion of these loans.

Note 9: Net Capital Requirements

The Company is subject to the Uniform Net Capital Rule 15c3-1 promulgated pursuant to the Act, which requires maintaining a minimum net capital, and requires that the ratio of aggregate indebtedness to net capital not to exceed 15 to 1. Net capital and aggregate indebtedness changes day to day, but as of December 31, 2017, the net capital was \$983,798, of which \$736,435 was in excess of its required minimum net capital of \$247,363. The ratio of aggregate indebtedness to net capital as of December 31, 2017 was 3.77 to 1.

Note 10: Subsequent Events

The Company has evaluated events occurring after December 31, 2017 and has concluded that the following acquisition requires disclosure. Effective February 1, 2018, the Company acquired substantially all of the assets of IPS Advisors (“IPS”), respectively, for cash.

Due to the timing of the acquisition, the allocation of the purchase price has not been determined as of the date these financial statements were available to be issued. The unaudited provisional purchase price allocation for the acquisition is summarized in the table below:

	<u>Unaudited</u>
	<u>IPS</u>
<b>Consideration paid:</b>	
Cash.....	\$ 109,402
Contingent earnout consideration payable.....	<u>21,998</u>
Total purchase price.....	<u>\$ 131,400</u>
<b>Allocation of purchase price:</b>	
Intangible assets:	
Goodwill.....	\$ 65,700
Customer relationships.....	<u>65,700</u>
Total assets acquired.....	<u>131,400</u>
Net fair value of assets acquired.....	<u>\$ 131,400</u>

The purchase price allocation presented herein is subject to review within the first year of operations to determine the necessity of adjustments.